science group plc

Annual Report and Financial Statements 2023

STRATEGIC REPORT

GOVERNANCE

FINANCIAL STATEMENTS

In a challenging macro-environment the Group has reported record underlying operating results

£113.3m
Revenue
+31%

£20.5m
Adjusted Operating Profit
+17%

8.0p
Proposed Dividend
+60%

33.3p
Adjusted EPS
+13%

Science Group plc is an international science & technology consultancy and systems organisation. The Group's operating businesses are supported by a scalable corporate and shared services infrastructure and underpinned by a robust balance sheet including significant cash resources and freehold property assets. Since 2010, the Group has established a strong operating track record, enhanced by a successful M&A strategy, delivering consistent performance through economic volatility, the pandemic and geo-political instability.

Consulting Services

The nucleus of Science Group is a sizable international science and technology consultancy (revenue in 2023: £81.3m), providing technical/scientific advisory, product development and regulatory services to the Industrial, Defence & Aerospace, Medical and Consumer (including Food & Beverage) sectors.

The deep technical and scientific expertise combined with specialist industry knowledge defines the strategy of Science Group's Consultancy operations. The division comprises more than 380 employees, including scientists, engineers, technical advisors and regulatory consultants and 2 state-of-the-art development centres in Cambridge and Epsom.

Systems Businesses

The Group has two systems businesses, both of which have leading positions in their niche markets.

CMS2 is a leading supplier of submarine atmosphere management systems to the Defence sector. The systems are of a highly bespoke nature and whilst the business does service international clients it is largely UK-focused.

Frontier is the leading supplier of DAB/DAB+ radio chips and modules to the consumer electronics sector and is also launching new-technology, connected audio products.

Both systems businesses operate autonomously but are supported by the Group's corporate and shared services infrastructure.

Statement of Executive Chair

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

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

Financial Summary

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

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

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

Consultancy Services

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

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

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

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

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

Systems Businesses

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

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

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

Statement of Executive Chair continued

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

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

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

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

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

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

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

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

Martyn Ratcliffe
Executive Chair

Finance Director's Report

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

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

Adjusted operating profit is an alternative profit measure that is calculated as operating profit excluding acquisition integration costs, amortisation of acquisition related intangible assets, share based payment charges, and other specified items that meet the criteria to be adjusted. Refer to the notes to the financial statements for further information on this and other alternative performance measures.

TP Group plc ('TPG')
Prior to 2023, through on-market purchases of shares, the Group had acquired an associate shareholding in TPG. A full acquisition was completed through a court-approved Scheme of Arrangement on 26 January 2023, at which point TPG became a 100% subsidiary of the Group.

As well as providing an entry into the defence sector, the acquisition of TPG has significantly increased the scale of Science Group. In 2023, the TPG trading entities contributed £44.9 million towards Group revenue.

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

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

Taxation
The tax charge for the year was £2.1 million (2022: £0.5 million). The increase is partly explained by tax at a higher rate, with the UK corporation tax rate increasing from 19% to 25% in April 2023. However, as a comparative, the 2022 tax charge was exceptionally low due to deferred tax and some over accrual in 2021.

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

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

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

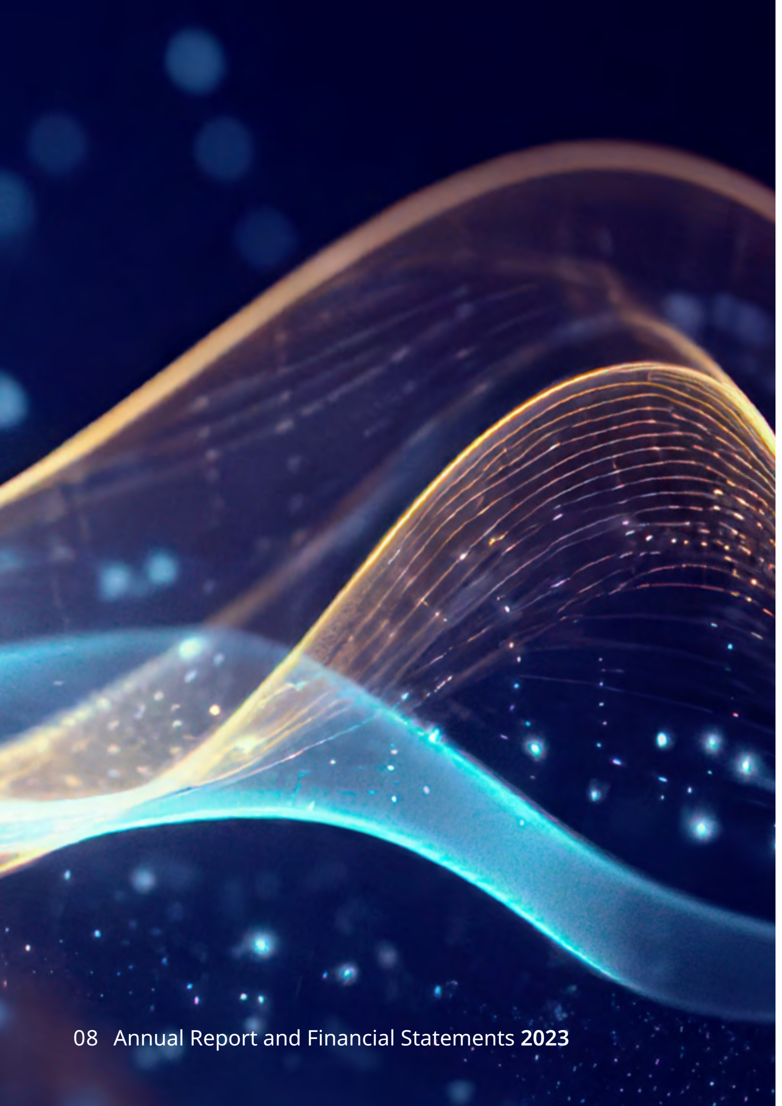
In December 2021, in addition to the term loan, the Group signed a £25.0 million revolving credit facility ('RCF') with Lloyds Bank plc in order to provide additional capital resources to enable the execution of the Group's acquisition strategy. The RCF is for up to £25.0 million, with an additional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

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

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

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

Jon Brett
Finance Director



Key Performance Indicators

The key performance indicators (KPIs) are revenue, operating profit, cash flow and the alternative performance measures as disclosed in Note 1 in the Notes to the Financial Statements. Profitability of the business is managed primarily via the review of revenue and adjusted operating profit. (Secondary measures of revenue per head, billed hours, daily fee rates, average selling and cost prices, and units sold are used internally but are not disclosed due to commercial implications.) Working capital is reviewed via measures of trade receivables and inventory. Performance against KPIs is reported in the Finance Director's Report.

Principal Opportunities and Risks

The Directors consider that the principal opportunities and risks facing the Group are as set out below. The Board has carried out an assessment of the emerging and principal risks, including those that would threaten the sustainability of its business model, its future performance, solvency or liquidity.

In addition, the Board regularly reviews existing and emerging risks across the Group on a monthly basis. The Board considers this monthly period to be appropriate for the business as it allows the Board to remain informed of developments that may affect the delivery of its strategy and to identify and implement any mitigating actions. It also supports the Board's review and revision of forecasting, undertaken on at least a quarterly basis, to minimise the impact of any emerging risks to the Group. A summary of the key measures taken to mitigate the principal risks facing the Company are set out below.

The Group uses internal and external methods to help identify emerging business risks. Internally the Managing Directors of the operating businesses report weekly to the executive management team on business performance and issues, and provide formal reports to the full Board on a monthly basis. This ensures that potential emerging risks identified on the ground are escalated to the Board in a timely manner. Externally, the Group's professional advisors raise relevant potential issues from time to time. Identified potential risks are discussed by the Board and, if necessary, risk mitigation strategies are considered. Identified risks may also be assigned to a working party to keep a watching brief and update the Board as appropriate.

Economic conditions impacting demand for services
The Consultancy Services division is dependent on the market for outsourced science, technology, engineering, regulatory and project management services. This provides both opportunities and risks, depending on the performance of and confidence in the Group's target geographies and markets. In general, an economic downturn or instability may cause customers to delay or cancel projects and/or related services, or to use internal resources to achieve their business goals. Conversely, a reduction in internal resources by customers may result in greater levels of outsourcing for business critical projects.

The current economic uncertainty and potential for recession in the Western economies may impact both the total investment and the investment priorities of the Group's customers. In particular R&D investment, especially that which is allocated to long-term initiatives, may be negatively impacted.

The Group seeks to mitigate these risks and capitalise on these opportunities 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, increasing the range of service offerings that the Group provides, and undertaking marketing activities to inform current and prospective customers regarding the benefits of outsourced services and Science Group's proven ability to fulfil those objectives. The completion of the acquisition of TP Group during 2023 expanded this diversity and introduced another sector to the Group's portfolio, Defence & Aerospace.

Inflationary pressures
Inflation in the global economy is a risk across the Group. Increasing costs from suppliers may impact all businesses and the Group may or may not be able to pass on supply chain price increases to its customers.

High inflation affects the Group's employees who are impacted by increases in living costs including fuel, energy and food costs. Wage inflation is also a risk within the Group with associated pressure on salaries and remuneration packages for both specialist skills in technology and science as well as more generalist skills such as human resources, marketing and finance. Higher employee costs may or may not be able to be passed onto customers.

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 majority of the Group's employee-based costs are incurred in Pounds Sterling. Materials related to Frontier products are typically priced in US Dollars and end products are generally sold priced in US Dollars. As a result, variations in currency exchange rates may have a material impact, either positive and negative, on Group revenue and profit performance.

To mitigate this risk, in 2023 the Group procured two currency exchange instruments to cap the Sterling:US Dollar rate for the R&D Consultancy business until the end of 2024, having first procured a similar instrument in 2022. These instruments provide the business with improved visibility and reduced volatility. In addition the Group seeks to mitigate foreign currency exposure and volatility by transferring excess foreign currency holdings into Pounds Sterling on a regular basis.

Financial circumstances of customers
The profitability of the Group could be adversely affected by the general economic conditions in the UK, Europe, US, Asia 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.

The Group seeks to mitigate this risk by actively managing customer relationships including credit limits which, if appropriate, may require payment in advance, regular reviews of debtors and overdue payments, and proactive credit control procedures.

Geopolitical considerations
As the Group is an international business, global political events have the potential to impact normal business operations.

The conflict in Ukraine and its impact on energy prices has resulted in significant operational cost increases for the Group's freehold properties and this may continue throughout 2024. The Group seeks to mitigate this by monitoring energy prices, fixing prices where appropriate and seeking to reduce energy usage. Global energy and fuel prices also impact materials costs, employee remuneration and other costs, and increases may not be able to be passed onto customers.

In addition to its engineering base near Cambridge, UK, the Frontier business has an office in Shenzhen and also has employees in Hong Kong. Staff and suppliers in Asia fulfil sales, product development and manufacturing functions. Political instability in this region may impact the normal business operations of Frontier. The Group seeks to mitigate the risk of interruption to usual business activity by ensuring that product knowledge, documentation, systems and data are backed up and replicated in the UK offices on a daily basis. Manufacturing of Frontier products is outsourced in Shenzhen and could be replicated in other locations.

Principal Opportunities and Risks continued

Cyber security threats
Cyber security threats pose a risk to confidential or sensitive data held in the normal course of business as well as business interruption risk. A breach of cyber security could result in a loss of data, damage to the Group's reputation and breach of customer or other contracts.

The Group seeks to mitigate these risks by enforcing appropriate IT controls, continuously reviewing the quality of its security shields and protocol, and implementing regular cyber awareness training for all staff, test phishing campaigns and penetration testing. Networks used by those Group businesses operating in the defence industry hold ISO 27001 (Information Security Management), Cyber Essentials Plus and other accreditations.

Reputational risk
Failure to deliver service or product deliverables to agreed budgets, timetables and/or quality may result in reputational damage to Science Group that may adversely affect future sales.

In the Group's consultancy businesses, this risk is mitigated by having in place Quality Assurance procedures, review meetings with customers, formal customer feedback procedures, and various accreditations held in the relevant businesses including ISO 9001 (Quality Management Systems), ISO 13485 (Quality Management Systems for Medical Devices) and ISO 27001 (Information Security Management). In the Group's systems businesses, this risk is mitigated by testing prior to release of new products and remedial action being taken in a timely manner when faults are reported.

The Frontier business relies upon third party factories to manufacture its product modules, and upon its customers to manufacture complete consumer products on behalf of end-client consumer brands. Any deterioration in quality in these manufacturing facilities might impact the Frontier brand and its ability to sell product and/or maintain margin. Frontier seeks to mitigate this risk by maintaining long term relationships with trusted partner factories and maintaining relationships with end-client consumer brands to obtain product quality feedback.

Dependence on key personnel
Science Group relies on recruiting and retaining highly qualified technical experts on whom the Group depends to deliver its services and products. Failure to recruit and retain key staff could threaten the Group's ability to deliver projects to its customers or to win new work or to maintain market competitiveness. The Group's growth also places greater demands on the Group's management and infrastructure across a wider range of geographical locations and markets. Failure to recruit and retain key management and functional staff could increase the risks associated with operational and financial controls, sales and marketing, information technology and other functional support areas.

The Group seeks to mitigate these risks by encouraging staff retention through both competitive remuneration packages and a stimulating work environment. The Group's growth also provides career opportunities across the Group. In addition to base salary, remuneration can include annual bonus or profit share, pension contributions, health benefits, life assurance and share option awards, and the remuneration components are reviewed regularly. Efforts are made to foster a vibrant, dynamic and supportive environment for employees, which offers diverse, technically challenging work for large and small customers across a range of industries and specialist market, science and technology areas. The Group also provides career development paths and training support.

Technology advances
The ongoing development of new and existing technologies provide opportunities for Science Group to provide market-leading products and services to its customers. The Group's personnel must stay at the forefront of technical advances and understanding of technical specialisms in order to exploit these opportunities and sustain the Group's growth.

The Group seeks to do this by the regular identification and review by management of new technical areas for investment, providing a budget for investment by managers in new ideas, encouraging employees to keep up to date on technological developments by both formal and informal training and self-learning in relevant areas of technical expertise, and recruiting employees with new technical skills where gaps in expertise are identified.

The Group notes the rise of artificial intelligence (AI) technology which may provide both risks and opportunities for the Group. AI technologies may have the potential to negatively impact the provision of the lower-value consultancy services by delivering such services with a higher degree of automation. Conversely, there may be opportunities to exploit AI in the provision of high-value services to customers.

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

The Group seeks to mitigate this risk by contracting the majority of projects on a time and materials basis, operating formal bid review processes, 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 holding meetings with customers to review progress on projects.

Market for radio products
The Frontier business has a high market share of the DAB radio and counter-top smart radio markets and is therefore subject to market demand and the competitive environment. These factors are correspondingly affected by the economic climate, a reduction in consumer spending and alternative methods of receiving radio/audio programmes. This has been reflected in the challenging conditions experienced across the consumer electronics sector in 2023. Conversely, the switch off of FM services in certain geographies provides opportunities for increasing DAB sales.

The market for consumer electronics goods is price sensitive. Frontier's products are manufactured in Shenzhen and local conditions such as import tariff changes and shipping may also impact the cost of radio production and thereby the selling price to the end consumer, which may affect demand and/or the margins of the business.

The Group seeks to mitigate these risks by actively monitoring market developments, focussing on operational efficiencies and adjusting material purchases. The Group also has employees based in Asia to manage relationships with customers and manufacturing locations.

Supply chain risks
The CMS2 and Frontier businesses rely on the supply of components for the manufacture of their products. An inability to source these components in sufficient quantities is a risk to these businesses' ability to fulfil customer orders. Component shortages may also result in increased prices which may not be able to passed on to customers. Conversely, in the Frontier business, a reduction in consumer demand may result in high levels of inventory which may not be fully utilised.

The Group seeks to mitigate these risks by proactively managing inventory levels and identifying alternative, cheaper suppliers of certain key components.

Change to government defence policy
Businesses operating in the defence and aerospace industries, in particular the TPG Services and CMS2 businesses, may be impacted by changes in Government defence policies and legislation. This may lead to a risk of delay to or loss of customer contracts.

The Group seeks to mitigate these risks by developing long-term, close working relationships with customers and maintaining current industry knowledge providing visibility of future defence programmes and spend.

Investment in acquisitions
The Group has grown through the acquisition of companies with compatible service and technology offerings. The Board considers further acquisitions to be a core part of the Group's strategy and the Group is continually monitoring opportunities for strategic acquisition opportunities. Acquisitions provide potential for growth and diversification, whilst increased scale provides efficiencies of back office and central services across the Group.

Acquisitions can increase the risk profile of the Group, unknown liabilities may be identified post-acquisition, the revenue of the acquired business may decline, key staff may leave, and other unforeseeable problems may arise. The Group seeks to mitigate such risks by establishing an integration team at the time of the acquisition who are rapidly deployed to instil the Group's financial and operational controls into the acquired company as fast as practicable. While this team comprises experienced managers from within the Group, in every acquisition, unforeseen challenges arise and an evolving iterative integration process is required.

Furthermore, acquisition diligence and integration deploy resources that would otherwise be utilised within the existing Group operations. The Board seeks to mitigate such impacts by selective deployment of resources and the continued development of capable managers.

Climate related risks and opportunities
The Group's climate-related risks and opportunities are detailed in the Climate-Related Financial Disclosures on page 18.

Additional considerations
In addition to the principal risks 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
- product or other professional liability claims or other warranty and indemnity claims in respect of contractual obligations
- infringement of third party intellectual property rights
- counterparty risk
- risk of adverse valuation of freehold properties
- changes in legislation or regulations relating to trading, taxation or accounting practice
- increasing health and safety, environmental, privacy and social regulations
- increasing propensity to litigation, particularly in the US
- significant external event impacting normal business operations (for example, pandemic)

Viability Statement

In accordance with the UK Corporate Governance Code July 2018, the Board has determined that a three year period to December 2026 constitutes an appropriate period over which to provide its viability statement. The viability assessment considers solvency and liquidity over a longer period than the going concern assessment. Inevitably, the degree of certainty reduces over this longer period.

The Board prepares a detailed financial plan annually, forecasting sales and costs at a departmental level and a Group cash flow covering this period. The plan provides a prudent basis of assessment whilst enabling the Group to remain agile in implementing significant opportunities for further growth when they arise. Performance against the financial plan is reviewed on a monthly basis by the Board and forecasts are updated at least quarterly.

The Board has considered sensitivity analyses reflecting downside scenarios of principal risks (for example a downturn in market demand) applied to the Group's financial plan and cash flows (extended to 18 months from year end).

The scenarios assume an appropriate management response to the specific event, but not broader mitigating actions which could be undertaken and which have been considered separately. Reverse stress testing has also been performed to assess the severity of scenario that would have to occur to exceed headroom. The assessment took account of the Group's current funding, forecast requirements and existing committed borrowing facilities. In conclusion, the financial plan withstood the stress testing and application of downside scenarios.

In each scenario or combination of sensitivity scenarios applied to the financial plan, the Group is able to rely on its cash reserves, reduce capital expenditure and take other cost and/or cash management measures to mitigate the impacts and still have residual capacity to absorb further unanticipated events.

The financial plan and going concern review formed the basis of the extended viability assessment. The Board has also considered the effect of the banking covenants for this assessment period and noted that there is no expectation of covenant breach, particularly as the Group ends the year with Net Funds of £18.0 million (2022: £29.5 million). Based on the results of these analyses, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three year period of this assessment.

Section 172 Statement

The Companies (Miscellaneous Reporting) Regulations 2018 require qualifying companies to publish a statement explaining how the Directors have had regard to the matters set out in section 172(1) (a) to (f) of the Companies Act 2006 (Act) in performing their duties under section 172.

In accordance with section 172, the Directors confirm that they have continued to act in such a way that they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its shareholders as a whole. The paragraphs below identify key stakeholders and provide examples of how the Directors have had regard to the matters set out in section 172(1)(a) to (f) of the Act.

The likely long term consequences of decisions
The Board oversees the Group's strategy and closely monitors progress against financial and other plans throughout the year, both at a Group and divisional level. The Board also considers the Group's commercial and operational risks and how to protect shareholder value.

The Directors regularly consider the long term consequences of the Board's decisions and actions. In 2023 examples of this included:

- Currency exchange instrument: The Company procured two currency exchange instruments to cap the Sterling:US Dollar rate in relation to the R&D Consultancy business through to the end of 2024. While historically the Directors have not considered currency hedging necessary, in view of the currency volatility seen through 2022 and 2023, the Directors considered it appropriate to do so to provide the business with improved visibility and reduced volatility.
- RCF extension: In 2021 the Company negotiated a revolving credit facility in order to provide additional capital resources to enable the execution of the Group's acquisition strategy. The RCF is for up to £25 million, with an additional £5 million accordion option, for a term of four years with a one year extension. In 2023 the Board considered and exercised the one year extension to provide longer term certainty of the availability of capital resources.
- Dividend: In considering the appropriate level of dividend payment to shareholders, the Board took into account the need to maintain cash resources to implement both organic and strategic investment opportunities and acquisitions, and the varying interests of investors.
- New Bristol office: Following completion of the TP Group acquisition in January 2023 and during the integration of the new businesses, it became apparent that the existing Bristol office of the TPG Services business was not fit for purpose. The Board considered that a significant investment in a new office was appropriate to provide an upgraded working environment for employees. The new office is substantially larger and has been operational since early January 2024.
- Office consolidations: During the year the Group consolidated some smaller offices in the UK, US and Asia in order to improve operational efficiency and for security reasons. This supports the long term investment in larger regional hubs for employees, including the new Bristol office, infrastructure upgrades in Portsmouth and the ongoing maintenance of the Group's two freehold sites in Harston and Epsom.
- TP Group acquisition: Following the Board's decisions in 2021 and 2022 to invest in and subsequently acquire TP Group plc, the acquisition completed in January 2023. During 2023 the Board considered the integration of the new businesses into the Group and remain of the view that the acquisition provides a strategic entry for the Group into the Defence and Aerospace sectors.
- Acquisitions and investments: The Company is acquisitive and regularly considers potential acquisitions and strategic investment opportunities. Throughout the year the Board considered a number of potential acquisitions although none were considered to be appropriate investments taking into account the Group's strategy, the financial impact and likely operational and other risks.

The interests of the Company's employees
The Board recognise that the Group's employees are essential to its success and the Directors take a keen interest in the development and retention of key employees across the Group. The Executive Directors regularly engage with Managing Directors, management teams and other employees across the Group to understand business-specific issues.

For more information see the Social section of the Non-Financial and Sustainability Information Statement (page 16), the Statement on engagement with employees (page 23) and the Report of the Remuneration Committee (page 26).

The need to foster business relationships with suppliers, customers and others
While there are circumstances in which the Executive Directors engage directly with certain stakeholder groups or on certain issues, the structure of the Group means that engagement with suppliers and customers usually takes place at an individual business level.

The Board monitors relationships with key customers and suppliers through the Executive Directors and the Managing Directors. The Managing Directors provide updates on significant issues in their businesses on a weekly basis to the Executive Directors and as part of their monthly reporting to the full Board. Where appropriate, the relevant management teams engage with customers over long-term or strategic programmes of work to foster strong relationships and enable the Group to understand customers' initiatives and priorities.

The development and maintaining of relationships with customers is also taken into account in key account management, the development and improvement of service offerings, the ongoing review and strengthening of the Group's Quality Assurance procedures, and the maintenance of ISO 9001 (Quality Management Systems) and ISO 13485 (Quality Management Systems for Medical Devices) accreditations in relevant businesses.

In relation to suppliers, the need for good business relationships is considered when reviewing key and critical supplier lists, inventory purchasing and supplier payment terms.

The impact of the Company's operations on the community and the environment
The Directors are conscious of the importance of investing in and caring for the physical environments in which the Group operates and contributing to its local communities. These factors are key to the Group's ongoing work to reduce and manage its use of energy, water and other resources, and to make charitable donations to health related charities and to food banks local to the Group's sites to support local communities facing hardship. For more information see the Environmental and Social sections of the Non-Financial and Sustainability Information Statement on pages 14 and 15.

During the year the Group engaged with an external advisor to review its governance arrangements regarding climate-related risks. The Group's climate-related risks and opportunities were reviewed and assessed and the Group reports for the first time its Climate-Related Financial Disclosures on page 18.

The desirability of maintaining a reputation for high standards of business conduct
The Board sets out the values and standards of behaviour expected from all of its employees through the Group's corporate values. This is supported by the Group's governance and compliance framework which requires adherence to a range of Group policies and procedures including anti-bribery and whistleblowing policies. The Directors are committed to high standards of business conduct throughout the Group and take into account the desirability of maintaining its reputation for the same in their decision making. For more information see the Governance section of the Non-Financial and Sustainability Information Statement on page 16.

The need to act fairly as between shareholders
The Directors are committed to treating all shareholders equally and, as part of its decision making process, the Board considers the interests of shareholders as a whole. The Board recognises that it may need to balance competing interests in reaching its decisions and, where there are conflicting interests, the Board will act as equitably and fairly as it is able to do.

All shareholders are provided with equivalent trading updates and other important information through announcements made via a regulatory news service and the Science Group website. During 2023 the Company issued two trading updates in addition to the Preliminary and Interim Results statements. Regular updates are also made to the Investor section of the Science Group website. The 2022 annual report was made available to all shareholders together with notice of the 2023 Annual General Meeting. All shareholders were invited to attend the AGM and had the opportunity to ask questions of the Directors.

Non-Financial and Sustainability Information Statement

The Directors are committed to acting in accordance with high levels of ethics and governance. A review of the Group's approach to sustainability and societal impact during the year is set out below.

Environmental
The Group is committed to managing the environmental impact of its activities and to improving resource efficiency and reducing waste. The Directors consider that, due to the nature of the Group's operations, it does not have a significant impact on the environment. In particular, the Group's consultancy businesses deliver consultancy-based projects performed by staff in office and laboratory facilities, and do not use large quantities of raw materials or processes that impact the environment. However, the Group seeks to minimise its carbon impact and recognises that its activities should be carried out in an environmentally friendly manner where practicable. Where relevant, the Board has regard to environmental factors in relation to its strategy and decision making.

The Group met the criteria for both Streamlined Energy and Carbon Reporting (SECR) and TCFD-aligned reporting for the first time in 2023. The relevant disclosures are included in this Environmental section and the Climate-Related Financial Disclosures on page 18.

Energy and greenhouse gas (GHG) reporting
Science Group reports its environmental performance in accordance with the UK Government's Streamlined Energy and Carbon Reporting Guidance as required under the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. The Group's methodology for this reporting has been developed following the GHG Protocol Corporate Accounting and Reporting Standard. GHG emissions are calculated using the 2023 emissions conversions factors published by the Department for Energy Security and Net Zero.

The table below summarises the GHG emissions for the year ended 31 December 2023 on a UK basis. Group sites and businesses outside of the UK have not been included. Scope 1 and 2 data has been based on invoices for energy consumption across UK sites and internal mileage and refrigerant records. Scope 3 data has been collected from employee mileage and fuel expense claims.

This is the Group's first year of SECR reporting and will constitute the baseline year for future comparisons.

Scope	Activity	2023 Location based tCO_2e
Scope 1	Site gas Company car travel Refrigerant	**431.25** **2.29** **2.37**
Scope 1 subtotal		**435.90**
Scope 2	Site electricity	**581.86**
Scope 2 subtotal		**581.86**
Scope 3	Employee-owned car travel Hire cars	**52.92** **2.03**
Scope 3 subtotal		**54.96**
Total tonnes of CO_2e		**1,072.71**
Tonnes of CO_2e per employee[1]		**1.91**
Tonnes of CO_2e per £m revenue[2]		**20.42**
Total energy consumption (kWh)[3]		**5,454,175**

1 Based on total UK employees as at 31 December 2023.
2 Based on UK revenue as at 31 December 2023.
3 Includes UK gas, electricity, company vehicles, employee-owned cars and hire cars.

Energy efficiency
The Group considers energy efficiency initiatives on an ongoing basis. Science Group owns two large freehold sites near Cambridge and Epsom where many energy efficiency measures have already been implemented. At its leased properties there are varying opportunities to influence energy efficiency according to lease terms and landlord responsibilities and these are assessed on a case by case basis.

For the freehold properties and other sites where the Group purchases gas and/or electricity, this is purchased from renewable sources so far as practicable. An ongoing programme of lighting upgrades from florescent to LED has nearly completed at the Cambridge and Epsom sites and is underway at the Portsmouth manufacturing site. LED lighting is installed as standard in new office fit outs. Lighting automation is used across all large sites as appropriate in lesser used areas. At the Cambridge site the boilers and chillers have been progressively upgraded to energy efficient versions. Thermal imaging surveys of the roof are used to identify areas requiring new insulation. At the Epsom site the original chillers have been replaced with energy efficient versions and excess capacity has been reduced. At both freehold sites, air conditioning and air handling systems are programmed to increase efficiency and implement timed shut downs when not required.

The Group undertakes energy audits periodically and implements practicable recommendations. The Group has previously considered the installation of solar panels at the Group's freehold sites but this was not found to be economically viable.

Waste and recycling
In 2023 Science Group encouraged all shareholders to receive shareholder communications electronically in order to help the Group save paper and reduce waste and the carbon cost of document production and transportation. This initiative has resulted in a more than 95% reduction in printing requirements associated with shareholder communications.

The Group's Waste Management Policy supports the continued reduction of waste and, where practicable, re-use and recycling of consumables. All large sites facilitate the separation of office waste into recycling and general waste. The Cambridge site also provides separate facilities for food waste and coffee grounds recycling. Commercial waste is collected in skips at the Cambridge, Epsom and Portsmouth sites. All office and skip waste collections are processed by the Group's waste management contractors at recycling centres. The Portsmouth site also separates scrap metal for recycling.

Confidential waste, both paper and hardware, is disposed of by specialist suppliers and recycled once shredded. Electronic waste, florescent tubing, and chemical and biological waste are disposed of responsibly through specialist suppliers and in accordance with applicable regulations.

Travel
Electric vehicle charging points are installed at the Cambridge and Epsom sites for employees' usage, to encourage a move away from petrol and diesel vehicles. All Science Group companies in the UK offer employees access to the Government Cycle to Work initiative offering tax free bicycles as part of the Group's standard employee benefits offering. The Group also makes significant use of virtual meetings where appropriate and has a US-based sales team to reduce trans-Atlantic travel.

Ecology and conservation
The Cambridge site includes woodland and grassland areas and a tributary of the river Cam, and the Group maintains these various ecosystems for the benefit of a wide variety of flora and fauna including several endangered and protected species. The Group has previously commissioned ecology surveys to better understand the biodiversity on site. The Epsom property is Grade II listed within a parkland setting and the Group has undertaken significant repair and restoration work on the exterior stonework to preserve this historic building.

The Group proactively manages the use of water within its sites and implements water reduction measures where practicable.

ISO 14001
The CMS2 business holds ISO 14001 (Environmental Management Systems) accreditation to assist in managing the environmental impact of its manufacturing operations at the Group's Portsmouth site.

Sustainability services
The number of consultancy projects undertaken across the Group relating to sustainability continues to grow.

Across the R&D Consultancy and Regulatory & Compliance businesses, the Group undertakes an increasing number of projects which either wholly related to sustainability or for which this was a major consideration. The R&D Consultancy business supports customers' exploration of possible scientific and technological solutions to climate-related challenges. In the Regulatory & Compliance business, a significant driver of regulatory change is the reduction in the use of chemicals (industrial, agricultural and domestic) and a move to less harmful (to the environment and human health) alternatives and a large proportion of projects are related to this evolving demand.

In the TPG Services business, the Osprey business advises on the impact of proposed wind and solar farms on aviation safety and associated mitigations in the planning consent process for renewable energy developments.

Since 2021 the Group has convened and chaired a high level discussion forum with Chief Technology Officers and R&D leaders from major US and European blue chip companies. Originally focussed on net zero strategy and practice, over the last two years it has focussed on sustainability and, in particular in 2023, sustainability combined with growth.

Compliance
The Group's operations are conducted in compliance with relevant environmental legislation. There were no internal or external environmental incidents during 2023 at any Group site. Science Group did not incur any fines or penalties nor was it investigated for any breach of environmental regulations during the year.

Social
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 including the communities within which the Group operates. Furthermore, Science Group seeks to continually enhance and extend its science and technology contribution to society through the work the Group undertakes with its customers and in areas where the Group decides to invest and explore directly.

The Board regularly monitors the Group's culture and practices, including the review of recruitment, retention and turnover data, health and safety reports, and reports from senior managers within the Group.

Diversity, equity and inclusion
Science Group is committed to supporting diversity, equity and inclusion (DEI) among its employees. The Group's employment policies are non-discriminatory, particularly on the grounds of any protected characteristic. This includes, but is not necessarily limited to, 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 on merit.

The Group's DEI committee meets on a regular basis to discuss, implement and monitor various DEI initiatives. These currently include a series of lunches for senior and mid-level women across the Group to provide networking opportunities and support, menopause awareness training for line managers and a "Menopause at work" support group, upgrading of facilities for disabled employees, monitoring of recruitment panels to ensure the inclusion of diverse representation and review of job adverts for unconscious gender bias. During the year the Group also ran its second voluntary, anonymous diversity questionnaire for employees in the UK (excluding the CMS2 and TPG Services businesses) and US with a 75% response rate.

The Board reviews reports on DEI matters at least twice a year. No Science Group company is currently required to report on its gender pay gap. However, the Group monitors the relevant data and the Board reviews this annually.

Non-Financial and Sustainability Information Statement continued

The Group currently has native speakers of around 25 languages. The gender ratios for the number of persons employed by the Group at the end of the year are set out in the table below.

	31 December 2023				31 December 2022			
	Male		Female		Male		Female	
	No	%	No	%	No	%	No	%
Plc Board of Directors & Company Secretary	4	67%	2	33%	5	71%	2	29%
Senior management & staff (>£75,000 per annum FTE salary)	101	72%	39	28%	82	69%	37	31%
Other employees	301	61%	193	39%	163	51%	154	49%
Total employees	406	63%	234	37%	250	56%	193	44%

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.
- The significant increase in total employee numbers and change in gender ratios is due to the acquisition of TP Group in January 2023.

Employee training and development
Science Group's employees are its primary asset and the Board is committed to nurturing their abilities, investing in career development and rewarding exceptional performance. The Group offers training and mentorship to allow ambitious individuals to thrive within their environment and realise their personal potential. Employee performance is aligned to the Group's objectives through an annual performance review process and ongoing project management, line management and mentorship feedback. 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 hold informal lunchtime sessions on a regular basis to enable knowledge and skills transfer amongst teams.

The Group regularly takes one year or summer student placements and the CMS2 business runs an apprenticeship programme. The Group also supports employees across the Group with extra-curricular studies and qualifications in relevant fields.

Financial rewards and support
Employee remuneration and incentives are overseen and approved by the Remuneration Committee. In addition to its standard remuneration and benefits packages, the Group invests in and rewards its workforce through the operation of its bonus and profit share schemes for qualifying employees, its share option scheme and other discretionary incentives. During 2023 additional discretionary payments were made to employees reflecting both individual and group performance, as well as the ongoing financial challenges resulting from the increased cost of living and economic uncertainty. For more information see the Report of the Remuneration Committee on page 26.

Health and wellbeing
The Group's employee assistance programmes and other benefits are available for employees to access a range of medical, financial, wellbeing and other support services and information. Mental Health Awareness Week is given a particular focus each year in the UK with site-specific programmes of activities and support. The majority of employees are also eligible for private medical insurance.

Charitable donations
Science Group focuses its charitable donations on organisations supporting people-related issues. During 2023 this included donations to charities supporting men's and women's health issues and to foodbanks local to the Group's sites to support communities facing hardship. On a discretionary basis, the Group also operates a matching for funds raised by employees.

Governance
The Board considers sound governance a critical component of Science Group's success and the delivery of its strategy. 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 seeks to ensure that Science Group's values are reinforced in employee behaviour and that effective risk management is promoted.

The Board takes issues of governance seriously and seeks to ensure transparency and streamlined administration. The Directors bring a broad range of technical, commercial, business, accounting, audit and corporate finance expertise. Culturally, the Board demonstrates a high degree of integrity, fairness and non-discrimination and promotes these values through the organisation. For more information see the Corporate Governance Report on page 25.

Ethical business conduct
The Board is committed to high standards of governance and ethics. The Group has a strong ethical culture and it is the Group's policy to conduct all business in an honest and ethical manner. The Group's Ethics Policy and other associated policies set out the standards of behaviour expected from all those working for or on behalf of the Group.

Anti-bribery
Science Group has a zero tolerance approach to bribery and corruption. The Group's Anti-Bribery Policy applies to all employees and the Group seeks to impose equivalent principles on suppliers and representatives.

Modern slavery
In accordance with the requirements of the Modern Slavery Act 2015, the Group publishes an annual statement setting out the steps taken to ensure that slavery and human trafficking are not taking place in the Group's businesses and supply chains. A copy of the statement can be found on the Investor information page of the Science Group website.

Whistleblowing
The Group's Whistleblowing Policy provides protection and support for whistleblowers raising a genuine concern. One of the Group's Non-Executive Directors acts as the escalation contact for whistleblowing reports.

Cyber and data security
Science Group proactively manages the security of its IT networks and the confidential and sensitive data held by the Group. The Group has documented Information Security, IT and data privacy policies and implements regular cyber awareness training for all staff, test phishing campaigns and penetration testing. Businesses operating in the defence industry are subject to heightened monitoring of cyber threats, and the associated IT networks hold ISO 27001 (Information Security Management), Cyber Essentials Plus and other accreditations.

Health and safety
Science Group is committed to the health and safety of its employees, customers, sub-contractors and others who may be affected by the Group's activities. The Group evaluates the risks to health and safety in the business and manages this through its Health and Safety Management Systems. The Group has a Health and Safety at Work policy which is reviewed and updated regularly.

The Board Executive Director responsible for health and safety is the Group Finance Director with day to day responsibility being undertaken by the Company Secretary. The Directors receive monthly health and safety reports covering all sites which include updates on safety incidents across the Group.

The Group's largest sites (Cambridge, Epsom and Portsmouth) have dedicated Health and Safety Committees that meet quarterly. Laboratory and manufacturing areas are subject to monthly inspections by competent reviewers and the results are reported on a monthly basis to the Board. Access to laboratory and test facilities is controlled with permissions reviewed on a regular basis.

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 Systems ensure compliance with applicable legal and regulatory requirements and internal standards and seeks, by continuous improvement, to develop health and safety performance.

Supplier management process
During 2023 the Group implemented a new supplier management process to ensure executive management review of proposals to engage new large or business critical suppliers.

Administrative rationalisation
The Group regularly reviews and closes dormant legal entities to reduce administrative costs. During 2023 nine entities were dissolved. Following the acquisition of TP Group in 2023, the TPG Services and CMS2 businesses are being integrated into the Group's governance model to improve operational and corporate governance. The Group also rationalises its property portfolio where appropriate to reduce overheads and increase efficiencies. In 2023 this resulted in office consolidations in the UK, US and Asia.

Climate-Related Financial Disclosures

Science Group is required to make disclosures pursuant to sections 414CA and 414CB of the Companies Act 2006 for the first time for the year ended 31 December 2023. These disclosures align with the recommendations issued by the international Task Force on Climate-related Financial Disclosures (TCFD). This statement covers Science Group's governance of climate change, its integration with overall risk management, the identification and strategy for managing the Group's climate-related issues and opportunities, and the metrics used to measure progress towards the Group's targets.

Governance

The Board has overall responsibility for sustainability issues including the oversight of climate-related matters and effective management of climate-related risks and opportunities, in line with the responsibility to monitor any issues which impact strategy, risk management, and operations of the Group. For more information on the Board and Board Committees see the Report of the Directors on page 25. The Board discussed climate-related issues and the Group's TCFD-aligned reporting twice during 2023 and was ultimately responsible for approving the Group's climate-related financial disclosures. Nominating an individual Board member to oversee climate-related issues was not deemed necessary due to the small size of the Board which ensures sufficient accountability.

Science Group has a small executive management team and all members have responsibility for the management of overall risks and climate change strategy across the Group. The executive team stays in close contact with the Managing Directors to ensure they are up to date with any risks to the Group. The Company Secretary has been appointed to formalise the feeding of any strategy changes to the individual businesses and ensure they are carrying out specified initiatives against the strategy. Progress is then reported back to the Board by the Company Secretary.

Based on the assessment of climate-related risks and opportunities and exposure being at the lower end of scale, as discussed in the Strategy section below, the Board believes there is sufficient expertise to manage climate-related matters at the Board and management levels. Where appropriate, external consultants may be engaged to advise further.

Risk management

During 2023 Science Group undertook a formal exercise to identify and asses the Group's climate-related risks and opportunities with the support of sustainability consultants. Identified climate-related risks and opportunities have been assessed using the Group's existing risk management framework to integrate them with the Group's wider business risks and to enable the significance of climate-related risks relative to these wider Group risks to be determined.

While Science Group's risk assessment is standardised across the Group, risks may be unique to different businesses. The Managing Directors report weekly to the executive management team on business performance and any significant issues and provide formal reports to the full Board on a monthly basis. This ensures that potential emerging risks identified on the ground are escalated to the Board in a timely manner. Externally, the Group's professional advisors raise relevant potential issues from time to time.

Identified potential risks are discussed by the executive management team. Both the impact (on a five point scale from Minor to Catastrophic based on financial loss exposure) and likelihood (on a five point scale from Rare to Very High) of the risks are assessed and an overall risk rating (on a three point scale from Green to Red) is determined which allows for the prioritisation of risks. A mitigation response (avoid, transfer, reduce or accept) is then determined as required.

The Group has assessed climate-related risks and opportunities against the following defined time horizons:

Short term	2023–2025	In line with specific business plans and the Group's viability statement
Medium term	2026–2030	In line with the majority of the Group's site lease terms, which are between 5–10 years in remaining duration
Long term	2031–2100	Long enough to encompass long-term industry and policy trends, such as UK Net Zero 2050 and for climate-related risks to manifest

In the Group's climate-related risk assessment, all risk and opportunity categories outlined in the TCFD guidance have been considered. Risks have been assessed in relation to the Group's own operations, supply chain and downstream. Not all risk categories are applicable or material to the business.

The Group's climate-related risks have been included in the risk register which was reviewed and approved by the Board during the year. Where appropriate, identified risks may also be assigned to a working party to keep a watching brief and update the Board as appropriate, although this was not deemed necessary during 2023.

Strategy

As a science and technology business with the majority of its businesses providing consultancy services, Science Group is at the lower end of exposure for climate-related risks. Based on the risk exposure after mitigation outlined in this statement, the Board believes that the Group is resilient to climate change and does not require a fundamental change to its strategy, financial planning or budgets. There are no effects of climate-related matters reflected in judgements and estimates applied in the financial statements.

The key climate-related risks and opportunities for the Group are:

- Physical risks: As Science Group sites span the UK, Europe, US and Asia, and the Frontier business relies on manufacturing suppliers in Asia, the Group is currently exposed to physical risks that continue to persist into the long term. Adequate mitigation strategies including, where practicable, considering climate factors when choosing sites and diversifying suppliers will assist the Group to withstand these potential physical risks.
- Transition risks: The Group provides services and systems to customers in a range of sectors including medical, defence, industrial and consumer. This adds complexity to the analysis as these customers face their own climate-related issues and reporting pressures on them could be passed to Science Group. Keeping abreast of reporting expectations will reduce this risk.
- Opportunities: Opportunities exist both operationally to reduce the Group's scope 1 and 2 emissions and in the market to assist customers who need to adapt to climate change.

Other risks and opportunities have been assessed according to the TCFD guidance including increased costs for critical raw materials, technological redundancy of equipment, reputational risk due to projects in high environmental impact sectors and products that reduce energy usage. However these have been deemed to be immaterial to the Group.

Science Group will continue to develop its analysis as new data becomes available, both internally and externally, and will continue to monitor climate exposures and action plans through the Group's risk management framework. Details of the physical and transition risks and opportunities identified are outlined below.

Physical climate-related risks

Risk #	1. Storm and flood disruption	2. Flood & heat disruption in supply chain
Acute/Chronic	Acute	Acute
Area	Group operations	Upstream
Primary potential financial impact	Lost production & revenue, asset damage	Lost production and revenue
Time horizon	Short & long term	Short, medium & long term
Likelihood	Low	Medium
Impact	Significant	Serious
Location or service most impacted	CMS2 business – Portsmouth site	Frontier suppliers in Asia
Metrics used to track risks	Loss of revenue from products manufactured in Portsmouth	Loss of production & subsequent revenues

The Group's site portfolio has been assessed for physical climate-related risks using geospatial risk modelling software and it was determined that the overall risk is limited.

Sites with leases expiring within the year ended 31 December 2023 and with no plans for renewal were excluded from the analysis. The Group's small office locations were also excluded as, in the event of site-related or commuting-related disruption, relevant staff would be able to work from home limiting the loss of business productivity. The Group's insurance policies also include business interruption cover and property damage.

Of the Group's three largest sites (Cambridge, Epsom and Portsmouth), only the Portsmouth manufacturing site has any associated physical risks.

The Intergovernmental Panel on Climate Change (IPCC) has developed a suite of scenarios that represent the future pathways of carbon in the atmosphere. Each of these is titled as a Representative Concentration Pathway (RCP). The following three IPCC climate-related scenarios have been used to assess the Group's physical climate-related risks:

A. *RCP 2.6:* a climate-positive pathway, likely to keep global temperature rise below 2°C by 2100. CO_2 emissions start declining by 2020 and go to zero by 2100.
B. *RCP 4.5:* an intermediate and probable baseline scenario, more likely than not to result in global temperature rise between 2°C and 3°C, by 2100 with a mean sea level rise 35% higher than that of RCP 2.6. Many plant and animal species will be unable to adapt to the effects of RCP 4.5 and higher RCPs. Emissions peak around 2040, then decline.
C. *RCP 8.5:* a bad case scenario where global temperatures rise between 4.1°C to 4.8°C by 2100. This scenario is included for its extreme impacts on physical climate risks as the global response to mitigating climate change is limited.

Risk 1: Storm and flood disruption

The Group's Portsmouth site is the manufacturing facility for the CMS2 business and includes an industrial unit with a large factory floor located in the middle of a commercial estate. The site is currently subject to extreme exposure risk to flood due to a 1 in 100 years storm surge risk and an extreme risk of sea level rise under the RCP 8.5 scenario in 2100, and therefore the risk of flooding continues into the future. The Group is not aware of any incidents or insurance claims related to such events during the last 10 years. Floods can be difficult to predict so this risk will be actively monitored. The risk is well known and Portsmouth Council is investing to improve sea defences which will assist in protecting the Portsmouth site into the longer term.

The CMS2 business contributed approximately 19% of the Group's revenue in 2023. Although disruption from weather events may be covered by insurance, any requirement for the business to move locations, an inability to operate at full capacity or a lack of manufacturing equipment and facilities could result in significant delays to fulfilling customer contracts and possible damage to CMS2's reputation. CMS2 has a long track record and a strong market position which may protect the division from customer switching although this could change in the longer term.

One server is housed at the Portsmouth site. The risk of disruption to the CMS2 business's IT infrastructure as a result of flooding is mitigated by daily back ups to servers at another Group site. The Board has considered mitigating the risk of storm and flood disruption more broadly by relocating the manufacturing facility to higher ground. However, the existing site lease continues for a further nine years and it would cost an estimated £4.5–5.0m to relocate now (including ongoing existing lease costs as well as rental and fit out costs for a new site). The Board does not consider this to be an economically viable option given the size of the CMS2 business and the cost and likelihood of the current climate-related risk. When the existing lease expires the Board currently expects to relocate the CMS2 business at that stage to mitigate the longer term risks.

Climate-Related Financial Disclosures continued

Risk 2: Flood & heat disruption in supply chain

Physical climate-related risks could impact the Group's suppliers. Some components used in the CMS2 and Frontier businesses are specialised and supply cannot easily be switched out for alternatives. Therefore weather disruption to suppliers in these businesses could severely impact the supply chain and the Group's ability to fulfil customer contracts.

In the CMS2 business, this is potential risk from single-site, specialised suppliers. However, as CMS2's customers often need to approve the suppliers used, and/or there are limited alternative suppliers, this limits the short-term ability to switch or to diversify suppliers.

The Frontier business uses seven key suppliers across nine sites for the supply of components, outsourced manufacturing and logistics. These sites are located in mainland China, Hong Kong, South Korea, Singapore and the Philippines and have been assessed for physical climate-related risks as follows:

- There is a high risk of heat stress for four supplier sites (one being a logistics provider for which alternatives are readily available). This is expected be a limited risk as staff are not working outside, but Frontier will engage with suppliers to understand any issues they may have with heat, whether they rely heavily on water consumption or air conditioning to run their operations and whether increased heat could slow or halt production. All nine of the supplier sites (three being logistics providers) have a high precipitation stress risk which continues under the RCP 8.5 scenario for 2030, 2050 and 2100. As the risk is already high and the suppliers have been able to operate under these conditions, it is assumed that the risk is manageable. Similarly, the tropical cyclone risk for two supplier sites is already high and appears manageable.
- Three supplier sites (two being logistics providers) have current high or extreme flood risk and one supplier site has projected future flood risk. The latter currently has no flood risk but this is projected to worsen to 1 in 500 years from 2030. Frontier will investigate the potential impacts of floods on these suppliers and understand what safeguards they have in place.
- The analysis of supplier sites also investigated fire stress, sea level rise and drought stress of which there was no impact.

The Frontier business contributed approximately 9% of the Group's revenue in 2023 and disruption in the supply chain could result in serious loss if not mitigated. While options for alternative suppliers in the region which are not impacted by similar risks may be limited, these will be reviewed and considered where practicable.

Transition climate-related risks

Risk #	3. Carbon pricing in operations & value chain	4. Reputational risk linked to sustainability performance & reporting
Type	Transition (Market), Policy & Legal, Reputation	Transition (Market), Reputation
Area	Group operations & upstream	Upstream
Primary potential financial impact	Higher energy, raw materials & transport costs	Lost revenue
Time horizon	Medium term	Medium term
Likelihood	High	Medium
Impact	Minor	Minor
Location or service most impacted	CMS2 & Frontier businesses due to higher emission profiles	Group-wide
Metrics used to track risks	Scope 1, 2 & 3 emissions	External ESG ratings, customer feedback

The following two climate-related scenarios, published by the International Energy Agency (IEA), have been used to assess the Group's transition risks:

A. *Net Zero 2050 (NZE):* an ambitious scenario which sets out a pathway for the global energy sector to achieve net zero CO_2 emissions by 2050.
B. *Stated Policies Scenario (STEPS):* a scenario which represents the roll forward of already announced policy measures. This scenario outlines a combination of physical and transitions risk impacts as temperatures rise by around 2.5°C by 2100 from pre-industrial levels, with a 50% probability. This scenario is included as it represents a base case pathway with a trajectory implied by today's policy settings.

Risk 3: Carbon pricing in operations & value chain

For the Group's operational emissions (scope 1 and 2), carbon pricing risks represent a risk of higher energy prices. For the Group's principal value chain (upstream scope 3) emissions, carbon pricing mechanisms could result in higher costs of purchased goods or in-bound transportation.

The IEA forecasts that carbon prices (US$/t$CO_2$e) relevant to the Group are projected to increase from $140/t in 2030 to $250/t in 2050 under the NZE scenario and from $90/t in 2030 to $113/t in 2050 under the STEPS scenario. The impact of this has been assessed as follows:

- Scope 1 and 2 emissions: The forecast carbon prices have a minor impact in both the NZE and STEPS scenarios when applied to the Group's reported operational emissions for 2023 (see the Energy and greenhouse gas (GHG) reporting section on page 14). This does not take account of any future mitigation actions or material changes to the business and assumes that the full impact of carbon prices is passed onto the Group.
- Scope 3 emissions: This is the first year of the Group's reporting on its emissions and energy usage and the reporting includes limited scope 3 emissions (see the Energy and greenhouse gas (GHG) reporting section on page 14). Since the Group's full scope 3 emissions footprint has not yet be calculated, the full financial impact of the forecast carbon prices cannot be assessed at this stage. It is also uncertain how and when carbon prices will be imposed in the value chain and how much will be passed on to the Group. However the Group's current view is that the impact of carbon pricing in the value chain is likely to be minor. As the sophistication of the Group's scope 3 emissions reporting increases, a clearer insight will develop into the impact on the Group and how this may be mitigated.

Given its nature, there is limited scope for the Group to manage this risk but it will be kept under review.

Risk 4: Reputational risk linked to sustainability performance & reporting

There is an increasing trend of investors incorporating sustainability criteria into their assessments. The Group has not experienced adverse investor interaction on climate change to date although ESG has been a topic of discussion with some investors. The Group's bank loan and debt facilities are not tied to sustainability criteria and no negative feedback has been received from the Group's banks.

The R&D Consultancy and Regulatory & Compliance businesses have seen an increase in customers incorporating climate-related and other ESG topics into supplier questionnaires although this has had no significant impact to date.

There are limited opportunities to mitigate this risk but the Group will keep sustainability performance and reporting under close review.

Climate-related opportunities

Opportunity #	1. Market opportunities	2. Operational opportunities
Type	Market	Energy source, resource efficiency
Area	Group operations	Group operations
Primary potential financial impact	Increased revenue	Reduced cost variability, reduced exposure to carbon taxes
Time horizon	Short term	Short term
Likelihood	High	High
Impact	Medium	Minor
Location or service most impacted	R&D Consultancy and Regulatory & Compliance businesses	Group-wide
Metrics used to track opportunity	Revenue or number of services assisting companies involved in low carbon economy	Scope 1 & 2 emissions, % renewable electricity

Opportunity 1: Market opportunities

It is anticipated that demand for sustainability-related services will grow as customers continue to adapt to climate change and mitigate their climate risks. Science Group's cross-divisional sustainability practice seeks to take advantage of this opportunity by supporting customers with management and strategy services, sustainable innovation and product stewardship. The Group has seen an increased focus on sustainability in both the R&D Consultancy business, which supports customers' exploration of possible scientific and technological solutions to climate-related challenges, and the Regulatory & Compliance business where sustainability concerns are driving a desire to reduce chemical usage and identify less harmful alternatives. For more information see the Sustainability services section on page 15.

Opportunity 2: Operational opportunities

The Group has already implemented many renewable energy and energy reduction initiatives in its offices (see the Energy efficiency section on page 14). Similarly, water consumption and waste have a minimal impact as the majority of the Group's sites are offices. However, there is still opportunity for incremental improvements to resource efficiencies and these will continue to be explored. The CMS2 manufacturing site in Portsmouth has not yet been formally assessed for energy reductions and may represent the greatest opportunity in this area.

Metrics and Targets

As this is the Group's first year of TCFD-aligned reporting, the Group has not yet established appropriate metrics and targets to enable the identified climate-related risks and opportunities to be tracked. However, consideration will be given during 2024 to potential metrics and targets with a view to enabling this in future years.

The Group reports on its Scope 1, 2 and limited Scope 3 emissions for the first time for the year ended 31 December 2023. This is included in the Energy and greenhouse gas (GHG) reporting section on page 14. Science Group recognises the requirements of all businesses to contribute to the UK's 2050 net zero ambitions. Accordingly, the Group will explore calculating additional Scope 3 emissions in future reports as the first step in this process.

Approved by the Board of Directors on 20 March 2024 and signed on its behalf by:

Martyn Ratcliffe
Executive Chair

GOVERNANCE

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 2023.

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 Statement of Executive Chair and Financial 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 41.

Subject to shareholder approval at the next Annual General Meeting, the Directors propose to pay a final dividend of 8 pence per share for the year ended 31 December 2023 (2022: 5.0 pence per share).

Financial instruments and risk management
Disclosures regarding financial instruments are provided within Note 3 to the Financial Statements.

Directors
The Directors and associated biographies are listed on page 24.

Michael Lacey-Solymar retired from the Board on 18 May 2023. Peter Bertram will retire by rotation and offer himself for re-election at the next Annual General Meeting.

Directors' Indemnities
The Directors have the benefit of an indemnity provision contained in the Articles. The Directors have also been granted a qualifying third party indemnity provision which was in force throughout the financial year and remains in force. In addition, throughout the year the Company purchased and maintained Directors' and Officers' liability insurance in respect of itself and for its Directors and Officers.

Annual General Meeting
The next Annual General Meeting (AGM) will be held on 18 June 2024 at 17 Waterloo Place, London, SW1Y 4AR. The AGM notice contains the full text of resolutions to be proposed.

Purchase of own shares
At the AGM on 18 May 2023 shareholders approved a resolution for the Company to buy back up to 10% of its own shares. This resolution remains valid until the conclusion of the next Annual General Meeting in 2024 or 30 June 2024 if earlier. As at the date of this report, the Company has bought back 741,093 shares pursuant to this authority. Throughout 2023 the Company bought back a total of 961,385 shares at a cost of £3.9m pursuant to both the 2023 AGM authority and the equivalent authority approved at the 2022 AGM. The nominal value of the share purchased was £9,614. For further information refer to Note 22.

Employees
The average number of persons, including Directors, employed by the Group and their remuneration is set out in Note 8 to the Financial Statements.

Statement on engagement with employees
The Board recognises the importance of engagement with employees and considers the current balance of engagement to be appropriate and reasonable given the size of the Group.

At a Group level, employees are provided with information on matters of concern to them through the Group's intranets, human resources (HR) policies, direct updates from the HR team, and formal and informal meetings with line managers and senior managers. Individual businesses manage their own internal communications delivered across a variety of channels as appropriate. These include regular town hall meetings and presentations where employees have the opportunity to ask questions. The Executive Directors contribute to business management team meetings and away days as appropriate, with a particular focus during the year on the newer TPG Services and CMS2 businesses. Executive Directors regularly visit UK sites to engage directly with local management teams and employees in person, and work closely with Managing Directors. Employee communications are also made by Executive Directors through direct all-employee emails and update presentations.

The Group also implements a range of practices, policies and procedures to enable effective engagement with employees including mentoring, training and development programmes, appraisal systems and the Group's whistleblowing policy. Engagement with the Group's strategy, performance and values is encouraged through reward payments made under the Group's bonus and profit share schemes and other discretionary incentives and, for more senior grades, the award of share options.

Statement on engagement with customers, suppliers and others
Engagement with customers, suppliers and other stakeholders in the business is an important factor in ensuring the successful implementation of the Group's strategy. For information on how the Directors have had regard to the need to foster these business relationships, see the Section 172 Statement on page 12.

Disabled persons
The Company gives full and fair consideration to suitable applications for employment from disabled persons where a disabled person can adequately fulfil the requirements of the role. Where an employee of the Company becomes disabled during the course of their employment the Company would seek to arrange appropriate further training for the employee, and make reasonable adjustments to the employee's working environment, where it is possible for the employee to continue fulfilling the requirements of their role. Employees with a disability are eligible to participate in career development opportunities across the Company including training and promotion opportunities.

Donations
Total charitable contributions made by the Group in 2023 were approximately £8,000 (2022: £25,000). No political donations were made during the period (2022: £nil). For more information see the Charitable donations section on page 16.

Energy usage and greenhouse gas emissions
The Company is required to disclose its UK energy usage and associated greenhouse gas emissions under the Streamlined Energy and Carbon Reporting Regulations for the first time in 2023. Details are set out in the Environmental section of the Non-Financial and Sustainability Information Statement on page 14.

Research and development
Science Group provides outsourced science based services and therefore has an inherent and continuing commitment to high levels of research and development, primarily on behalf of its customers but also, when appropriate, on its own behalf.

Post balance sheet events
Post balance sheet events are disclosed in Note 30 to the Financial Statements.

Report of the Directors continued

Auditor
Grant Thornton UK LLP were re-appointed as auditor at the AGM on 18 May 2023. Grant Thornton UK LLP are willing to continue in office and a resolution to reappoint them will be proposed at the forthcoming AGM.

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.

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

Director	Role at 31 December 2023	Date of (re-) appointment	Date of retirement	Board Committee		
Martyn Ratcliffe	Executive Chair	18/05/2023			N	
Jon Brett	Group Finance Director	18/05/2022				
Daniel Edwards	Group Managing Director	18/05/2022				
Michael Lacey-Solymar+	Non-Executive	18/05/2022	18/05/2023	A	N	R
Peter Bertram+	Non-Executive	19/05/2021		A	N	R
Susan Clement Davies+	Non-Executive	18/05/2023		A	N	R

A = Audit Committee; R = Remuneration Committee; N = Nomination Committee
+ Independent Director

Directors' Biographies
Below are the biographies of the current Directors:

Martyn Ratcliffe
Executive Chair
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.

Daniel Edwards
Group Managing Director
Dan Edwards was appointed to the Board on 24 April 2019. Mr Edwards joined the Company in 2004 and has held a number of roles within the Group including four years in the US before being appointed Managing Director in 2012. He has an Engineering degree from the University of Cambridge and an MBA from Harvard Business School. He started his career at Rolls-Royce plc.

Jon Brett
Group Finance Director
Jon Brett was appointed to the Board as Acting Finance Director on 10 August 2021 and confirmed as Finance Director on 1 March 2022. Mr Brett joined Science Group as Financial Controller in March 2020 and was previously Group Financial Controller for Study Group Limited. He trained with Deloitte LLP and qualified as a Certified Accountant in 2004.

Peter Bertram
*Senior Independent Director**
Peter Bertram was appointed as a Non-Executive Director on 17 June 2020. He was Chairman of Manolete Partners plc from 2018 until 2021 and he has previously held a variety of non-executive board positions including Low & Bonar plc, Alphameric plc, Anite plc, Microgen plc, Phoenix IT group plc and Psion plc, and was CEO of Azlan Group plc. Mr Bertram is a Chartered Accountant and has a degree in Accounting from the University of Kent.

Susan Clement Davies
Independent Director
Susan Clement Davies was appointed a Non-Executive Director on 18 May 2022. Ms Clement Davies has over 25 years capital markets and investment banking experience, including 10 years at Citigroup/Salomon Smith Barney. She is currently non-executive director of Exploristics, MiNA Therapeutics and Scancell Holdings plc, and was previously non-executive director of Evgen Pharma plc. She has an Economics degree from the University College London and an MSc in Economics from London School of Economics.

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.

* To stand for re-election at the next AGM.

Corporate Governance Report

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

Adoption of recognised corporate governance code
The Board has adopted the Financial Reporting Council's UK Corporate Governance Code July 2018. The Company's statement of compliance and associated disclosures are available on the Investor information pages of the Company's website.

Board of Directors
At 31 December 2023, the Board comprised an Executive Chair (part-time), Group Managing Director, Group 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 Executive Chair, Group Managing Director and Group Finance Director present if appropriate.

The Executive Chair is primarily responsible for the working of the Board of Science Group plc and the Group corporate strategy.

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 Executive Board members, Managing Directors and other senior managers within the frameworks approved in the annual financial plan and Board-approved authorisation levels.

The Board met 13 times during 2023 (2022: 22). The Board regulations define a framework of high-level authorities that map the structure of delegation below Board level, as well as specifying issues which remain within the Board's preserve.

The Board typically holds ten regular meetings 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. Other meetings are held on an ad hoc basis as the need arises.

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 (from their last appointment) 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 Executive Chair 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 establish and maintain 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 or business 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 2023, in addition to base salary, benefits included pension contributions, healthcare and life assurance benefits, Group bonus and profit share schemes, additional bonus schemes based on achievement of billed hours targets for certain businesses within the Group, a commission scheme for sales people and, where appropriate, share options.

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 Chairs at Board meetings.

The Board does not conduct a formal performance evaluation of the Directors nor do the independent Non-Executive Directors formally appraise the Executive Chair. The Board conducts an annual internal evaluation of the Board and its committees, the results of which are reviewed and discussed by the Board. Due to the small size of the Board this annual evaluation, together with regular informal performance evaluations of Directors and the Executive Chair by the Board, is considered sufficient.

Audit Committee
The Audit Committee is chaired by Peter Bertram and comprises Peter Bertram and Susan Clement Davies. The Audit Committee met 3 times during 2023 (2022: 6). It takes advice from the Company's auditors and tax advisors. Further details on the Audit Committee are provided in the Report of the Audit Committee on page 27.

Remuneration Committee
The Remuneration Committee is chaired by Susan Clement Davies and comprises Susan Clement Davies and Peter Bertram. The Remuneration Committee met 8 times during 2023 (2022: 8). It may take advice from time to time from external advisers but did not do so in 2023. Further details on the Remuneration Committee are provided in the Report of the Remuneration Committee on page 26.

Board Committees continued

Nomination Committee
The Nomination Committee is chaired by Martyn Ratcliffe and comprises Martyn Ratcliffe, Peter Bertram and Susan Clement Davies. The Nomination Committee met once during 2023 (2022: 1). It may take advice from time to time from external advisers but did not do so in 2023. Further details on the Nomination Committee are provided in the Report of the Nomination Committee on page 28.

Meetings of the Board and sub-committees during 2023 were as follows:

	Board Meetings	Audit Committee	Remuneration Committee	Nomination Committee
Number of meetings held in 2023	**13**	**3**	**8**	**1**
Martyn Ratcliffe	13	3*	8*	1
Jon Brett	13	3*	8*	1*
Daniel Edwards	13	3*	8*	1*
Michael Lacey-Solymar+	5	1	4	1
Peter Bertram	13	3	8	1
Susan Clement Davies	13	3	8	1

* Attendance by invitation.
\+ Michael Lacey-Solymar retired on 18 May 2023.

Report of the Remuneration Committee

The Remuneration Committee is chaired by Susan Clement Davies and comprises Susan Clement Davies and Peter Bertram.

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 determines the individual remuneration package of the Executive Chair and Executive Directors, and also reviews remuneration packages for all senior employees of Science Group. This responsibility includes pension rights and any other compensation payments including bonus and profit share payments and share option awards. The Committee's remuneration practices do not include engagement with employees regarding executive remuneration.

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 Group profit related bonus and profit share schemes for the Company for 2023. The Remuneration Committee also approved a number of individual discretionary bonuses, one-off bonuses of 4%, 5% or £1,000 for all eligible staff according to business, and a one-off payment of £250 in November as an enhanced winter bonus in light of increased living costs. All such payments are pro-rated for part time staff and, where appropriate, localised for employees outside of the UK.

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. The Company is not required to, and does not, engage with shareholders regarding its remuneration policy. The remuneration policies operated as intended during the year.

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. A limited interim review is normally undertaken each year reflecting the accelerated progress that more junior grades may require as they rapidly gain experience.
- annual Group performance-related bonus or profit share: executives, managers and eligible employees receive annual bonus or profit share payments related to company performance. The bonus scheme includes a claw back mechanism in certain circumstances. The Executive Chair does not participate in the Group annual performance-related bonus scheme but the Remuneration Committee may at its sole discretion award a bonus if appropriate.
- billed hours bonus: employees in certain businesses participate in additional bonus schemes based on achievement of billed hours targets.
- commission: some employees in sales roles participate in commission schemes based on revenue received from relevant sales. These employees are not eligible for the Group bonus or profit share schemes.
- benefits: benefits include medical insurance, life assurance and pension contributions. The Executive Chair does not receive these benefits.
- share options: share option grants are normally reviewed annually and granted on a discretionary basis by the Remuneration Committee. The Executive Chair has excluded himself from all such awards since 2010.

Full details of each Director's remuneration package and their interests in shares and share options can be found in Note 9 to the Financial Statements. There are no elements of remuneration, other than basic earnings, which are treated as being pensionable.

Share option plans
Historic approved and unapproved Share Option Schemes were adopted by the Company in 2008, the terms of which were reviewed and amended in 2010 and 2013 and approved by shareholders. No options have been granted under these legacy schemes since 2012 and there are no remaining vested or unvested options under these schemes.

In 2013 the Company adopted its first unapproved Performance Share Plan (PSP), the terms of which were amended and approved by shareholders in 2014, 2018 and 2020. A new PSP was adopted by the Company in 2022 on broadly equivalent terms and approved by shareholders. All options granted under a PSP scheme are issued at the nominal share price. The Remuneration Committee approves any options granted.

Directors are entitled to 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. Independent Non-Executive Directors do not participate in Science Group's share option schemes. The only share options granted to the Executive Chair, which occurred in 2010, were specifically approved by shareholders and he excludes himself from annual awards.

During 2023 the Frontier Smart Technologies Employee Benefit Trust (EBT) issued 34,800 shares in the Company, being all remaining shares held by the EBT, to satisfy share options exercised by Frontier employees. Accordingly the EBT holds no further shares in the Company and has been closed.

Director contracts and remuneration
The Executive Directors 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.

The Executive Chair and Non-Executive Directors receive a fixed salary. The Executive Chair does not participate in the Group bonus scheme but, if appropriate, the Remuneration Committee may award a discretionary bonus. Remuneration of the Executive Directors (excluding the Executive Chair) follows a simple structure of base salary, bonus and long term incentives using share options, including under the Enhanced Executive Incentive (EEI) addendum to the PSP plan that was approved by shareholders at the 2022 AGM. The Executive Chair is not formally excluded from the share option plan but has declined awards of share options since 2010.

The market price of the shares at 31 December 2023 was 391.0 pence (2022: 395.0 pence). The highest and lowest price during the year was 431.0 pence and 377.0 pence respectively.

Report of the Audit Committee

The Audit Committee is chaired by Peter Bertram and comprises Peter Bertram and Susan Clement Davies. Other Directors and relevant senior managers attend by invitation.

The Audit Committee provides a mechanism through which the Board can maintain the integrity of the financial statements of Science Group (including financial reporting policies) and any formal announcements relating to Science Group's financial performance, review Science Group's internal financial controls and Science Group's internal control and risk management systems, and 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. The Group does not maintain a separate internal audit function but the Group finance team undertake regular reviews of key controls and processes. 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, including at least one meeting without any Executive Directors present.

Financial reporting and significant financial matters
In carrying out its duties, the Audit Committee is required to assess whether suitable accounting policies have been adopted and to challenge the robustness of significant management judgements reflected in the financial results. This is performed through discussions at Audit Committee meetings where the Group Finance Director explains any changes to accounting policies and describes any significant management judgements made. In addition, the Audit Committee reviews the year end Report to the Audit Committee from the external auditors which details its work performed and findings from the annual audit.

During the year, the Audit Committee considered the following key financial matters in relation to the Group's financial statements and disclosures, with input from the external auditor:

Going concern – The going concern assertion has a significant impact on the basis of preparation of the financial statements. The Committee reviewed the business plan presented by management for the financial year ending 31 December 2023 and considered the key assumptions made by management. The Committee challenged management on the assumptions in the plan and consequently considered them appropriate. The Committee received the business plan cash flow which covered the period to the end of June 2025 and considered the associated assumptions, which were concluded to be appropriate.

The Group Finance Director performed a sensitivity analysis to assess the amount of headroom available in the event of a downside event occurring. The analysis considered the likelihood of a scenario where covenants would be breached. The conclusion was that the Group would continue to have sufficient cash resources in order to meet its liabilities as they fall due.

Acquisition accounting – All acquisitions are approved by the Board to ensure the acquisition is in line with the Group strategy and the potential risks are explained, quantified where possible and understood.

Carrying value of goodwill and acquisition related intangible assets – The value of the goodwill and acquisition related intangible assets is supported by a value in use model prepared by management. This is based on cash flows extracted from the Group's financial plan which has been approved by the Board. The Group Finance Director communicated the key assumptions within the value in use model and the Audit Committee concurred with management's conclusion that the carrying value of these assets was fully supported.

Risk of fraud within revenue recognition – Revenue is the most material balance in the Consolidated Income Statement and accordingly there is a rebuttable presumption that there is a fraud risk surrounding revenue. There is presumed to be an incentive to manipulate revenue in a manner that inflates the group profit, particularly around the year-end period.

Project managers carefully monitor the revenue recognised against projects and are accountable for the progress of projects. The Group Finance Director reviews the revenue recognised and accrued income balances on a monthly basis and investigates any unusual amounts recognised against projects. Collectively these processes would identify any unwarranted revenue recognised. No instances of fraudulent revenue recognition have been noted from these monitoring procedures in the current year. The Audit Committee is satisfied with management's response to the risk this incentive represents.

Report of the Audit Committee continued

Recoverability of investments in subsidiaries of Science Group plc – The value of investments in subsidiaries is supported by a value in use model prepared by management. This was based on cash flows extracted from the Group's financial plan which has been approved by the Board. The Group Finance Director communicated the key assumptions within the value in use model and the Audit Committee concurred with management's conclusion that the carrying value of these assets was fully supported.

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 misstatement or loss. 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 is a whistleblowing policy in place for the reporting and resolution of suspected fraudulent activities. There is a continual review of payment processes, authorisation levels for expenditure, and awareness raising of the risks of 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 – Corporate and operational managers are 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 operational/strategy reviews and annual plans. The Board actively monitors performance against the financial 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, as far as reasonably practicable.

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 Group Finance Director and Science Group's auditors during 2023. No internal audit function is operated outside of the systems and processes in place, as the Board considers that Science Group is currently too small for a separate function, although this remains under regular review. The Board considers the internal control system to be appropriate for the Group.

Auditors
Grant Thornton UK LLP were re-appointed at the AGM on 18 May 2023.

The Audit Committee considers the independence of the auditors as part of considering their annual re-appointment. During the year Grant Thornton has provided services in relation to the annual audit of the Group and also provided tax compliance services for certain of the UK subsidiaries. Audit Committee approval was provided for the provision of non-audit services by Grant Thornton in order to safeguard auditor independence. The provision of non-audit services beyond 2023 will be considered separately by the Audit Committee in 2024.

Report of the Nomination Committee

The Nomination Committee is chaired by Martyn Ratcliffe and comprises Martyn Ratcliffe, Peter Bertram and Susan Clement Davies.

The Nomination 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 Committee seeks input from all Directors regarding nominations for Board positions. All Board appointments have to be ratified at a General Meeting of the Company.

The Nomination Committee does not believe that it is appropriate to set any specific targets with regards to diversity, including gender. The Committee believes that the search for Board candidates should be conducted, and appointments made, on merit, against objective criteria but with due regard for the benefits of diversity on the Board. Given the small size of the Board and infrequency of Board appointments, the Company does not have a fixed process for seeking new candidates. However, where appropriate, this may include appointing an external search agency to assist with recruitment.

For information on the Board's performance evaluation process, see the Board Committees section on page 25.

Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations. The Directors consider that the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable, and provide the information necessary for shareholders to assess the Group's position, performance, business model and strategy.

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 International Financial Reporting Standards (IFRSs) as adopted by the UK 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, relevant and reliable.
- state whether they have been prepared in accordance with IFRSs as adopted by the UK.
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern.
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so. The Directors confirm that they consider it appropriate to adopt the going concern basis of accounting in preparing the Annual Report and financial statements.

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 are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement and 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.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

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 20 March 2024 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

Opinion

Our opinion on the financial statements is unmodified

We have audited the financial statements of Science Group plc (the 'Company') and its subsidiaries (the 'Group') for the year ended 31 December 2023, which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Shareholders' Equity, Company Statement of Changes in Shareholders' Equity, the Consolidated and Company Balance Sheets, the Consolidated and Company Statements of Cash Flows and Notes to the Financial Statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK-adopted international accounting standards and, as regards the Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2023 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the Company financial statements have been properly prepared in accordance with UK-adopted international accounting standards 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Group and the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.

Our evaluation of the Directors' assessment of the Group's and the Company's ability to continue to adopt the going concern basis of accounting included:

- obtaining and assessed management's paper and assessment of going concern, including forecasts covering the period to 30 June 2025 and tested the mathematical accuracy of forecasts, as approved by the Board;
- evaluating the accuracy of management's forecasting through a comparison of prior forecast to actual data and the impact of this on management's assessment;
- performing arithmetical accuracy procedures on each of management's forecast scenarios, including forecast liquidity and covenant calculations;
- assessing the reasonableness of the key assumptions applied in management's forecasts by comparing to external market data and historic performance;
- assessing forecast compliance with financial covenants within the Group's facilities for the period to 30 June 2025 and assessed available headroom to the Group in the forecast period;
- assessing reverse stress tests performed by management and determine if they are plausible; and
- assessing the appropriateness of disclosures in respect of going concern made in the financial statements.

In our evaluation of the Directors' conclusions, we considered the inherent risks associated with the Group's and the Company's business model including effects arising from macro-economic uncertainties such as the crisis in Ukraine and the Middle East, and the inflationary environment in the UK. We assessed and challenged the reasonableness of estimates made by the Directors and the related disclosures and analysed how those risks might affect the Group's and the Company's financial resources or ability to continue operations over the going concern period.

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the Group's reporting on how it has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Our approach to the audit

Grant Thornton
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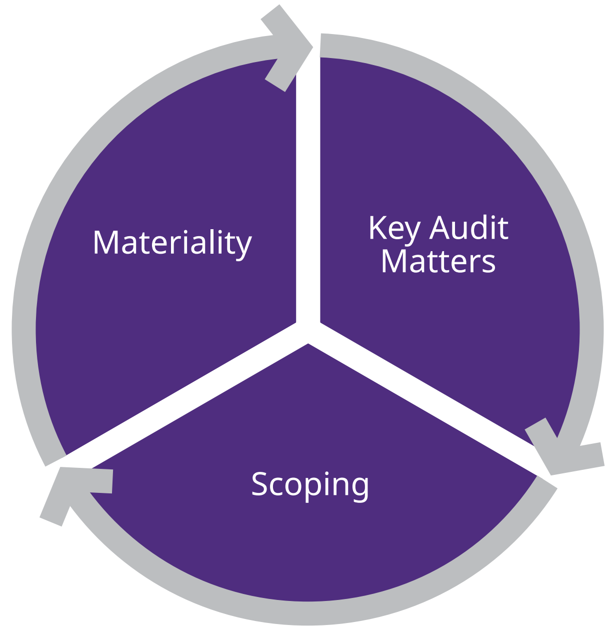


Overview of our audit approach

Overall materiality:

Group: £619,000, which represents 5% of the Group's profit before tax and loss on remeasurement of equity-accounted investment.

Company: £557,100, which represents 2.0% of the company's net assets, capped at 90% of Group materiality.

Key audit matters were identified as:

- Valuation of acquired intangibles as a result of the TP Group acquisition (new);
- Valuation of existing goodwill (Group) and investments (company) (new); and
- Revenue recognition in Critical Maritime Systems and Support Limited 'CMS2' and TPG Services Limited where revenue is recognised over time (long term contracts) (change in scope).

Our current year's audit report includes one key audit matter that is different in scope to that reported in the prior year. This relates to revenue recognition – fixed price contracts and product revenue.

In the current year we have pinpointed the risk of revenue recognition from fixed price contracts (contracts recognised over time) to specific components in the Group based on the proportion of revenue contributed to the Group in the current year. Revenue recognition related to product revenue has not been reported as part of the key audit matter in the current year as the proportion of revenue generated from this revenue stream has become less significant to the Group in the current year therefore the relative auditor attention required was such that this was not considered to be one of the most significant areas in our audit of the financial statements.

Our auditor's report for the year ended 31 December 2022 included one key audit matter that have not been reported as a key audit matter in our current year's report. This related to investments in associate – control of associate undertaking.

Investments in associate – control of associate undertaking has not been included as current year key audit matter as the associate has been fully acquired and is now accounted for as a subsidiary which has given rise to a separate, new key audit matter around the valuation of acquired intangibles as a result of the acquisition.

We performed full-scope audits of the financial information of 3 components using component materiality, and specified audit procedures on the financial information of 8 components, to gain sufficient appropriate audit evidence at Group level.

This gives a coverage of 86% of the Group's total revenue, and 70% of the Group's profit before tax.

We performed analytical procedures at Group level using Group materiality for all 10 other components of the Group.

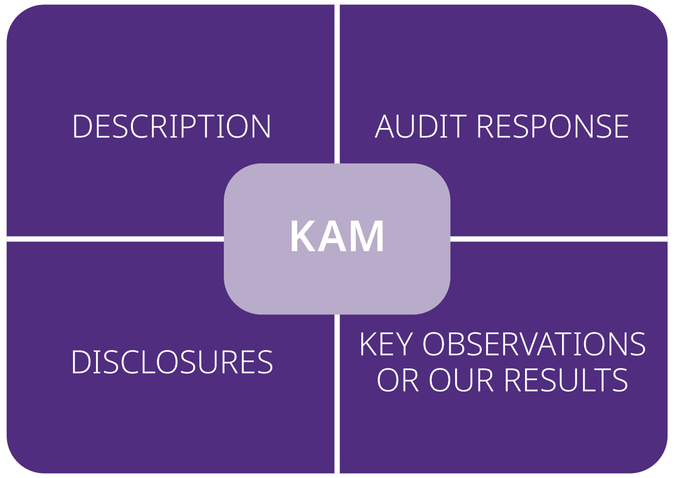
The type of work performed on components changed from the prior year. Due to changes in the composition of the Group, we have decreased our scope on 5 components from full scope audit procedures to specified audit procedures.

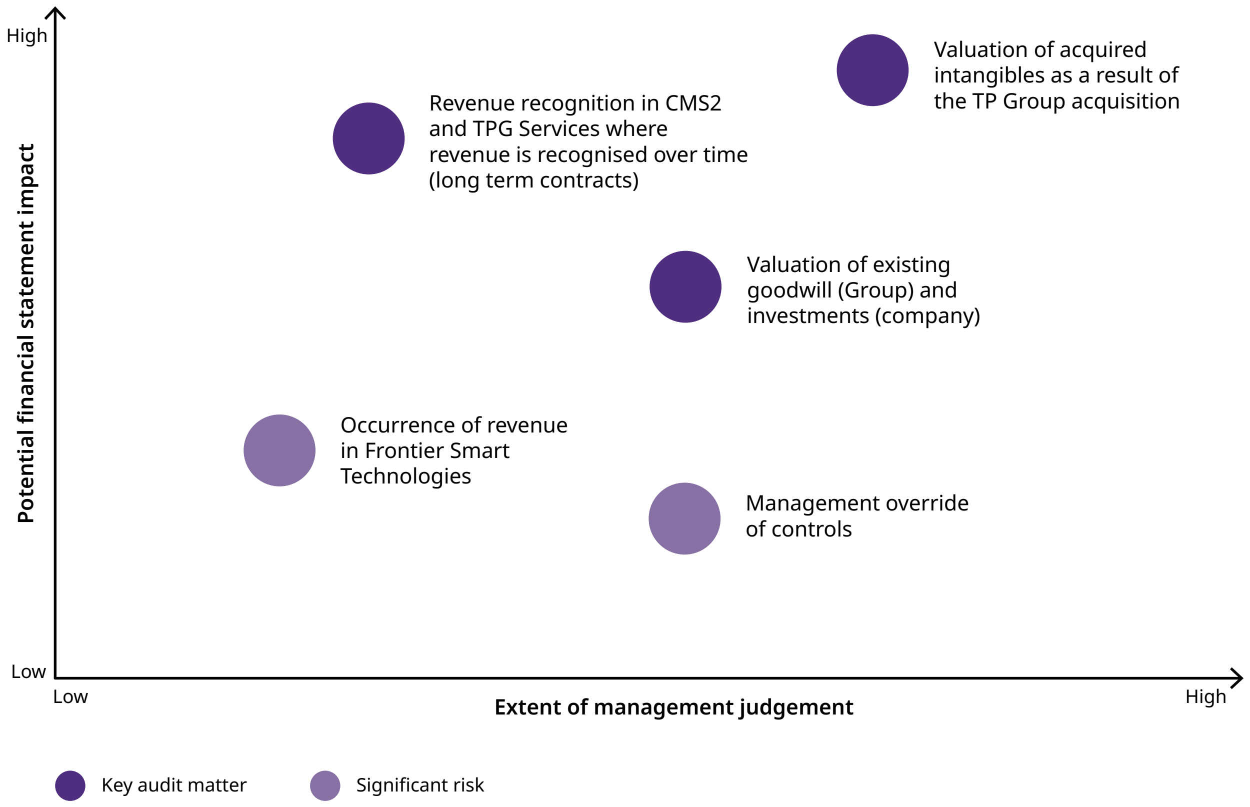
Independent auditor's report to the members of Science Group plc continued

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In the graph below, we have presented the key audit matters and significant risks relevant to the audit. This is not a complete list of all risks identified by our audit.





Key Audit Matter	How our scope addressed the matter
Valuation of acquired intangibles as a result of the TP Group acquisition (Group) We identified valuation of intangible assets on recognition of the acquired business as one of the most significant assessed risks of material misstatement due to error. The shareholding in TP Group was previously accounted for as an associate undertaking by virtue of its shareholding at 31 December 2022. On 26 January 2023, TP Group was fully acquired by Science Group via a scheme of arrangement and is now accounted for as a subsidiary. At 31 December 2023 the Group recognised £24.6m of intangibles relating to the acquired business. There is a risk that the intangible assets, including goodwill, could be recorded at an incorrect amount as the valuation of the intangibles involves complex estimation techniques including identifying specific intangible assets and key assumptions such as revenue growth, discount rates, customer attrition and customer growth rates.	In responding to the key audit matter, we performed the following audit procedures: • Understood and documented the internal controls related to accounting for business combinations and assessed the design and implementation of these controls as part of our walkthrough process. • Assessed whether the Group's accounting policy for the identification and valuation of intangible assets acquired in a business combination is in accordance with UK-adopted international accounting standards and whether fair value measurements are accounted for in accordance with the accounting framework; • Obtained management's purchase price allocation performed by management's third party experts and evaluated the appropriateness and reasonableness of identified intangibles and key assumptions made in the calculations, such as growth rates, customer attrition rates and discount rates; • Used our internal valuation team (auditor experts) to assess the appropriateness of the methodology and key assumptions used in the valuation of acquired intangible assets; • Challenged management's assessment of the identifiable intangible assets acquired and whether any further intangible assets, such as brands or trademarks (where not already recognised), should be identified; • Reconciled the outputs from the purchase price allocations to the financial statements and disclosures therein and • Assessed the adequacy of the disclosures included in the Annual Report in accordance with IFRS as adopted by the UK.
Relevant disclosures in the Annual Report and Accounts 2023 • Financial statements: Note 2.5, Accounting policy – Investments; and Note 16c, Investment in associate.	**Our results** Based on our audit work, we did not identify any material misstatements related to the valuation of acquired intangibles as a result of the TP Group acquisition.
Valuation of existing goodwill (Group) and investments (Company) We identified the carrying value of goodwill, and the associated investment value in the company, as one of the most significant assessed risks of material misstatement due to error. We have pinpointed the significant risk in relation to the carrying value of goodwill (Group) and investment (company) to the Frontier Smart Technologies Cash Generating Unit ('CGU'). This is due to performance of the CGU in FY23 being lower than forecasted performance. Under International Accounting Standard (IAS) 36 'Impairment of Assets', management is required to assess at the end of each reporting period whether there is any indication that an asset may be impaired and to perform an annual assessment whether the Group's goodwill within a CGU is impaired. The process for assessing whether impairment of assets exists under IAS36 is complex. Management prepare impairment models to assess the value in use. Management calculate value in use, through forecasting cash flows relating to the CGU, applying an appropriate discount rate and applying other assumptions which can be highly judgmental and subject to error. The selection of certain inputs into the cash flow forecasts can also significantly impact the results of the impairment assessment.	In responding to the key audit matter, we performed the following audit procedures: • Evaluated the design and implementation of relevant controls around the process of preparing an impairment assessment by performing a walkthrough. • Obtained management's assessment over carrying value and value in use; • Assessed the mathematical accuracy of the impairment model and the methodology applied by management for consistency with the requirements of IAS 36; • Tested the accuracy of management's forecasting through a comparison of prior forecasts to actual data; • Checked the consistency between the figures in the impairment model to the consolidated budget evaluated as part of the going concern work performed; • Assessed the reasonableness of management's key assumptions through our knowledge of the business, discussions with management and by using industry data and other external information; • Used our internal valuations experts to inform our challenge of management, that the methodology used in managements model and assumptions used within the calculation of WACC and long-term growth rates are reasonable; • Assessed the sensitivity analysis performed by management to understand the impact of any reasonably possible changes in assumptions, and evaluated the headroom available to assess whether goodwill or investment balances could be impaired; and • Assessed the adequacy of the Group's disclosures, including a review of the plausible downside scenarios shown at Note 14, with response to the carrying value of goodwill and the investment held in the company.

Independent auditor's report to the members of Science Group plc continued

Key Audit Matter	How our scope addressed the matter
Relevant disclosures in the Annual Report and Accounts 2023 • Financial statements: Note 2.7, Accounting policy – Goodwill; and Note 14, Intangible assets.	**Key observations** Based on our work performed, we have challenged management on their assumptions, inputs and forecasts, and gained sufficient audit evidence to conclude there was no impairment within the goodwill or investment balances held for the Frontier Smart Technologies CGU. The CGU was sensitive to changes to the key assumptions into the model. We note management have appropriately disclosed a reasonably possibly scenario within Note 14.
Revenue recognition in Critical Maritime Systems and Support Limited ('CMS2') and TPG Services Limited where revenue is recognised over time (long term contracts) We identified revenue recognition in CMS2 and TPG Services Limited where revenue is recognised over time (long term contracts) as one of the most significant assessed risks of material misstatement due to fraud and error. Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. Revenue in CMS2 and TPG Services Limited from long term contracts totalled £13.8m in the period. We pinpointed the significant risk to contracts which exhibited certain qualitative and quantitative risk criteria. Management continues to apply the provisions of 'IFRS' 15 'Revenue from Contracts with Customers'. Revenue is recognised based on stage of completion measured in reference to costs incurred as a proportion of total costs ('input method'). Stage of completion is therefore based on actual costs incurred to date over estimated costs to complete. The estimation of costs to complete is inherently complex and significant management judgment is required.	In responding to the key audit matter, we performed the following audit procedures: • Gained an understanding of the processes and controls in respect of revenue recognition as well as evaluated the design and implementation of these controls through the use of a walkthrough; • Obtained management's assessment of revenue recognition under IFRS 15. Obtained and inspected contract documents and challenged the identification of performance obligations, contract clauses and assessing whether the method of revenue recognition is in accordance with IFRS 15 ' Revenue from contracts with customers'; • Recalculated the revenue recognised on a sample of contracts based on percentage completion in relation to estimated costs to complete and compared to amounts recorded by the Group; • Made inquiries of project managers to obtain an understanding of the performance of the contract throughout the period and at period end; • Assessed the historical forecasting accuracy by comparing prior estimated costs to complete to actual costs incurred when the contracts were completed during the current period; • Obtained and assessed management's forecast estimated costs to completion and challenged management's estimates in response of costs to complete: – evaluating of project costing and estimated cost to complete against milestones and project deliverables. – discussions with project managers to assess project status, identify whether there have been any significant changes in estimates, and whether they expect remaining costs to be in-line with estimate post year-end. – assessing post year-end costs incurred and updated estimates made; and • Assessed the adequacy of the disclosures against the requirements of IFRS 15, and the disclosure made in respect of key judgments and estimates involved in long term contract accounting.
Relevant disclosures in the Annual Report and Accounts 2023 • Financial statements: Note 2.19, Accounting Policy – Revenue Recognition, Note 4 – Segment Information, Note 5 – Revenue.	**Our results** Based on our audit work, we did not identify any material misstatements in revenue recognition within CMS2 and TPG Services Limited where revenue is recognised over time (long term contracts).

Our application of materiality

We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report.

Materiality was determined as follows:

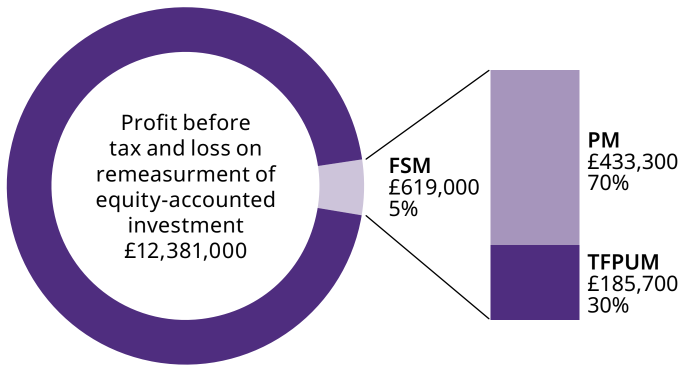
Materiality measure	Group	Company
Materiality for financial statements as a whole	We define materiality as the magnitude of misstatement in the financial statements that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of these financial statements. We use materiality in determining the nature, timing and extent of our audit work.	
Materiality threshold	£619,000, which is 5% of profit before tax and loss on remeasurement of equity-accounted investment.	£557,100, which was based on 2% net assets capped to 90% of Group materiality.
Significant judgements made by auditor in determining the materiality	In determining materiality, we made the following significant judgements • We have selected profit before tax as the most appropriate benchmark because the Group is a commercially focused organisation and profit before tax is a key financial measure for the shareholders, and is a generally accepted audit benchmark. • A performance-based measurement percentage of 5% was chosen, which reflects our knowledge of the business from prior year audits, and aligns with our firm's methodology. Materiality for the current year is higher than the level that we determined for the year ended 31 December 2022 to reflect the higher profit before tax and loss on remeasurement of equity-accounted investment during the year.	In determining materiality, we made the following significant judgements • We have selected net assets as the most appropriate benchmark as the company is a non-trading entity, and holds investments in other Group trading entities. • 2% was considered to be an appropriate percentage based on our knowledge of the business from prior year audits and aligns with our firm's methodology. • We capped materiality at 90% of Group materiality based on the component's significance within the Group, as the materiality based on net assets was higher than Group performance materiality. Materiality for the current year is higher than the level that we determined for the year ended 31 December 2022 to reflect the higher Group materiality.
Significant Revisions of materiality threshold that were made as the audit progressed	We calculated materiality as £655,000 at the planning stage of the audit based on forecast profit before tax. As the profit before tax was lower at the fieldwork stage than the forecast figures, we chose to re-assess materiality and adjusted our audit procedures accordingly.	We calculated materiality at the planning stage of the audit, capping it for Group audit purposes at £598,500. This was re-assessed at the fieldwork stage based on revision to Group profit before tax, and we adjusted our procedures accordingly.
Performance materiality used to drive the extent of our testing	We set performance materiality at an amount less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.	
Performance materiality threshold	£433,300, which is 70% of financial statement materiality.	£389,970 , which is 70% of financial statement materiality.
Significant judgements made by auditor in determining the performance materiality	In determining performance materiality, we made the following significant judgements • Whether there were any significant adjustments made to the Group financial statements in prior years; and • Whether there were any significant control deficiencies identified in prior years.	In determining performance materiality, we made the following significant judgements • Whether there were any significant adjustments made to the company financial statements in prior years; and • Whether there were any significant control deficiencies identified in prior years.

Independent auditor's report to the members of Science Group plc continued

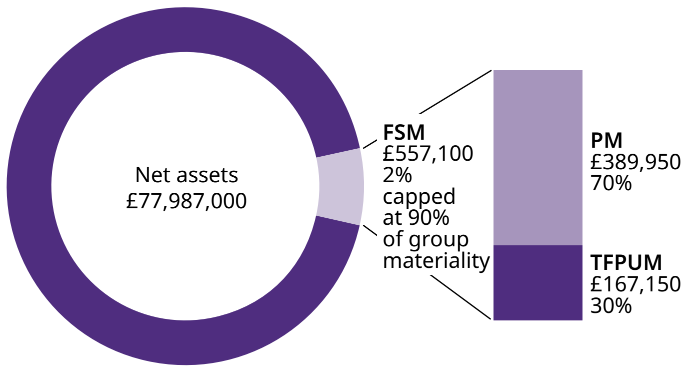
Materiality measure	Group	Company
Specific materiality	We determine specific materiality for one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.	
Specific materiality	We determined a lower level of specific materiality for the following areas: • Related party transactions; and • Directors' remuneration.	We determined a lower level of specific materiality for the following areas: • Related party transactions; and • Directors' remuneration.
Communication of misstatements to the audit committee	We determine a threshold for reporting unadjusted differences to the audit committee.	
Threshold for communication	£30,950, and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£27,800, and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.

Overall materiality – Group



Overall materiality – Company



FSM: Financial statements materiality **PM**: Performance materiality **TFPUM**: Threshold for communication to the Audit Committee

An overview of the scope of our audit

We performed a risk-based audit that requires an understanding of the Group's and the company's business and in particular matters related to:

Understanding the Group, its components, and their environments, including Group-wide controls

- We obtained an understanding of the Group and its environment, including Group-wide controls and IT general controls; and assessed the risks of material misstatement at a Group level;
- All financial reporting is based in the UK. Each division has an accounting function which reports to the divisional management in addition to the Group finance team; and
- In assessing the risk of material misstatement of the Group financial statements, we considered the transactions undertaken by each entity and therefore where the focus of our work was required.

Identifying significant components

- Significant components were identified through assessing their relative share of key financial metrics including revenue and profit before tax. These metrics were used to identify component classified as 'individually financially significant to the Group' and an audit of financial information of the component using component materiality (full-scope audit) was performed.
- Other components were selected where we determined there to be a specific risk profile within those components, and were included in the scope of our Group audit to provide sufficient coverage over the Group's results. For these components, an audit of one or more account balances or class of transactions (specific scope procedures) was performed.
- All other components of the Group were selected as 'neither significant nor material', and analytical procedures or a review of financial information performed.

Type of work to be performed on financial information of Company and other components (including how it addressed the key audit matters)

- Performance of full scope audits of the financial information on Sagentia Limited, TPG Services Limited and Critical Maritime Systems & Support Limited. These full scope audits included all of our audit work on the identified key audit matters as described above.
- Specified audit procedures were performed on the financial information of the following components: Science Group Plc, Quadro Epsom Limited, Quadro Harston Limited, Leatherhead Research Limited, Technology Sciences Group Consulting Limited, TP Group Limited, Frontier Smart Technologies Limited, and Oakland Innovation Limited, and;
- Analytical procedures were performed on the financial information of all other components using Group materiality.

Performance of our audit

During our audit, all audit procedures over full-scope audits, specified audit procedures and analytical procedures, were performed by the Group engagement team, and the use of staff from Grant Thornton International Limited member firms to observe physical stock counts at overseas locations. Onsite visits were made to United Kingdom based sites by the Group engagement team throughout the audit process.

Audit approach	No. of components	% coverage revenue	% coverage PBT
Full-scope audit	3	69	55
Specified audit procedures	8	17	25
Analytical procedures	10	14	20

Changes in approach from previous period

The approach to the audit has changed from the previous year due to the acquisition of TP Group, resulting in changes in the financial significance of entities within the Group. Critical Maritime Systems and Support Limited and TPG Services Limited have become significant components due to their increased share of revenue and profit before tax within the Group. As a result of this increased significance of Critical Maritime Systems and Support Limited and TPG Services Limited, we have changed the level of our audit procedures on Science Group plc, Oakland Innovation Limited, Leatherhead Research Limited, Technology Sciences Group Consulting Limited and Frontier Smart Technologies Limited from full scope audit procedures to specified audit procedures, to retain sufficient coverage across the Group but to reflect the decrease in size of individual components in comparison to the Group.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Independent auditor's report to the members of Science Group plc continued

Our opinion on other matters prescribed by the Companies Act 2006 is unmodified
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

Matter on which we are required to report under the Companies Act 2006
In the light of the knowledge and understanding of the Group and the company and their environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

Corporate governance statement
We have reviewed the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified for our review by the Listing Rules.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- the Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified;
- the Directors' explanation as to their assessment of the Group's prospects, the period this assessment covers and why the period is appropriate;
- the Director's statement on whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities;
- the Directors' statement on fair, balanced and understandable;
- the Board's confirmation that it has carried out a robust assessment of the emerging and principal risks;
- the section of the annual report that describes the review of the effectiveness of risk management and internal control systems; and
- the section describing the work of the Audit Committee.

Responsibilities of Directors
As explained more fully in the Directors' responsibilities statement set out on page 29, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below:

- We obtained an understanding of the legal and regulatory frameworks applicable to the company and the Group and industry in which they operate. We determined that the following laws and regulations were most significant: UK-adopted international accounting standards, the Companies Act 2006, the UK Corporate Governance Code 2018 and the relevant tax compliance regulations in the jurisdictions in which the Group operates;
- We inquired of management, the finance team, legal counsel and the Board of Directors about the Group's and company's policies and procedures relating to:
  - The identification, evaluation and compliance with laws and regulations;
  - The detection and response to risks of fraud; and
  - The establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We obtained an understanding of the Group's policies and procedures implemented to prevent and detect non-compliance with laws and regulations by inquiry of management, those responsible for legal and compliance procedures including the company secretary. We corroborated our inquiries through our reading of board meeting minutes;
- We assessed the susceptibility of the company's and Group's financial statements to material misstatement, including how fraud might occur. Audit procedures performed by the Group engagement team and component auditors included;
  - identifying and assessing the design and implementation of controls management has in place to prevent and detect fraud and the adequacy of procedures for authorisation of transactions and internal review procedures;
  - challenging assumptions and judgements made by management in its significant accounting estimates, including utilisation of valuation specialists to review management's impairment calculation; and
  - identifying and testing journal entries, in particular large or unusual journals.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it;
- It is the engagement partner's assessment that the audit team collectively had the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations based on understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation;
- We communicated relevant laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report
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.

Nicholas Page
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
20 March 2024

FINANCIAL STATEMENTS
AND NOTES TO THE FINANCIAL STATEMENTS

Consolidated Income Statement
For the year ended 31 December 2023

		Group	
	Note	**2023 £000**	2022 £000
Revenue	5	**113,341**	86,301
Direct operating expenses	6	**(67,090)**	(47,947)
Sales and marketing expenses		**(9,206)**	(9,754)
Administrative expenses		**(28,731)**	(17,504)
Share of (loss)/profit of equity accounted investment		**(169)**	602
Adjusted operating profit	4	**20,535**	17,602
Acquisition integration costs		**(518)**	(1,128)
Amortisation of acquisition related intangible assets	14	**(4,944)**	(3,766)
Loss on remeasurement of equity-accounted investment	16	**(4,762)**	–
Share-based payment charge	8, 22	**(1,997)**	(1,612)
Share of (loss)/profit of equity-accounted investment		**(169)**	602
Operating profit		**8,145**	11,698
Finance income	7	**679**	375
Finance costs	7	**(1,205)**	(977)
Profit before tax		**7,619**	11,096
Tax charge (net of R&D tax credit of £517,000 (2022: £530,000))	10	**(2,095)**	(541)
Profit for the year		**5,524**	10,555
Earnings per share			
Earnings per share (basic)	12	**12.1p**	23.2p
Earnings per share (diluted)	12	**12.0p**	22.6p

The accompanying Notes on pages 49 to 95 form an integral part of this Consolidated Income Statement.

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

	Note	Group 2023 £000	2022 £000
Profit for the year attributable to:			
Equity holders of the parent		**5,524**	10,555
Profit for the year		**5,524**	10,555
Other comprehensive income items that will or may be reclassified to profit or loss:			
Exchange differences on translating foreign operations		**(848)**	2,372
Fair value (loss)/gain on financial instruments	24	**(441)**	1,499
Deferred tax credit/(charge) on financial instruments	11, 24	**147**	(414)
Other comprehensive (expense)/income for the year		**(1,142)**	3,457
Total comprehensive income for the period attributable to:			
Equity holders of the parent		**4,382**	14,012
Total comprehensive income for the year		**4,382**	14,012

The accompanying Notes on pages 49 to 95 form an integral part of this Consolidated Statement of Comprehensive Income.

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

Group	Share capital £000	Share premium £000	Treasury shares £000	Merger reserve £000	Translation reserve £000	Cashflow hedge reserve £000	Retained earnings £000	Total equity £000
Balance at 1 January 2022	462	26,834	(1,242)	10,343	(758)	74	30,579	66,292
Contributions and distributions:								
Purchase of own shares	–	–	(1,321)	–	–	–	–	(1,321)
Issue of shares out of treasury	–	–	370	–	–	–	(369)	1
Dividends paid (Note 13)	–	–	–	–	–	–	(2,270)	(2,270)
Share-based payment charge (Note 22)	–	–	–	–	–	–	1,612	1,612
Deferred tax charge on share-based payment transactions	–	–	–	–	–	–	(127)	(127)
Transactions with owners	–	–	(951)	–	–	–	(1,154)	(2,105)
Profit for the year	–	–	–	–	–	–	10,555	10,555
Other comprehensive income items that will or maybe reclassed to profit or loss:								
Fair value gain on financial instruments (Note 24)	–	–	–	–	–	1,499	–	1,499
Exchange differences on translating foreign operations	–	–	–	–	2,372	–	–	2,372
Deferred tax charge on financial instruments	–	–	–	–	–	(414)	–	(414)
Total comprehensive income for the year	–	–	–	–	2,372	1,085	10,555	14,012
Balance at 31 December 2022	462	26,834	(2,193)	10,343	1,614	1,159	39,980	78,199
Balance at 1 January 2023	**462**	**26,834**	**(2,193)**	**10,343**	**1,614**	**1,159**	**39,980**	**78,199**
Contributions and distributions:								
Purchase of own shares	**–**	**–**	**(3,875)**	**–**	**–**	**–**	**–**	**(3,875)**
Issue of shares out of treasury	**–**	**–**	**3,138**	**–**	**–**	**–**	**(3,128)**	**10**
Dividends paid (Note 13)	**–**	**–**	**–**	**–**	**–**	**–**	**(2,259)**	**(2,259)**
Share-based payment charge (Note 22)	**–**	**–**	**–**	**–**	**–**	**–**	**1,997**	**1,997**
Deferred tax charge on share-based payment transactions	**–**	**–**	**–**	**–**	**–**	**–**	**(467)**	**(467)**
Transactions with owners	**–**	**–**	**(737)**	**–**	**–**	**–**	**(3,857)**	**(4,594)**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**5,524**	**5,524**
Other comprehensive income items that will or maybe reclassed to profit or loss:								
Fair value loss on financial instruments (Note 24)	**–**	**–**	**–**	**–**	**–**	**(441)**	**–**	**(441)**
Exchange differences on translating foreign operations	**–**	**–**	**–**	**–**	**(848)**	**–**	**–**	**(848)**
Deferred tax charge on financial instruments	**–**	**–**	**–**	**–**	**–**	**147**	**–**	**147**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**(848)**	**(294)**	**5,524**	**4,382**
Balance at 31 December 2023	**462**	**26,834**	**(2,930)**	**10,343**	**766**	**865**	**41,647**	**77,987**

The accompanying Notes on pages 49 to 95 form an integral part of this Consolidated Statement of Changes in Shareholders' Equity.

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

Company	Share capital £000	Share premium £000	Treasury shares £000	Merger reserve £000	Retained earnings £000	Total equity £000
Balance at 1 January 2022	462	26,834	(1,242)	10,343	36,119	72,516
Contributions and distributions:						
Purchase of own shares	–	–	(1,321)	–	–	(1,321)
Issue of shares out of treasury	–	–	370	–	(369)	1
Dividends paid (Note 13)	–	–	–	–	(2,270)	(2,270)
Share-based payment charge (Note 22)	–	–	–	–	1,612	1,612
Transactions with owners	–	–	(951)	–	(1,027)	(1,978)
Profit and total comprehensive income for the year	–	–	–	–	7,559	7,559
Balance at 1 January 2023	**462**	**26,834**	**(2,193)**	**10,343**	**42,651**	**78,097**
Contributions and distributions:						
Purchase of own shares	**–**	**–**	**(3,875)**	**–**	**–**	**(3,875)**
Issue of shares out of treasury	**–**	**–**	**3,138**	**–**	**(3,128)**	**10**
Dividends paid (Note 13)	**–**	**–**	**–**	**–**	**(2,259)**	**(2,259)**
Share-based payment charge (Note 22)	**–**	**–**	**–**	**–**	**1,997**	**1,997**
Transactions with owners	**–**	**–**	**(737)**	**–**	**(3,390)**	**(4,127)**
Profit and total comprehensive income for the year	**–**	**–**	**–**	**–**	**6,096**	**6,096**
Balance at 31 December 2023	**462**	**26,834**	**(2,930)**	**10,343**	**45,357**	**80,066**

The accompanying Notes on pages 49 to 95 form an integral part of this Company Statement of Changes in Shareholders' Equity.

Distributable reserves at 31 December 2023 are £45.4m (2022: £42.7m).

Consolidated and Company Balance Sheet
As at 31 December 2023

	Note	Group 2023 £000	Group 2022 £000	Company 2023 £000	Company 2022 £000
Assets					
Non-current assets					
Acquisition related intangible assets	14	**25,845**	10,815	**–**	–
Goodwill	14	**18,878**	14,975	**–**	–
Property, plant and equipment	15	**25,477**	23,867	**29**	143
Investments	16	**–**	10,054	**75,830**	66,354
Derivative financial instruments	24	**886**	1,417	**–**	–
Deferred tax assets	11	**2,071**	2,176	**23**	23
		73,157	63,304	**75,882**	66,520
Current assets					
Inventories	17	**1,332**	2,477	**–**	–
Trade and other receivables	18	**23,315**	12,992	**9,902**	2,854
Current tax assets		**1,516**	1,607	**–**	–
Derivative financial instruments	24	**301**	384	**–**	–
Cash and cash equivalents – Group cash	19	**30,949**	43,645	**16,548**	35,202
Cash and cash equivalents – Client registration funds	19	**1,881**	2,867	**–**	–
		59,294	63,972	**26,450**	38,056
Total assets		**132,451**	127,276	**102,332**	104,576
Liabilities					
Current liabilities					
Trade and other payables	20	**32,041**	31,546	**22,265**	26,332
Current tax liabilities		**379**	331	**–**	–
Provisions	21	**1,481**	849	**–**	–
Borrowings	23	**1,200**	1,200	**–**	–
Lease liabilities	25	**626**	720	**–**	111
		35,727	34,646	**22,265**	26,443

Consolidated and Company Balance Sheet continued
As at 31 December 2023

	Note	Group 2023 £000	Group 2022 £000	Company 2023 £000	Company 2022 £000
Non-current liabilities					
Provisions	21	**889**	248	**–**	–
Borrowings	23	**11,756**	12,939	**–**	–
Lease liabilities	25	**3,319**	1,162	**–**	36
Deferred tax liabilities	11	**2,773**	82	**–**	–
		18,737	14,431	**–**	36
Total liabilities		**54,464**	49,077	**22,265**	26,479
Net assets		**77,987**	78,199	**80,067**	78,097
Shareholders' equity					
Share capital	22	**462**	462	**462**	462
Share premium		**26,834**	26,834	**26,834**	26,834
Treasury shares		**(2,930)**	(2,193)	**(2,930)**	(2,193)
Merger reserve		**10,343**	10,343	**10,343**	10,343
Translation reserve		**766**	1,614	**–**	–
Cash flow hedge reserve	24	**865**	1,159	**–**	–
Retained earnings		**41,647**	39,980	**45,357**	42,651
Total equity		**77,987**	78,199	**80,066**	78,097

The Company's profit for the year was £6,096,000 (2022: £7,559,000).

The Financial Statements were approved by the Board of Directors and signed on its behalf by:

Martyn Ratcliffe
Executive Chair

Jon Brett
Finance Director

On 20 March 2024

The accompanying Notes on pages 49 to 95 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 2023

	Note	Group 2023 £000	Group 2022 £000	Company 2023 £000	Company 2022 £000
Profit before income tax		**7,619**	11,096	**6,096**	7,542
Adjustments for:					
Share of loss/(profit) of equity accounted investment	16	**169**	(602)	**169**	(602)
Loss on remeasurement of equity-accounted investee		**4,762**	–	**4,762**	–
Amortisation of acquisition related intangible assets	14	**4,944**	3,766	**–**	–
Depreciation of property, plant and equipment	15	**694**	655	**–**	33
Reversal of impairment of right-of-use assets	15	**–**	(215)	**–**	–
Depreciation of right-of-use assets	15	**1,053**	827	**114**	114
Bank charges on derivative financial instruments		**422**	359	**–**	–
Net interest costs	7	**526**	602	**564**	596
Share-based payment charge	8	**1,997**	1,612	**–**	–
Decrease/(increase) in inventories		**1,222**	(23)	**–**	–
(Increase)/decrease in receivables		**(2,019)**	(680)	**(5,604)**	6,150
Decrease in payables representing client registration funds		**(986)**	(7)	**–**	–
(Decrease)/increase in payables excluding balances representing client registration funds*		**(10,760)**	1,235	**(6,174)**	5,147
Increase/(decrease) in provisions		**662**	(263)	**–**	–
Cash generated from operations		**10,305**	18,362	**(73)**	18,980
Interest paid		**(1,106)**	(808)	**(273)**	(210)
UK corporation tax paid		**(962)**	(1,017)	**–**	–
Foreign corporation tax paid		**(325)**	(1,266)	**–**	–
Cash flows from operating activities		**7,912**	15,271	**(346)**	18,770
Interest received		**583**	271	**372**	260
Purchase of property, plant and equipment	15	**(80)**	(92)	**–**	–
Purchase of interest in associated company	16	**–**	(213)	**–**	(213)
Purchase of subsidiary undertakings, net of cash and borrowing acquired	26	**(13,923)**	–	**(12,409)**	–
Sale of subsidiary, net of cash sold	26	**638**	–	**–**	–
Cash flows used in investing activities		**(12,782)**	(34)	**(12,037)**	47

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

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

		Group		Company	
	Note	**2023 £000**	2022 £000	**2023 £000**	2022 £000
Issue of shares out of treasury		**10**	1	**10**	1
Repurchase of own shares		**(3,875)**	(1,321)	**(3,875)**	(1,321)
Dividends paid	13	**(2,259)**	(2,270)	**(2,259)**	(2,270)
Purchase of derivative financial instruments		**(250)**	(531)	**–**	–
Repayment of term loan	23	**(1,200)**	(1,200)	**–**	–
Principal elements of lease payments	25	**(912)**	(1,135)	**(147)**	(120)
Cash flows from financing activities		**(8,486)**	(6,456)	**(6,271)**	(3,710)
(Decrease)/increase in cash and cash equivalents in the year		**(13,356)**	8,781	**(18,654)**	15,107
Cash and cash equivalents at the beginning of the year		**46,512**	37,189	**35,202**	20,091
Exchange (loss)/gain on cash		**(326)**	542	**–**	4
Cash and cash equivalents at the end of the year	19	**32,830**	46,512	**16,548**	35,202

The accompanying Notes on pages 49 to 95 form an integral part of this Consolidated and Company Statement of Cash Flows.

Notes to the Financial Statements
For the year ended 31 December 2023

1. General information
Science Group plc (the 'Company') together with its subsidiaries ('Science Group' or the 'Group') is an international science & technology consultancy and systems organisation, supported by a strong balance sheet. The Group and Company Financial Statements of Science Group plc were prepared under the International Financial Reporting Standards ('IFRS') as adopted by the UK in conformity with the requirements of the Companies Act 2006 and have been audited by Grant Thornton UK LLP. Accounts are available from the Company's registered office; Harston Mill, Harston, Cambridge, CB22 7GG.

The Company is incorporated and domiciled in England and Wales under the Companies Act 2006 and has its primary listing on the Alternative Investment Market of the London Stock Exchange (SAG.L). The value of Science Group plc shares, as quoted on the London Stock Exchange on 31 December 2023, was 392.0 pence per share (31 December 2022: 395.0 pence per share).

These Consolidated Financial Statements have been approved for issue by the Board of Directors on 20 March 2024.

Alternative performance measures (APM)
The Group uses alternative non-Generally Accepted Accounting Principles performance measures which are not defined within IFRS, as management believe these measures enable management and stakeholders to assess the underlying trading performance of the business as they exclude certain items that are considered to be significant in nature and /or quantum.

The APMs are consistent with how the businesses' performance is planned and reported within the internal management reporting to the Board. The key APMs that the Group uses and explanations on how they are calculated are set out below:

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

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

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

(b) Adjusted Earnings Per Share
The Group calculates this measure by dividing adjusted profit after tax by the weighted average number of shares in issue and the calculation of this measure is disclosed in Note 12. The tax rate applied to calculate the tax charge in this measure is the tax at the blended corporation tax rate across the various jurisdictions for the year which is 24.1% (2022: 21.4%) which results in a comparable tax charge year on year.

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

		Group	
	Note	**2023 £000**	2022 £000
Cash and cash equivalents – Group cash	19	**30,949**	43,645
Borrowings	23	**(12,956)**	(14,139)
Net funds		**17,993**	29,506

The Directors believe that disclosing these alternative performance measures enhances shareholders' ability to evaluate and analyse the underlying financial performance of the Group. Specifically, the adjusted operating profit measure is used internally in order to assess the underlying operational performance of the Group, aid financial, operational and commercial decisions and in determining employee compensation. The adjusted EPS measure allows the shareholder to understand the underlying value generated by the Group on a per share basis. Net funds represent the Group's cash available for day-to-day operations and investments. As such, the Board considers these measures to enhance shareholders' understanding of the Group results and should be considered alongside the IFRS measures.

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 and Company 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 prepared under IFRS as adopted by the UK in conformity with the requirements of the Companies Act 2006.

Of the new standards and interpretations effective for the year ended 31 December 2023, there was no impact on the presentation of the financial statements of Science Group.

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 £6,096,000 (2022: £7,559,000).

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

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

After reviewing the current liquidity position and the cash flow forecasts modelled under both the base case and stressed downside, the Directors consider that the Group has sufficient liquidity to continue in operational existence for a period of at least 18 months from the date of this report and are satisfied that it is appropriate to adopt the going concern basis of accounting in preparing the Consolidated Financial Statements.

In reaching these conclusions the Directors noted that the Group had a cash balance at 31 December 2023 of £30.9 million (excluding client registration funds) and net funds of £18.0 million, together with the undrawn Revolving Credit Facility ('RCF') of £25.0 million.

2.2 Changes in accounting policies
The accounting pronouncements which have become effective from 1 January 2023 and have therefore been adopted do not have a significant impact on the Group's financial results or position.

2.3 Standards, IFRICs and other guidance applicable
Standards and IFRICs newly applicable for companies with 31 December 2023 year ends are set out below, together with any noted impact on the Group.

Number	Title	Impact in year
IAS 1 & IFRS Practice Statement 2 (amendments)	Disclosure of Accounting Policies	No material impact
IAS 8 (amendments)	Definition of Accounting Estimates	No material impact
IAS 12 (amendments)	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	No material impact
IAS 12 (amendments)	International tax reform – pillar two model rules	No material impact
IFRS 17	Insurance Contracts	No material impact
Amendments to IFRS 4 (deferral of IFRS 9)	Insurance Contracts	No material impact

2.4 Standards issued but not yet effective
At the date of authorisation of these Consolidated Financial Statements, several new, but not yet effective, Standards and amendments to existing Standards, and Interpretations have been published by the IASB. None of these Standards nor amendments to existing Standards have been adopted early by the Group.

Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. New Standards, amendments and Interpretations not adopted in the current year have not been disclosed as they are not expected to have a material impact on the Group's Financial Statements.

Number	Title	Effective
IAS 1 (amendments)	Non-current Liabilities with covenants	1 Jan 24
IFRS 16 (amendments)	Lease Liability in a Sale and Leaseback	1 Jan 24
IAS 7 & IFRS 7 (amendments)	Supplier Finance Arrangements	1 Jan 24
IAS 21 (amendments)	Lack of exchangeability	1 Jan 25

2.5 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.

Interests in equity-accounted investees – Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Interests in associates are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees, until the date on which significant influence ceases. The carrying value of the associate investment would not be impaired to the extent it is exceeded by the share of accumulated losses in associate.

2.6 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'), being the Executive Board. The CODMs monitor the performance of these operating segments as well as deciding on the allocation of resources to them.

The Group results are presented across 4 reporting Segments: Consultancy Services, Systems – Submarine Atmosphere Management, Systems – Audio Chips and Modules, and Freehold Properties. Corporate costs, including the PLC costs and one-off costs relating to M&A activity, are not allocated to the Segments and are reported separately. This provides transparency and facilitates shareholder analysis of the component parts of the Group.

The Consultancy Services Segment comprises the Research & Development, Regulatory & Compliance and Defence & Aerospace Practices. The Systems Businesses comprises Submarine Atmosphere Management (Critical Maritime Systems & Support ('CMS2')), which designs, develops and manufactures submarine atmosphere systems for the defence sector; and, Audit Chips and Modules (Frontier Smart Technologies ('Frontier')), which is a provider of DAB/DAB+ radio semi-conductors/modules.

2.7 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.

2. Summary of significant accounting policies continued

2.7 Intangible assets continued

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 acquired intangible assets, customer contracts and relationships are between 5 and 12 years. The assets are assessed on an annual basis for impairment and amortised over its remaining economic useful life. See Notes 14 and 26 for further details.

2.8 Research and development expenditure

Expenditure on research activities is recognised in profit or loss as incurred.

Development expenditure is capitalised only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, it is recognised in profit or loss as incurred. Subsequent to initial recognition, development expenditure is measured at cost less accumulated amortisation and any accumulated impairment losses.

Any tax credit receivable under the either the R&D Expenditure Credit scheme or the Small or Medium-sized scheme is recognised within income tax.

2.9 Property, plant and equipment

Land and buildings as shown in the Notes to the Financial Statements 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 straight-line 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.

2.10 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term highly liquid investments (maturing not greater than 3 months) from the date of acquisition that are readily convertible into known amounts of cash which are subject to an insignificant risk of changes in value. Bank overdrafts are included in liabilities.

2.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Costs includes all cost incurred in bringing each product to its present location and condition, which comprises the cost of direct materials and third-party charges. Net realisable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

2.12 Trade and other receivables

Trade and other receivables are carried at original invoice amount and are subsequently held at amortised cost less provision for impairment. The Group makes use of a simplified approach in accounting for trade and other receivables as well as contract assets and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. The Group uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses. The movement in the provision is recognised in the Consolidated Income Statement.

2.13 Trade and other payables

Trade and other payables are initially recognised at original invoice amount or transaction price and subsequently measured at amortised cost using the effective interest method.

2.14 Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Dilapidation provisions are recognised when the Group has an obligation to rectify, remove improvements, repair or reinstate the leased premises to a certain condition in accordance with the lease agreement. The provision is measured at the present value of the estimated cost of rectifying, repairing, or reinstating the leased premises at a specified future date.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

2.15 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.

2.16 Financial instruments

(a) Classification

The Group classifies its financial assets in the following measurement categories:

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

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

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

(b) Measurement

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

(c) Impairment

The Group assesses, on a forward-looking basis, the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. The Group recognises loss allowances for expected credit losses ('ECLs') on financial assets measured at amortised cost, debt investments measured at FVOCI and contract assets (as defined in IFRS 15).

The Group measures loss allowances at an amount equal to lifetime ECL, except for other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition, which are measured as 12-month ECL. Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Write-offs

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

(d) Derivative financial instruments and hedge accounting

Derivative financial instruments are accounted for at fair value through profit or loss except for derivatives designated as hedging instruments in cash flow hedge relationships, which require a specific accounting treatment. To qualify for hedge accounting, the hedging relationship must meet all of the following requirements:

- there is an economic relationship between the hedged item and the hedging instrument,
- the effect of credit risk does not dominate the value changes that result from that economic relationship,
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item, and
- At inception, there is formal designation and documentation of the hedging relationship.

Notes to the Financial Statements continued

For the year ended 31 December 2023

2. Summary of significant accounting policies continued

2.16 Financial instruments continued

The Group has entered into currency exchange instruments which have been designated as hedging instruments in cash flow hedge relationships. These arrangements have been entered into to mitigate foreign currency exchange risk arising from certain highly probable sales transactions denominated in foreign currency.

In order to address interest rate risk, the Group has entered into phased interest rate swaps in order to fully hedge the loan borrowings. The interest rate swaps have been designated as hedging instruments in cash flow hedge relationships because the critical terms of the interest rate swaps entered exactly match the terms of the hedged item.

All derivative financial instruments used for hedge accounting are recognised initially at fair value and reported subsequently at fair value in the Consolidated Balance Sheet.

To the extent that the hedge is effective, changes in the fair value of derivatives designated as hedging instruments in cash flow hedges are recognised in other comprehensive income and included within the cash flow hedge reserve in equity. Any ineffectiveness in the hedge relationship is recognised immediately in profit or loss.

At the time the hedged item affects profit or loss, any gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and presented as a reclassification adjustment within other comprehensive income. However, if a non-financial asset or liability is recognised as a result of the hedged transaction, the gains and losses previously recognised in other comprehensive income are included in the initial measurement of the hedged item. In the event that the currency exchange instrument is exercised in any month the gain is recognised as revenue.

If a forecast transaction is no longer expected to occur, any related gain or loss recognised in other comprehensive income is transferred immediately to profit or loss. If the hedging relationship ceases to meet the effectiveness conditions, hedge accounting is discontinued and the related gain or loss is held in the equity reserve until the forecast transaction occurs.

2.17 Equity

Equity comprises the following:

Share capital represents the nominal value of equity shares net of incremental costs directly attributable to the issue of new shares or options, net of tax.

Share premium represents the excess over nominal value of the fair value of consideration received for equity shares net of expenses of the share issue.

Treasury shares represent Company shares purchased directly by the Company to satisfy obligations under employee share incentive obligations.

Merger reserve is a reserve which reflects historical business combinations where merger relief was obtained.

Translation reserves represent the foreign currency differences arising on translating foreign operations into the presentational currency of the Group.

Cash flow hedge reserve represents the outstanding notional amount of cash flow hedges, net of deferred tax, at the balance sheet date.

Retained earnings represent retained profits.

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, including settlement of employee share incentive obligations, 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. The credit for proceeds received is restricted to the purchase price of the treasury shares with the difference between prices paid for treasury shares and proceeds received taken to share premium. Where such shares are subsequently cancelled, the movement is recognised directly in equity with no gain or loss recognised in profit or loss.

2.18 Revenue recognition

The Group's revenue arises from the following segments:
Consultancy Services comprises the Research & Development, Regulatory & Compliance and Defence & Aerospace Practices;
Systems – Submarine Atmosphere Management comprises the Critical Maritime Systems & Support ('CMS2') Business, which designs, develops and manufactures submarine atmosphere systems for the defence sector; and
Systems – Audio Chips and Modules comprises the Frontier Business, which is a provider of DAB/DAB+ radio semi-conductors/modules.

To determine whether to recognise revenue, the Group follows a 5-step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognising revenue when/as performance obligation(s) are satisfied.

(a) Consultancy Time and Materials basis contracts

Revenue from providing consultancy services on a time and materials basis is recognised in the accounting period in which the services are rendered. For each contract, performance obligations are identified, and the contract is assessed to be either a time and materials or fixed price basis contract. Most projects are priced on a time and materials basis and the revenue for these projects is recognised based on the actual labour hours spent at the contractual fee rates. If the customer terminates the contract before completion for reasons other than the Group's ability to perform as promised, the customer is liable to compensate the Group for performance completed to date.

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

The customer pays for the value of services provided based on an invoicing and payment schedule. If the services rendered by the Group at the reporting date exceed the payments received to date, a contract asset is recognised (within trade receivables if the sales invoice has been raised or amounts recoverable on contracts if the services rendered have not been invoiced). If the payments exceed the services rendered, a contract liability is recognised. In the majority of cases, customers are invoiced on a monthly basis however this varies when appropriate to take into account credit limits, payment terms and operational efficiencies. Consideration is payable when invoiced based on contractual payment terms.

The Group receives cash from clients which are pass through funds solely for the purpose of payment of registration fees to regulatory bodies and for which no revenue is recognised.

(b) Consultancy Fixed Price contracts

The Group provides regulatory and compliance services to US customers to support in the renewal of licenses and product registrations with US state regulatory authorities on a fixed price basis. Revenue is recognised using an output method based on the number of renewals completed and submitted to the State authorities during the reporting period based on the average revenue per renewal.

Where the contract is advisory, technical or project management, the customer receives and consumes the benefits of the service as the Company performs. Revenue is recognised overtime, using an input basis, based on costs incurred compared to total contract costs. Costs are only included in the measurement of progress towards satisfying the performance obligation where there is a direct relationship between the input and the satisfaction of the performance obligation.

There are a number of short-term contracts where revenue is recognised at a point in time when the performance obligation(s) have been satisfied by transferring the promised goods or services to its customer.

For contracts where the Company becomes entitled to invoice customers based on achieving a series of performance related milestones, at the point a customer is invoiced, any amount previously recognised as amounts due from contract customers is reclassified to trade receivables. If the milestone payment exceeds the revenue recognised to date under the cost-to-cost method, then the Company recognises a contract liability for the difference. There is not considered to be any significant financing components as the period between recognition of revenue and milestone payment is always less than one year.

(c) Design and Manufacture of Submarine Atmosphere Systems

The Group's operations generate revenues through both the design and manufacture of submarine atmosphere systems.

The Group determines the transaction price based on the consideration to which the Group expects to be entitled in a contract with a customer. Where the amount of consideration is variable (e.g., due to trade discounts, late delivery penalties and other similar items) the Group includes the variable consideration in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur.

The Group recognises revenue when it transfers control of a product or service to a customer as more fully explained below.

The Group designs and manufactures mission-critical systems under long-term contracts with customers. The promises in these contracts include the design and manufacture of systems for delivery to the customer and standard assurance warranties. The promises in these contracts are combined as a single performance obligation because the customer cannot benefit from the promises on their own, and they are not separately identifiable in the context of the contract. In some instances, the contract will also include a promise to install the equipment at the customer site. Where installation is included in the contract, this is not generally considered a separate performance obligation as the promise is not separately identifiable in the context of the contract.

On inception of each contract, the Group assesses whether ongoing contractual obligations, represent a separately distinct performance obligation. If the performance obligation is considered distinct e.g. relates to the delivery of more than one main system to separate boats, each main system for each separate boat is treated as a separate performance obligation. Where it is multiple systems for single boat this is considered to be a single performance obligation.

The systems that are designed and manufactured are bespoke for each customer and do not have an alternative use to the Group.

2. Summary of significant accounting policies continued

2.18 Revenue recognition continued

Over time revenue recognition

Where the Company has an enforceable right to payment for performance completed to date, being recovery of costs incurred in satisfying the performance obligation plus a reasonable profit margin, the performance obligation is satisfied over time. The measurement of progress towards complete satisfaction of the performance obligation is measured using the input method, based on costs incurred compared to total contract costs.

Costs are only included in the measurement of progress towards satisfying the performance obligation where there is a direct relationship between the input and the satisfaction of the performance obligation. Full costs to complete, including Labour and material costs are considered the most faithful depiction of progress as this most accurately reflects the value provided to the customer. The Company designs and manufactures bespoke systems with the time allocated to projects of engineers and technicians, as well as bespoke materials procured from suppliers which can take a number of months to be manufactured and delivered to the Group.

The Group does not incur costs in respect of the components whilst they are being manufactured by the supplier. It is only once the goods are delivered and accepted by the Group that costs associated with the materials are incurred and revenue is recognised. Where payments on account are made to the supplier which are in nature milestone payments, these are not considered to be reflective of costs incurred to date by the supplier in the manufacturing of the components. Material costs are recognised at an amount equal to the cost of the good used to satisfy the performance obligation. Material costs are recognised on contracts as incurred.

For contracts where the Company becomes entitled to invoice customers based on achieving a series of performance related milestones, at the point a customer is invoiced, any amount previously recognised as amounts due from contract customers is reclassified to trade receivables. If the milestone payment exceeds the revenue recognised to date under the cost-to-cost method, then the Company recognises a contract liability for the difference.

There is not considered to be any significant financing components as the period between recognition of revenue and milestone payment is always less than one year.

Point in time revenue recognition

For contracts where the Group does not have an enforceable right to payment for performance completed to date, being recovery of costs incurred in satisfying the performance obligation plus a reasonable profit margin, revenue is recognised at a point in time. For these contracts, revenue is recognised at the point of customer delivery (as defined in each specific contract) of the system, as this is the point at which the customer is in control of the deliverable, has the risks and rewards of ownership and the Company has a present right for payment for the deliverable.

Some contracts will include:

- a promise to store the equipment or an option to purchase storage services at a future date. Storage services are provided in the period between acceptance of the equipment by the customer and shipping. Where storage services are provided, this is considered a separate performance obligation, and/or
- extended service warranties which are a separate performance obligation.
- For storage services, the customer receives and consumes the benefit over the storage period. The performance obligation is satisfied over time. Revenue is recognised on an output basis, based on daily rate for the period of storage.

For extended warranties, the customer receives and consumes the benefit of the warranty over the extended warranty period. The performance obligation is satisfied over time, based on straight line recognition over the period of the warranty, which is used to measure progress towards complete satisfaction of the extended warranty performance obligation.

For the supply of consumables, the customer receives the benefit of the service on delivery (as defined in the contract) of the consumable. This is the point at which the customer is in control of the deliverable, has the risks and rewards of ownership and the Group has a present right for payment for the deliverable. Where the Group resells consumables products to customers an assessment is made as to whether the Group is acting as a principal or agent.

There have been no situations identified, based on these assessments, where the directors have concluded the Group is acting as an agent rather than a principal based on the following indicators:

- the Group has control of the goods prior to them being transferred to the customer,
- the Group is deemed to have control where the Group holds the responsibility of designing and manufacturing the items and is therefore primarily responsible for fulfilling the promise to provide the goods,
- the Group holds the inventory risk before goods are transferred to the customer,
- the Group has discretion in establishing the price for the goods.

Payment terms under the contract are typically 30 days.

Parts management – The Group has a parts management contract, whereby the Group manages the parts supply chain for a customer. This contract contains two performance obligations being asset availability, and supply of consumables.

In terms of asset availability, the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date, being recovery of costs incurred in satisfying the performance obligation plus a reasonable profit margin. The customer also simultaneously receives and consumes the benefits of the asset availability service as the Group performs. Revenue is recognised as a provision of assets are provided and control passes to the customer on the sale of the goods. Where it is concluded that the customer has material rights under the contract for asset availability service then this will be assessed in measuring progress towards complete satisfaction of the performance obligation that depicts the Group's performance in providing the asset availability service to the customer.

(c) Design and Manufacture of Submarine Atmosphere Systems continued

The contract price for asset availability includes variable consideration in the form of rebates based on achievement of KPIs within the contract. The expected value approach, which is based on the sum of probability weighted amounts for a range of possible outcomes, has been used to estimate the transaction price. The variable consideration is trued up at the end of each reporting period to reflect changes in the period and conditions that exist at the period end.

For the supply of consumables, the customer receives the benefit of the service on delivery (as defined in the contract) of the consumable. This is the point at which the customer is in control of the deliverable, has the risks and rewards of ownership and the Company has a present right for payment for the deliverable.

Payment terms under the contract are typically 30 days.

Maintenance of equipment – The Group has contracts for the maintenance and servicing of customer vessels with a 12-month assurance warranty. These contracts contain a single promise and performance obligation. The assurance warranty is not a separate performance obligation.

The performance of the Group enhances the vessels, which are controlled by the customer, as the Group performs. Revenue is recognised over time. The Group uses an input method, based on labour hours, costs incurred and materials, to measure complete satisfaction of the performance obligation. Costs are only included in the measurement of progress towards satisfying the performance obligation where there is a direct relationship between the input and the satisfaction of the performance obligation.

Payment terms under these contracts are typically 30 days.

(d) Subscription Income

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

(e) Product and Associated Revenue

Revenue is recognised upon the transfer of control of promised products or services and for the majority of revenue, transfer of control occurs once the product has been despatched, as the terms are ex-works. For smart radio products, ongoing IT infrastructure services are provided over a period of time in order for the consumer to use the full functionality of the end product. When such services have been identified as both capable of being distinct and separately identifiable from the related tangible product, the associated revenue allocated to such services is recognized over time.

Where there are separate performance obligations in a contract (being the product and the ongoing IT infrastructure services), it has been determined that directly observable prices do not exist for these performance obligations, therefore the transaction price is calculated as the expected cost plus a margin.

Revenue is recorded net of sales tax and relevant sales incentives when the performance conditions are met. Sales incentives are rebates offered to customers and paid based on total sales made to respective customers each year. The rebates are estimated on a regular basis by using the most likely amount method. The rebates will be accrued only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. To the extent unpaid, the rebate liability is presented under accruals.

The Group recognises contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts as trade and other payables in the statement of financial position. Similarly, if the Group satisfies a performance obligation before it receives the consideration, the Group recognises as trade and other receivables in its statement of financial position.

2.19 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 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 or loss and recognised as part of the gain or loss on disposal.

2. Summary of significant accounting policies continued

2.20 Employee benefits

(a) Post employment benefit plans

The Group provides post-employment benefits through various defined contribution plans.

Defined contribution plans

The Group pays fixed contributions into independent entities in relation to several retirement plans and insurances for individual employees. The Group has no legal or constructive obligations to pay contributions in addition to its fixed contributions, which are recognised as an expense in the period that related employee services are received.

(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 employer's NIC liability on share options that have vested, or the proportion that have vested, is recognised as a provision. As the employee is contractually responsible for the Employers NIC on any share options exercised (and is required to remit this sum to the Group prior to the share options being exercised) a corresponding current asset is recognised. 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 at the earlier of when the Group can no longer withdraw the offer of the termination benefit and when the Group recognises any related restructuring costs.

(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 liability 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 typically paid quarterly. As the amortisation period of such costs, if capitalised, would be less than one year, the Group makes use of the practical expedient in IFRS 15 and expenses them as incurred.

2.21 Taxation

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.

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.

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.

The Group performed a reasonable estimate of all amounts involved to determine the R&D tax credits to be recognised in the period to which it relates.

2.22 Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

(a) As a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, being the rate of interest which a lessee would have to pay to borrow the funds necessary to obtain an asset, obtained from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

The Group determines its incremental borrowing rate as a lessee by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and associated lease obligations in 'lease liabilities' in the Consolidated Balance Sheet.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(b) As a lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative standalone prices.

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term.

2.23 Dividends paid

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

2.24 Dividend income

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

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. The Group acquired a currency exchange instrument to cap the US Dollar/GBP rate in relation to the R&D Consultancy division through to the end of 2023. The instrument is a US Dollar/GBP cap set at $1.20/£1 which applies to $1.25 million per month. Instruments also acquired in relation to 2024 covered $1.0 million per month at $1.25/£1 (see Note 24). 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.

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:

2023	**US Dollar £000**	**Euro £000**	**Other £000**	**Total £000**
Financial assets	**9,967**	**806**	**302**	**11,075**
Financial liabilities	**(1,098)**	**(201)**	**(660)**	**(1,959)**
Exposure	**8,869**	**605**	**(358)**	**9,116**

2022	US Dollar £000	Euro £000	Other £000	Total £000
Financial assets	11,039	889	264	12,192
Financial liabilities	(1,985)	(131)	(525)	(2,641)
Exposure	9,054	758	(261)	9,551

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

The following table illustrates the sensitivity of the net movement on Consolidated Income Statement and equity in regard 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 US Dollar/GBP exchange rate as at 31 December 2023 (2022: +/-10.0%). A 10.0% change is considered for the Euro/GBP exchange rate (2021: +/-10.0%). If the GBP had strengthened against the US Dollar and Euro by 10.0% (2022: 10.0%) respectively then this would have had the following impact:

2023	**US Dollar £000**	**Euro £000**	**Other £000**	**Total £000**
Income statement	**(263)**	**(38)**	**–**	**(301)**
Equity	**(1,355)**	**(157)**	**(36)**	**(1,548)**

2022	US Dollar £000	Euro £000	Other £000	Total £000
Income statement	(323)	(46)	–	(369)
Equity	(1,739)	(26)	47	(1,718)

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

The Company did not hold any material financial assets or liabilities in foreign currencies at the start nor end of the year.

The currency rate movements against the US Dollar and Euro at year end compared to the previous year end were 5.2% (2022: -10.6%) and 2.3% (2022: -5.2%) respectively. Exposures to foreign exchange rates vary during the year depending on the volume and value of transactions.

(b) Interest rate risk
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	**2023 £000**	2022 £000
Pound Sterling – bank loan	**13,000**	14,200
Weighted average interest rate		
Pound Sterling – fixed rate bank loan	**3.5%**	3.5%
Pound Sterling – floating rate bank loan	**SONIA+2.6%**	SONIA+2.6%

For benchmark rates of interest, Science Group refers to SONIA. The bank loan is secured via a fixed charge over certain assets of Science Group and is repayable as disclosed in Note 23. Terms and conditions of the interest rate swaps are as disclosed in Note 23. The interest rate swaps mature in accordance with the repayment profile of the loan: £1.8 million in September 2025 and the balance of £11.2 million in September 2026. Given the interest rate swaps in place there is no exposures to interest rate movements to P&L and an immaterial impact to equity. If the SONIA rate goes up by 25 basis points, the net impact to equity is £64,000 (2022: £95,000).

(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:

		Group		**Company**	
	Note	**2023 £000**	2022 £000	**2023 £000**	2022 £000
Cash and cash equivalents – Group cash	19	**30,949**	43,645	**16,548**	35,202
Cash and cash equivalents – Client registration funds	19	**1,881**	2,867	**–**	–
Trade and other receivables *(excluding VAT, taxation and prepayments)*	18	**20,668**	11,018	**9,530**	2,055
		53,498	57,530	**26,078**	37,257

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 in relation to the above financial assets the expected credit losses are considered to be insignificant. An analysis of trade and other receivables that are considered to be impaired are disclosed in Note 18. None of Science Group's financial assets are secured by collateral nor other credit enhancements.

3. Financial risk management continued
3.1 Financial risk factors *continued*
(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.

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

As at 31 December 2023, Science Group's financial liabilities have contractual undiscounted cashflows and maturities as below:

2023		**Current**		**Non-current**	
Group	Note	**< 6 months £000**	**6 to 12 months £000**	**1 to 5 years £000**	**> 5 years £000**
Bank borrowings	23	**600**	**600**	**11,800**	**–**
Interest on bank borrowings		**220**	**212**	**653**	**–**
Lease payments	25	**426**	**418**	**2,559**	**1,478**
Trade payables	20	**4,106**	**–**	**–**	**–**
Accruals	20	**7,657**	**–**	**–**	**–**
		13,009	**1,230**	**15,012**	**1,478**

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

2022		Current		Non-current	
Group	Note	< 6 months £000	6 to 12 months £000	1 to 5 years £000	> 5 years £000
Bank borrowings	23	600	600	13,000	–
Interest on bank borrowings		239	232	1,084	–
Lease payments	25	453	328	1,236	–
Trade payables	20	1,689	–	–	–
Accruals	20	8,468	–	–	–
		11,449	1,160	15,320	–

As at 31 December 2023, the Company's financial liabilities have contractual undiscounted cashflows and maturities as below:

2023		**Current**		**Non-current**	
Company	**Note**	**< 6 months £000**	**6 to 12 months £000**	**1 to 5 years £000**	**> 5 years £000**
Trade payables and other payables	20	**21,391**	**–**	**–**	**–**
Accruals	20	**874**	**–**	**–**	**–**
		22,265	**–**	**–**	**–**

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

2022		Current		Non-current	
Company	Note	< 6 months £000	6 to 12 months £000	1 to 5 years £000	> 5 years £000
Lease payments		76	38	36	–
Trade payables and other payables	20	24,380	–	–	–
Accruals	20	1,952	–	–	–
		26,408	38	36	–

(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:

		Group		**Company**	
	Note	**2023 £000**	2022 £000	**2023 £000**	2022 £000
Financial assets at amortised cost:					
Trade receivables	18	**13,799**	9,776	**–**	–
Other receivables	18	**6,869**	1,242	**9,530**	2,055
Cash and cash equivalents – Group cash	19	**30,949**	43,645	**16,548**	35,202
Cash and cash equivalents – Client registration funds	19	**1,881**	2,867	**–**	–
		53,498	57,530	**26,078**	37,257
Financial liabilities at amortised cost:					
Non-current borrowings	23	**11,756**	12,939	**–**	–
Current borrowings	23	**1,200**	1,200	**–**	–
Lease payments	25	**4,881**	2,017	**–**	150
Trade payables	20	**4,106**	1,689	**210**	–
Other payables	20	**–**	–	**21,181**	24,380
Accruals	20	**7,657**	8,468	**874**	1,952
		29,600	26,313	**22,265**	26,482
Derivatives used for hedging held at fair value:					
Non-current financial instrument assets	24	**886**	1,417	**–**	–
Current financial instrument assets	24	**301**	384	**–**	–
		1,187	1,801	**–**	–

The fair value of Science Group's financial assets and liabilities is not materially different from the carrying value.

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 swaps and the currency exchange instruments in non-current financial instruments and current financial instruments in the Consolidated Balance Sheet respectively at fair value under level 2. The Group's finance team performs valuations of financial items for financial reporting purposes, including level 2 fair values, in consultation with third party valuation specialists for complex valuations. Valuation techniques are selected based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information. These contracts have been fair valued using observable interest rates and exchange rates corresponding to maturity of the contract. The effects of non-observable inputs are not significant for both instruments.

Notes to the Financial Statements continued
For the year ended 31 December 2023

3. Financial risk management continued
The Group has the following financial assets and liabilities. IFRS 13 requires disclosure of the fair value measurements for each instrument using the fair value hierarchy levels as below:

Group	Level 1 £000	Level 2 £000	2023 £000	Level 1 £000	Level 2 £000	2022 £000
Financial assets at amortised cost:						
Trade receivables	**13,799**	**–**	**13,799**	9,776	–	9,776
Other receivables	**6,869**	**–**	**6,869**	1,242	–	1,242
Cash and cash equivalents – Group cash	**30,949**	**–**	**30,949**	43,645	–	43,645
Cash and cash equivalents – Client registration funds	**1,881**	**–**	**1,881**	2,867	–	2,867
	53,498	**–**	**53,498**	57,530	–	57,530
Financial liabilities at amortised cost:						
Non-current borrowings	**–**	**11,756**	**11,756**	–	12,939	12,939
Current borrowings	**–**	**1,200**	**1,200**	–	1,200	1,200
Lease payments	**–**	**4,881**	**4,881**	–	2,017	2,017
Trade payables	**4,106**	**–**	**4,106**	1,689	–	1,689
Accruals	**7,657**	**–**	**7,657**	8,468	–	8,468
	11,763	**17,837**	**29,600**	10,157	16,156	26,313
Derivatives used for hedging held at fair value:						
Non-current derivative financial asset	**–**	**886**	**886**	–	1,417	1,417
Current derivative financial asset	**–**	**301**	**301**	–	384	384
	–	**1,187**	**1,187**	–	1,801	1,801

The fair values of financial assets and liabilities at amortised cost are determined to be in line with book value, as this is considered to be a reasonable approximation.

Company	Level 1 £000	Level 2 £000	2023 £000	Level 1 £000	Level 2 £000	2022 £000
Financial assets at amortised cost:						
Other receivables	**9,530**	**–**	**9,530**	2,055	–	2,055
Cash and cash equivalents – Group cash	**16,548**	**–**	**16,548**	35,202	–	35,202
	26,078	**–**	**26,078**	37,257	–	37,257
Financial liabilities at amortised cost:						
Lease payments	**–**	**–**	**–**	–	150	150
Trade payables	**210**	**–**	**210**	–	–	–
Other payables	**21,181**	**–**	**21,181**	24,380	–	24,380
Accruals	**874**	**–**	**874**	1,952	–	1,952
	22,265	**–**	**22,265**	26,332	150	26,482

The fair values of financial assets and liabilities at amortised cost are determined to be in line with book value, as this is considered to be a reasonable approximation.

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 Group cash less borrowings) and the freehold properties at Harston Mill and Great Burgh.

	Note	Group 2023 £000	Group 2022 £000
Shareholders' funds		**81,849**	78,199
Net funds	1	**17,993**	29,506
Freehold property at Harston Mill	15	**12,710**	12,805
Freehold property at Great Burgh	15	**7,925**	8,008

Shareholders' funds

Summary of subsidiary dividends paid to Science Group plc	Company 2023 £000	Company 2022 £000
Sagentia Limited	**8,000**	4,000
Oakland Innovation Ltd	**–**	1,000
OTM Consulting Ltd	**140**	252
Leatherhead Research Limited	**2,500**	500
Frontier Smart Technologies Limited	**–**	4,835
Technology Sciences Group Consulting Limited	**3,000**	1,000
Technology Sciences Group Limited	**–**	867
Technology Sciences Group Inc.	**–**	2,146
Total dividends paid	**13,640**	14,600

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 8.0 pence per share at the forthcoming AGM (2022: 5.0 pence per share). The Board anticipates recommending a single dividend being paid each year.

Net funds
The net funds of the Group have decreased by £11.5 million in 2023 (2022: increased by £10.5 million) as set out in the Net Funds Movement in Note 1(c). The decrease was due to the acquisition of the remaining share capital of TP Group plc on 26 January 2023 (see Note 26). Details of the Group's borrowings are set out in Note 23 which summarises the terms of the loan and interest rate swap arrangement.

Freehold property
Details of freehold property and related rental income are set out in Note 15.

4. Segment information
The Consultancy Services Segment comprises the Research & Development, Regulatory & Compliance, and Defence & Aerospace Practices. The Systems – Submarine Atmosphere Management Segment comprises the Critical Maritime Systems & Support ('CMS2') Business, which designs, develops and manufactures submarine atmosphere systems for the defence sector. The Systems – Audio Chips and Modules Segment comprises the Frontier Business, which is a provider of DAB/DAB+ radio semi-conductors/modules.

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

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

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

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

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

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

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

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

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

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

In the Freehold Properties Segment, income includes £3.4 million (2022: £3.4 million) generated from intra group recharges. The corresponding costs are included within the respective Group businesses and are eliminated on consolidation.

Other income relates to rechargeable materials within the Consultancy Services Segment.

During 2023, one single customer accounted for more than 11.5% of the Group's revenue (2022: nil).

4. Segment information continued

Geographical analysis

Non-current assets (excluding derivative financial instruments and deferred tax assets) by geographical area are as follows:

	2023 £000	2022 £000
United Kingdom	**69,181**	58,068
Other European Countries	**4**	6
North America	**982**	1,462
Asia	**33**	175
	70,200	59,711

Non-current assets are allocated based on their physical location.

Operating profit for the Consultancy Services Segment included a depreciation charge of £0.2 million (2022: £0.2 million), the Systems – Submarine Atmosphere Management Segment included a depreciation charge of £0.1 million (2022: £nil), the Systems – Audio Chips and Modules Segment included a depreciation charge of £0.1 million (2022: £0.1 million), the Freehold Properties included a depreciation charge of £0.4 million (2022: £0.4 million) and Corporate included a depreciation charge of £nil (2022: £0.03 million).

5. Revenue

5.1 Revenue streams

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

5.2 Disaggregation of revenue

In the following table, revenue is disaggregated by geographical market and by the currency in which the contract is denominated. For the purpose of the analysis of revenue, geographical markets are defined as the country or area in which the client is based.

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

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

Included in the United Kingdom and Sterling disclosure above is rental income of £819,000 (2022: £657,000).

Timeframe	2023 £000	2022 £000
Revenue recognised at a point in time	**16,306**	26,289
Revenue recognised over a period of time	**97,035**	60,012
	113,341	86,301

5.3 Contract balances

The following table provides information about receivables, amount recoverable on contracts and contract liabilities from contracts with customers.

	Note	2023 £000	2022 £000
Receivables that are included in 'Trade and other receivables'	18	**13,799**	9,776
Amount recoverable on contracts that are included in 'Trade and other receivables'	18	**6,708**	1,152
Contract liabilities which are included in 'Trade and other payables'	19, 20	**(15,669)**	(16,812)

The amounts recoverable on contracts primarily relate to the Group's rights to consideration for work performed but not billed at the reporting date. The amounts recoverable on contracts are transferred to receivables when the rights to receive cash become unconditional, i.e. when the Group has fulfilled all the performance obligations and an invoice is issued to the customer.

The contract liabilities primarily relate to the advance consideration received from customers (Note 20). The remainder represents revenue to be recognised over time as the work is performed. The balance of £1,881,000 (2022: £2,867,000) that relates to pass through fees which represent advance payments for registration fees to be paid to regulatory bodies is excluded as these balances are not recognised as revenue (Note 19).

Significant changes in the amount recoverable on contracts and the contract liabilities balances during the period are as follows:

Year ended 31 December 2023	Amount recoverable on contracts £000	Contract Liabilities £000
Revenue recognised that was included in the contract liability at the beginning of the period	**–**	**16,812**
Increase due to invoices raised to clients, excluding amounts recognised as revenue in the period	**–**	**(15,669)**
Transfers from amount recoverable on contracts recognised at the beginning of the period to receivables	**(1,152)**	**–**
Increases as a result of changes in the measure of progress	**6,708**	**–**

Year ended 31 December 2022	Amount recoverable on contracts £000	Contract Liabilities £000
Revenue recognised that was included in the contract liability at the beginning of the period	–	14,187
Increase due to invoices raised to clients, excluding amounts recognised as revenue in the period	–	(16,812)
Transfers from amount recoverable on contracts recognised at the beginning of the period to receivables	(1,202)	–
Increases as a result of changes in the measure of progress	1,152	–

The Group applies the practical expedient in paragraph 121 of IFRS 15 and does not disclose information about remaining performance obligations that have original expected durations of one year or less.

6. Operating expenses

Operating profit is stated after charging/(crediting):

Year ended 31 December	Note	2023 £000	2022 £000
Cost of inventories		12,128	12,559
Share of loss/(profit) of equity accounted investment	16	169	(602)
Depreciation of property, plant and equipment	15	694	655
Depreciation of right-of-use asset	15, 25	1,053	827
Foreign currency losses		66	252
Amortisation of intangible assets	14	4,944	3,766
Research and development*		10,234	11,742

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

Auditors' remuneration	2023 £000	2022 £000
Auditors' remuneration to Grant Thornton UK LLP:		
Fees payable to the Company's auditors for the audit of the financial statements	125	100
Fees payable to the Company's auditors for the audit of the Company's subsidiaries pursuant to legislation	377	245
Remuneration to Grant Thornton UK LLP for non-audit services:		
Accountancy and taxation services for a foreign subsidiary	23	32
Compliance and other services for a foreign subsidiary	5	6
Audit related assurance services	37	34
Tax compliance services	12	58
Other taxation advisory services	8	30

7. Finance income and finance costs

Net finance costs include all interest-related income and expenses through profit or loss. The following have been included in the Consolidated Income Statement for the reporting periods presented:

	Group	
Year ended 31 December	2023 £000	2022 £000
Finance income		
Bank interest receivable and similar income	616	291
Amortisation of credit facility arrangement fee	63	84
	679	375
Finance costs		
Interest on bank borrowings	(482)	(517)
Fees on settlement of revolving credit facility	(268)	(268)
Amortisation of loan arrangement fees	(17)	(16)
Amortisation of revolving credit facility arrangement fee	(81)	(81)
Bank interest payables and similar costs	(122)	(5)
Interest on lease liabilities	(235)	(90)
	(1,205)	(977)
Net finance costs	(526)	(602)

8. Employee benefit expenses

Employment costs are shown below:

		Group	
Year ended 31 December	Note	2023 £000	2022 £000
Wages and salaries (including bonuses)		43,548	31,568
Social security costs		5,872	4,315
Redundancy costs		673	18
Pension costs		2,700	1,830
		52,793	37,731
Share-based payments	22	1,997	1,612
Total employee benefit expenses		54,790	39,343

Wages and salaries costs (including bonuses) for the Company were £601,000 (2022: £605,000), with social security costs for the year of £82,000 (2022: £86,000) and pension costs of £nil (2022: £nil). There was no share-based payment charge for the Company (2022: £nil).

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

	Group	
Year ended 31 December	2023 Number	2022 Number
Consultants and engineers	532	324
Marketing, support, administration, and other technically qualified staff	164	107
Total average number	696	431

The average monthly number of persons employed by the Company was 3 (2022: 4).

9. Directors' remuneration, interests and transactions

Directors' emoluments and benefits include:

Year ended 31 December 2023 Name of Director	Salary/fee £000	Bonus £000	Pension contribution £000	Discretionary payment £000	Total £000
Ratcliffe	495	–	–	–	495
Edwards	251	113	17	1	382
Brett	154	35	11	–	200
Bertram	45	–	–	–	45
Clement Davies	43	–	–	–	43
Lacey-Solymar	17	–	–	–	17
Aggregate emoluments	1,005	148	28	1	1,182

Year ended 31 December 2022 Name of Director	Salary/fee £000	Bonus £000	Pension contribution £000	Discretionary payment £000	Total £000
Ratcliffe	495	–	–	–	495
Edwards	236	128	16	32	412
Brett	147	43	10	1	201
Bertram	45	–	–	–	45
Clement Davies	25	–	–	–	25
Lacey-Solymar	45	–	–	–	45
Aggregate emoluments	993	171	26	33	1,223

9. Directors' remuneration, interests and transactions continued
Directors' emoluments and benefits are stated for the Directors of Science Group plc only.

A share-based payment charge of £390,000 was recognised in the Consolidated Income Statement relating to share options held by Directors (2022: £315,000).

The amounts shown were recognised as an expense during the year and relate to the Directors of the Company. Bonuses, pension and medical benefits are not paid to Non-Executive Directors. Mr Ratcliffe does not participate in the Group bonus scheme or receive pension or medical benefits.

Total social security costs related to Directors during the year was £160,000 (2022: £213,000).

Directors' interests in the shares of Science Group as at 31 December 2023 and 31 December 2022 are as follows.

Science Group plc Ordinary shares of £0.01	Options				Shares	
	2023	2022	2023	2022	2023	2022
Year ended 31 December	Average exercise price (pence)	Average exercise price (pence)	Number	Number	Number	Number
Ratcliffe	–	–	–	–	9,412,080	9,412,080
Edwards	1.0	1.0	385,000	693,333	150,000	109,000
Brett	1.0	1.0	125,000	105,000	–	–
Bertram	–	–	–	–	5,000	5,000
			510,000	798,333	9,567,080	9,526,080

There have been no changes subsequent to 31 December 2023.

See Note 22 for further details on option plans.

10. Income tax
The tax charge comprises:

Year ended 31 December	Note	2023 £000	2022 £000
Current taxation		(3,056)	(2,666)
Current taxation – adjustment in respect of prior years		84	539
Deferred taxation	11	317	643
Deferred taxation – adjustment in respect of prior years		43	413
R&D tax credit		517	530
		(2,095)	(541)

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

10. Income tax continued
The corporation tax on Science Group's profit before tax differs from the theoretical amount that would arise using the blended corporation tax rate across the various jurisdictions applicable to profits/(losses) of the consolidated companies of 24.1% (2022: 21.4%) as follows:

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

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

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

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

11. Deferred tax continued

Company	Other temporary differences £000	Total £000
At 1 January 2022	–	–
Charged to Income Statement	23	23
At 31 December 2022	23	23
Credit to Income Statement	–	–
At 31 December 2023	**23**	**23**

The Company has available tax losses of approximately £2.3 million (2022: £2.3 million) and these losses do not expire.

Deferred tax assets comprise temporary differences attributable to:

	Group		Company	
	2023 £000	2022 £000	**2023 £000**	2022 £000
Tax losses	**3,642**	2,176	**–**	–
Share-based payment	**1,297**	1,768	**–**	–
Accelerated capital allowances	**66**	28	**–**	–
Other temporary differences:				
Lease liabilities	**293**	428	**–**	–
Provision	**142**	–	**23**	23
Total deferred tax assets	**5,440**	4,400	**23**	23
Set-off deferred tax liabilities pursuant to set-off provisions	**(3,369)**	(2,224)	**–**	–
Net deferred tax assets	**2,071**	2,176	**23**	23

Deferred tax liabilities comprise temporary differences attributable to:

	Group		Company	
	2023 £000	2022 £000	**2023 £000**	2022 £000
Acquisition related intangible assets	**5,849**	1,811	**–**	–
Other temporary differences:				
Right-of-use assets	**293**	412	**–**	–
Provision	**–**	83	**–**	–
Total deferred tax liabilities	**6,142**	2,306	**–**	–
Set-off deferred tax liabilities pursuant to set-off provisions	**(3,369)**	(2,224)	**–**	–
Net deferred tax liabilities	**2,773**	82	**–**	–

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

Factors affecting future tax charges
Deferred tax assets and liabilities were calculated at the substantively enacted corporation tax rates in the respective jurisdictions, taking into account the impact of any known future changes.

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

	2023			2022		
	Profit after tax £000	**Weighted average number of shares**	**Pence per share**	Profit after tax £000	Weighted average number of shares	Pence per share
Basic earnings per ordinary share	**5,524**	**45,553,584**	**12.1**	10,555	45,525,568	23.2
Effect of dilutive potential ordinary shares: share options	**–**	**638,394**	**(0.1)**	–	1,268,082	(0.6)
Diluted earnings per ordinary share	**5,524**	**46,191,978**	**12.0**	10,555	46,793,650	22.6

Only the share options granted, as disclosed in Note 22, are dilutive.

The calculation of adjusted earnings per share is as follows:

	2023			2022		
	Adjusted* profit after tax £000	**Weighted average number of shares**	**Pence per share**	Adjusted* profit after tax £000	Weighted average number of shares	Pence per share
Adjusted basic earnings per ordinary share	**15,187**	**45,553,584**	**33.3**	13,362	45,525,568	29.4
Effect of dilutive potential ordinary shares: share options	**–**	**638,394**	**(0.4)**	–	1,268,082	(0.8)
Adjusted diluted earnings per ordinary share	**15,187**	**46,191,978**	**32.9**	13,362	46,793,650	28.6

* Calculation of adjusted profit after tax:

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

The tax charge is calculated using the blended corporation tax rate across the various jurisdictions in which the Group companies are incorporated.

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

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

14. Intangible assets

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

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

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

Impairment review of goodwill
The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. The recoverable amounts of the Cash Generating Units ('CGUs') are determined from value in use. (CGUs are a description of a cash-generating unit (such as a whether it is a product line, a business operation or a reportable segment as defined in IFRS8)). The key assumptions for the value in use calculations are those regarding the discount rates and growth or decline rates of revenue.

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

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

The revenue growth rates vary by CGU and are included in the relevant CGU section below:

R&D Consultancy CGU
Based on an average revenue growth rate over the next 5 years of 4.5%, the net present value of future cash flows exceeds the carry value on the CGU, as such no impairment has been recorded.

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 R&D Consultancy being in excess of its recoverable amount and therefore no sensitivity analysis is presented.

Leatherhead Research CGU
Based on an average revenue growth rate over the next 5 years of 2.0%, the net present value of future cash flows exceeds the carry value on the CGU, as such no impairment has been recorded.

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 Leatherhead Research being in excess of its recoverable amount and therefore no sensitivity analysis is presented.

When assessing the recoverability of the Epsom freehold property, this has been reviewed as part of the Leatherhead CGU. The Leatherhead Food Research business uses the Epsom property for office and kitchen space. There were no recoverability issues raised as part of this review.

TSG Americas CGU
Based on an average revenue growth rate over the next 5 years of 4.0%, the net present value of future cash flows exceeds the carry value on the CGU, as such no impairment has been recorded.

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 TSG America being in excess of its recoverable amount and therefore no sensitivity analysis is presented.

TSG Europe CGU
Based on an average revenue growth rate over the next 5 years of 4.0%, the net present value of future cash flows exceeds the carry value on the CGU, as such no impairment has been recorded.

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 TSG Europe being in excess of its recoverable amount and therefore no sensitivity analysis is presented.

Frontier Smart Technologies Group CGU
Based on an average revenue growth rate over the next 5 years of 9.5% together with a terminal growth of 2.5%, the net present value of future cash flows exceeds the carrying value of the CGU with a headroom of £5.4m over goodwill and £0.9m over the investment carrying value, and as such no impairment has been recorded.

A sensitivity analysis using reasonably possible changes in key assumptions has been performed. None of these changes result in the value of goodwill allocated Frontier Smart Technologies being in excess of its recoverable amount.

In 2023, Frontier Smart Technologies was impacted by the economic downturn in consumer electronics, compounded by overstocking in the distribution channel related to the post-Covid supply chain imbalances. Future cash flows for this CGU assume a progressive market recovery and a correction to the overstocked distribution channels. When reviewing for impairment, management considered that a plausible scenario was that this recovery was delayed by six months to early 2025 and as such a sensitivity was modelled to represent this delay in the market recovery. This modelled sensitivity resulted in revenue being 16% lower in 2024 than in the base case and a consequential reduction in overall headroom of £2.6m. There would be no impairment to the carrying value of goodwill under this plausible downside scenario but there would be an impairment to the company investment of £1.6m.

The following table summarises additional testing:

Sensitivity test	Impact on Headroom in £m
Reduce terminal growth rate by 1%	(0.8)
Reduce revenue by 1% each year	(0.6)

14. Intangible assets continued
CMS2 CGU
Based on an average revenue growth rate over the next 5 years of 2.0%, the net present value of future cash flows exceeds the carry value on the CGU, as such no impairment has been recorded.

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 CMS2 being in excess of its recoverable amount and therefore no sensitivity analysis is presented.

TPG Services CGU
Based on an average revenue growth rate over the next 5 years of 2.0%, the net present value of future cash flows exceeds the carry value on the CGU, as such no impairment has been recorded.

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 TP Services being in excess of its recoverable amount and therefore no sensitivity analysis is presented.

15. Property, plant and equipment

Group	Freehold land and buildings £000	Right-of-use Asset £000	Furniture and fittings £000	Equipment £000	Total £000
Cost					
At 1 January 2022	25,200	4,243	2,678	2,400	34,521
Additions	–	1,702	–	92	1,794
Disposals	(7)	(2,156)	(272)	(444)	(2,879)
Exchange differences on cost	1	279	21	238	539
At 1 January 2023	25,194	4,068	2,427	2,286	33,975
Addition due to business combination	–	2,447	135	122	2,704
Additions	–	328	14	66	408
Lease amendment	–	449	–	–	449
Disposals	–	(1,200)	(172)	(150)	(1,522)
Exchange differences on cost	–	(135)	(5)	(23)	(163)
At 31 December 2023	**25,194**	**5,957**	**2,399**	**2,301**	**35,851**
Accumulated depreciation					
At 1 January 2022	4,209	3,254	1,648	2,026	11,137
Depreciation charge	178	827	219	258	1,482
Disposals	(7)	(2,003)	(272)	(442)	(2,724)
Exchange differences on depreciation	1	167	19	26	213
At 1 January 2023	4,381	2,245	1,614	1,868	10,108
Depreciation charge	178	1,053	209	307	1,747
Disposals	–	(1,200)	(64)	(128)	(1,392)
Exchange differences on depreciation	–	(70)	(4)	(15)	(89)
At 31 December 2023	**4,559**	**2,028**	**1,755**	**2,032**	**10,374**
Carrying amount					
At 31 December 2022	20,813	1,823	813	418	23,867
At 31 December 2023	**20,635**	**3,929**	**644**	**269**	**25,477**

Freehold land and buildings include two properties in the UK.

15. Property, plant and equipment continued
The Epsom property is held at cost less accumulated depreciation. Included within land and buildings for the Group is freehold land to the value of £500,000 (2022: £500,000) which has not been depreciated. 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. This property was last formally valued by BNP Paribas Real Estate in December 2023 to a range of between £3.9 million (subject to the assumption of full vacant possession) and £7.6 million (under a sale and leaseback scenario).

The Harston property is held at cost less accumulated depreciation. Included within land and buildings for the Group is freehold land to the value of £1,360,000 (2022: £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. The Harston property was last formally valued during December 2023 by BNP Paribas Real Estate. Under the assumptions used, including tenant covenant strength and market rents, the indicative valuation range for the property was between £13.0 million (subject to the assumption of full vacant possession) and £24.0 million (under a sale and leaseback scenario).

The Epsom and Harston buildings are depreciated using the straight-line method to allocate their cost less their residual values over their estimated useful lives of 25 years. The residual values of the properties are based on estimates of the amounts the Group would receive currently for the properties if they were already of an age and in the condition expected at the end of their useful lives. The residual values are reviewed annually to ensure that they do not exceed the estimated market values of the properties.

The Harston property generated third party rental and associated income of £819,000 (2022: £657,000). Of this income, £481,000 (2022: £386,000) was rental income and £338,000 (2022: £271,000) was associated income. Associated income includes, but is not limited to, utilities, cleaning, and general maintenance.

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 2023 was 21,000 sq. ft. (2022: 18,000 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 47,800 sq. ft. (2022: 48,100 sq. ft.) was used by the Group during the year for its business activities including office space and laboratory space and 22,800 sq. ft. are common areas. The remaining space of 5,400 sq. ft. (2022: 8,100 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 £20.6 million (2022: £20.8 million) is significantly different to its fair value.

The term loan with Lloyds Bank plc is secured on the Harston and Epsom properties which have a combined net book value at 31 December 2023 of £20.6 million (2022: £20.8 million).

Science Group plc, the Company, had fixed assets with a net book value of £29,000 at 31 December 2023 (£143,000 at 31 December 2022).

Notes to the Financial Statements continued
For the year ended 31 December 2023

16. Investments
a) Investments in subsidiaries
Science Group plc held investments in the following subsidiaries at 31 December 2023:

Subsidiaries of Science Group plc	Registered office	Country of incorporation	Principal activity	Shares held	%
Sagentia Limited*	(1)	England	Consultancy	Ordinary	100
Quadro Harston Limited*	(1)	England	Property	Ordinary	100
OTM Consulting Ltd*	(1)	England	Consultancy	Ordinary	100
Quadro Epsom Limited*	(1)	England	Property	Ordinary	100
Sagentia Inc.	(2)	USA	Consultancy	Ordinary	100
Oakland Innovation Ltd*	(1)	England	Consultancy	Ordinary	100
Leatherhead Research Limited*	(1)	England	Consultancy	Ordinary	100
Technology Sciences Group Consulting Limited	(1)	England	Consultancy	Ordinary	100
Technology Sciences Group (TSG) Canada Inc.	(7)	Canada	Consultancy	Ordinary	100
Technology Sciences Group Iberia SL	(5)	Spain	Consultancy	Ordinary	100
TSGE Deutschland GmbH	(6)	Germany	Consultancy	Ordinary	100
Technology Sciences Group Inc.*	(2)	USA	Consultancy	Ordinary	100
Technology Science Group France SAS*	(4)	France	Consultancy	Ordinary	100
Frontier Smart Technologies Limited*	(1)	England	Production	Ordinary	100
Frontier Silicon (HK) Ltd	(8)	Hong Kong	Production	Ordinary	100
Magic Systech Inc	(9)	Taiwan	Production	Ordinary	100
TP Group Limited**	(1)	England	Holding Company	Ordinary	100
TPG Services Limited***	(1)	England	Consultancy	Ordinary	100
Critical Maritime Systems & Support Limited***	(1)	England	Production	Ordinary	100
Osprey Consulting Services Limited***	(1)	England	Consultancy	Ordinary	100
TPG Design and Technology Limited***	(1)	England	Dormant	Ordinary	100

* Direct subsidiaries of Science Group plc as at 31 December 2023.
** Acquired on 26 January 2023 and is a direct subsidiary of Science Group plc.
*** Acquired on 26 January 2023 and is a direct subsidiary of TP Group Limited.

Frontier Microsystems Ltd was dissolved in January 2023, SG Bidco Ltd was dissolved in March 2023, Technology Sciences Group Limited was dissolved in April 2023, and TPG Design and Technology Limited was dissolved in January 2024.
An application has been made to strike off OTM Consulting Limited.

(1) Harston Mill, Royston Road, Harston, Cambridge, CB22 7GG, England
(2) One Commerce Center – 1201 Orange Street, Suite 600, Wilmington, Delaware, 19899, USA
(3) 815 Brazos Street, Suite 500, Austin, Texas, 78701, USA
(4) 229 rue Saint-Honoré, 75001, Paris, France
(5) Avenida De Galicia, 22-1, Isquierda, Dr Oviedo, 33005, Spain
(6) Im Fliegerhorst 12 38642 Goslar, Germany
(7) 50 O'Connor Street, Suite 300, Ottawa, Ontario, K1P 6L2, Canada
(8) 31/F Tower Two Times Square, 1 Matheson Street, Causeway Bay, Hong Kong, China
(9) (11083) 6F, No.508, Sec.5, Zhongxiao East Road, Xinyi District, Taipei City, Taiwan

b) Investments summary

	Subsidiary investments £000	Associate investment £000	Total Company £000
Cost			
At 1 January 2022	53,170	9,239	62,409
Capital contribution to subsidiaries*	1,612	–	1,612
Acquisition of associate investment**	–	213	213
Acquisition of shares in subsidiaries***	3,703	–	3,703
Share of profit in associate investment	–	602	602
At 1 January 2023	58,485	10,054	68,539
Capital contribution to subsidiaries*	1,997	–	1,997
Remeasurement of associate investment to reflect fair value on 26 January 2023	–	(4,762)	(4,762)
Acquisition through business combinations**	12,410	–	12,410
Share of loss in associate investment	–	(169)	(169)
Reclassification from associate investment to subsidiary investment**	5,123	(5,123)	–
At 31 December 2023	**78,015**	**–**	**78,015**
Impairment			
At 1 January 2022, 1 January 2023 and 31 December 2023	**2,185**	**–**	**2,185**
Carrying amount			
At 31 December 2022	56,300	10,054	66,354
At 31 December 2023	**75,830**	**–**	**75,830**

* Capital contributions to subsidiaries are in relation to share-based payment charges for employees of the subsidiaries.
** From August 2021, the Group commenced on-market purchases of shares in TP Group plc, increasing its shareholding to 29.21% as at 31 December 2022. The Group held an associate shareholding in TP Group plc until 26 January 2023, at which point Science Group plc acquired the remaining shares in TP Group plc and it became a subsidiary undertaking. For the period from 1 January 2023 to 26 January 2023, when TP Group plc was an associate undertaking, it had revenue from continuing operations of £2.6 million (Year to 31 December 2022: £48.7 million) and there was a loss in the period of £0.9 million (Year to 31 December 2022: a profit of £2.5 million). Science Group plc's share of associate loss in this short period was £0.2 million (Year to 31 December 2022: a share of profit of £0.6 million).
*** On 31 March 2022, as part of some Group structure rationalisation, Science Group plc acquired 100% of the share capital in Frontier Smart Technologies Limited and Frontier Microsystems Ltd from SG Bidco Ltd, and also acquired 100% of the share capital in Technology Sciences Group Consulting Limited from Technology Sciences Group Limited.

Notes to the Financial Statements continued
For the year ended 31 December 2023

17. Inventories

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

The costs of inventory included in operating expenses were £12,128,000 (2022: £12,559,000).

The Company held £nil inventories at 31 December 2023 (2022: £nil).

18. Trade and other receivables

	Group		Company	
	2023 £000	2022 £000	2023 £000	2022 £000
Current assets:				
Trade receivables	13,899	9,983	–	–
Provision for impairment	(100)	(207)	–	–
Trade receivables – net	13,799	9,776	–	–
Amounts recoverable on contracts	6,708	1,152	–	–
Other receivables	161	90	103	20
Other taxation and social security	768	–	–	–
Amounts owed by Group undertakings	–	–	9,427	2,035
VAT	222	215	72	57
Prepayments	1,657	1,759	300	742
	23,315	12,992	9,902	2,854

All amounts disclosed above, except for prepayments and amounts owed by Group undertakings, are receivable within 90 days. Amounts owed by Group undertakings are unsecured and repayable on demand.

The Other taxation and social security asset relates to employer's NIC liability on share options vested. Of this balance, £396,000 is due after one year. See Note 21 for further information.

The following table provides information about the exposure to credit risk and Expected Credit Losses ('ECLs') for trade receivables and amounts recoverable on contracts.

	2023		2022	
Group	Gross carrying amount £000	Provision for impairment £000	Gross carrying amount £000	Provision for impairment £000
Current (not past due)	17,901	–	7,243	112
1–30 days past due	2,349	–	3,359	–
31–60 days past due	265	7	265	8
61–90 days past due	41	11	58	6
More than 90 days past due	51	82	210	81
	20,607	100	11,135	207

The Group applies the IFRS 9 simplified model of recognising lifetime expected credit losses for all trade receivables and amounts recoverable on contracts as these items do not have a significant financing component.

18. Trade and other receivables continued
The ECLs are based on the payment profile for sales over the past 48 months before 31 December 2023 and 31 December 2022 respectively as well as the corresponding historical credit losses during that period. The historical ECLs are adjusted to reflect current and forwarding looking macroeconomic factors affecting the customer's ability to settle the amount outstanding.

Trade receivables and amounts recoverable on contracts are written off (i.e. derecognised) when there is no reasonable expectation of recovery.

In relation to amounts owed by Group Undertakings, based on historical experience and informed credit assessment, the ECL is not material.

	Group	
	2023 £000	2022 £000
Provision brought forward	207	75
Provision on acquisition	133	–
Provision made	16	313
Provision released	(251)	(195)
Movement due to foreign exchange fluctuations	(5)	14
Provision carried forward	100	207

19. Cash and cash equivalents

	Group		Company	
	2023 £000	2022 £000	2023 £000	2022 £000
Cash and cash equivalents – Group cash	30,949	43,645	16,548	35,202
Cash and cash equivalents – Client registration funds	1,881	2,867	–	–
	32,830	46,512	16,548	35,202

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

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

20. Trade and other payables

	Group		Company	
	2023 £000	2022 £000	2023 £000	2022 £000
Current liabilities:				
Contract liabilities	17,550	19,679	–	–
Trade payables	4,106	1,689	210	–
Other taxation and social security	1,730	1,460	–	–
Amounts owed to Group undertakings	–	–	21,181	24,380
VAT	998	250	–	–
Accruals	7,657	8,468	874	1,952
	32,041	31,546	22,265	26,332

Amounts owed to Group undertakings are unsecured and repayable on demand.

21. Provisions

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

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

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

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

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

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

22. Called-up share capital

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

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

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

22. Called-up share capital continued

A reconciliation of treasury shares held by the Company is as follows:

	Company	
Reconciliation of treasury shares	2023 Number	2022 Number
At beginning of year	**749,051**	465,598
Purchase of own shares	**961,385**	323,453
Settlement of share options	**(983,534)**	(40,000)
At end of year	**726,902**	749,051

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

The total charge relating to employee share-based payment plans, all of which related to equity-settled share-based payment transactions, was £1,997,000 (2022: £1,612,000).

	2023		2022	
Reconciliation of outstanding options	Number	Weighted average exercise price (pence)	Number	Weighted average exercise price (pence)
At beginning of year	**3,365,323**	**1.0**	3,301,058	1.0
Granted during the year	**531,000**	**1.0**	427,000	1.0
Exercised during the year	**(1,018,333)**	**1.0**	(109,600)	1.0
Lapsed during the year	**(160,000)**	**1.0**	(253,135)	1.0
At end of year	**2,717,990**	**1.0**	3,365,323	1.0

During the year ended 31 December 2023, share options were issued under the Performance Share Plan ('PSP').

The options outstanding at 31 December 2023 had a weighted average contractual life of 8.0 years (2022: 7.8 years).

Included within the total outstanding options at 31 December 2023 are 414,990 options which are exercisable (2022: 368,323). The weighted average exercise price of exercisable options at the end of the year was 1.0 pence (2022: 1.0 pence).

Options exercised during the year had a weighted average share price at the date of exercise of 400.0 pence (2022: 393.0 pence).

Exercise of an option is subject to continued employment, and normally lapses upon leaving employment.

The fair values of options granted under the PSP in 2023 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 have been incorporated into the measurement by means of actuarial modelling. One vesting condition attached to options granted in the year is such that 100% of the options vest dependent on the Company achieving earnings per share targets.

The assumptions used for the option valuations are as follows:

Grant date	Risk Free Rate	Dividend Yield Factor	Share Price on Grant Date (pence)
May 2023	3.82%	1.24%	404.0
May 2023	3.66%	1.24%	404.0
Jun 2023	4.41%	1.26%	398.0
Sept 2023	3.82%	1.24%	407.0

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.

22. Called-up share capital continued

At 31 December 2023, options granted to subscribe for ordinary shares of the Company that remain unexercised are as follows:

Date of grant	Option exercise period From	To	Number of shares under option Performance Share Plan	Enhanced Executive Incentive Addendum	Exercise Price (pence)	Fair Value of options (pence)	Expected Life (years)	Volatility
Sept 2018	Sep 2021	Sep 2028	23,324	–	1.0	225.3	10	23%
Oct 2019	Oct 2022	Oct 2029	26,666	–	1.0	177.8	10	17%
Nov 2019	Nov 2022	Nov 2029	20,000	–	1.0	211.7	10	18%
Oct 2020	Oct 2023	Oct 2030	345,000	–	1.0	222.3	10	23%
Mar 2021	Mar 2024	Mar 2031	20,000	–	1.0	284.3	10	31%
Oct 2021	Oct 2024	Oct 2031	345,000	–	1.0	435.8	10	31%
Oct 2021	Oct 2026	Oct 2031	–	1,050,000	1.0	245.7	10	31%
Mar 2022	Mar 2025	Mar 2032	30,000	–	1.0	382.4	10	31%
Sept 2022	Sept 2025	Sept 2032	367,000	–	1.0	377.6	10	27%
May 2023	May 2026	May 2033	426,000	–	1.0	388.4	10	24%
May 2023	May 2028	May 2033	45,000	–	1.0	379.0	10	24%
Jun 2023	Jun 2026	Jun 2033	15,000	–	1.0	382.4	10	23%
Sept 2023	Sept 2026	Sept 2033	5,000	–	1.0	388.4	10	24%
			1,667,990	**1,050,000**				

At 31 December 2022, options granted to subscribe for ordinary shares of the Company that remain unexercised were as follows:

Date of grant	Option exercise period From	To	Number of shares under option Performance Share Plan	Enhanced Executive Incentive Addendum	Exercise Price (pence)	Fair Value of options (pence)	Expected Life (years)	Volatility
Sep 2017	Sep 2020	Sep 2027	5,000	–	1.0	207.1	10	24%
May 2018	May 2021	May 2028	6,663	–	1.0	224.4	10	25%
May 2018	May 2023	May 2028	–	700,000	1.0	121.0	10	25%
Sept 2018	Sep 2021	Sep 2028	46,661	–	1.0	225.3	10	23%
Oct 2019	Oct 2022	Oct 2029	233,330	–	1.0	177.8	10	17%
Nov 2019	Nov 2022	Nov 2029	76,669	–	1.0	211.7	10	18%
Oct 2020	Oct 2023	Oct 2030	425,000	–	1.0	222.3	10	23%
Mar 2021	Mar 2024	Mar 2031	20,000	–	1.0	284.3	10	31%
Oct 2021	Oct 2024	Oct 2031	380,000	–	1.0	435.8	10	31%
Oct 2021	Oct 2026	Oct 2031	–	1,050,000	1.0	245.7	10	31%
Mar 2022	Mar 2025	Mar 2032	30,000	–	1.0	382.4	10	31%
Sept 2022	Sept 2025	Sept 2032	392,000	–	1.0	377.6	10	27%
			1,615,323	1,750,000				

23. Borrowings

(a) Term loan

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

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

Science Group plc, the Company, had no bank borrowings at the start nor the end of the year.

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

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

At 31 December 2023, the amount outstanding on the term loan was £13.0 million (2022: £14.2 million).

The carrying amount of the term loan is considered to be a reasonable approximation of the fair value.

The reconciliation of bank loans interest expense is shown below.

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

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

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

(b) Revolving credit facility

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

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

The reconciliation of RCF interest expense is shown below.

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

(c) Hedge accounting
In order to address interest rate risk, the Group entered into phased interest rate swaps in order to fully hedge the loan resulting in a 10 year fixed effective interest rate of 3.5%. The interest rates on the swaps range from 0.4% to 1.3% which when combined with the margin on the loan economically fix the finance cost at 3.5%.

The notional amount on the interest rate swaps reduces in line with the repayment of the term loan, so an effective hedge remains throughout the term of the loan. There are 4 active swaps in place at 31 December 2023, totalling £13.0 million. Of this total, £1.8 million will mature in September 2025 and the remaining balance of £11.2 million will mature in September 2026.

Hedge effectiveness is determined at inception of the hedge relationship and at every reporting period end through the assessment of the hedged items and hedging instrument to determine whether there is still an economic relationship between the two. The critical terms of the interest rate swaps entered into exactly match the terms of the hedged item. As such the economic relationship and hedge effectiveness are based on the qualitative factors and the use of a hypothetical derivative where appropriate.

Hedge ineffectiveness may arise where the critical terms of the forecast transaction no longer meet those of the hedging instrument, however the hedged items and the hedging instrument relationship matches one to one. For example, if the payment of the loan and the interest are transacted at different times, the hedge will become ineffective however the timing of the payments are within the control of the Group. All derivative financial instruments used for hedge accounting are recognised initially at fair value and reported subsequently at fair value in the consolidated statement of financial position. To the extent the hedge is effective, changes in the fair value of derivatives designated as hedging instruments in cash flow hedges are recognised in other comprehensive income and included within the cash flow hedge reserve in equity. Any ineffectiveness in the hedge relationship is recognised immediately in profit or loss. At the time the hedged item affects profit or loss, any gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and presented as a reclassification adjustment within other comprehensive income. If a forecast transaction is no longer expected to occur, any related gain or loss recognised in other comprehensive income is transferred immediately to profit or loss. If the hedging relationship ceases to meet the effectiveness conditions, hedge accounting is discontinued, and the related gain or loss is held in the equity reserve until the forecast transaction occurs.

The Group has adopted hedge accounting for the interest rate swaps under IFRS 9 Financial Instruments, and the loss on change in fair value of the interest rate swaps of £0.5 million (2022: gain of £1.3 million) was recognised in other comprehensive income. The fair value of the swap at 31 December 2023 was an asset of £0.9 million (2022: asset of £1.4 million).

The effects of the interest rate swaps on the Group's financial position and performance are as follows:

Interest rate swaps	2023	2022
Carrying amount (non-current assets)	**£886,000**	£1,417,000
Notional amount	**£13,000,000**	£14,200,000
Maturity date	**Sept 2026**	Sept 2026
Hedge ratio	**1:1**	1:1
Change in the fair value of the outstanding hedging instruments since 1 January	**(£13,000)**	£1,357,000
Change in the fair value of hedged item used to determine hedge effectiveness	**(£13,000)**	£1,357,000
Weighted average hedged rate for the year	**3.5%**	3.5%

(d) Changes in liabilities arising from financing activities
This section sets out an analysis of changes in liabilities from financing activities for each of the periods presented.

	Liabilities from financial activities			Other assets	
Group	Borrowings £000	Leases £000	Sub total £000	Interest rate swaps £000	Total £000
Balance at 1 January 2022	(15,323)	(1,553)	(16,876)	129	(16,747)
Cash movement	1,200	–	1,200	–	1,200
Principal elements of lease payments	–	1,135	1,135	–	1,135
Acquisitions – leases	–	(1,691)	(1,691)	–	(1,691)
Terminations – leases	–	369	369	–	369
Change in fair values	–	–	–	1,288	1,288
Foreign exchange adjustments	–	(142)	(142)	–	(142)
Interest expense	(533)	(90)	(623)	–	(623)
Interest payments (presented as operating cash flows)	517	90	607	–	607
Balance at 1 January 2023	(14,139)	(1,882)	(16,021)	1,417	(14,604)
Cash movement	1,200	–	1,200	–	1,200
Principal elements of lease payments	–	912	912	–	912
Acquisitions – leases	–	(3,038)	(3,038)	–	(3,038)
Change in fair values	–	–	–	(531)	(531)
Foreign exchange adjustments	–	63	63	–	63
Interest expense	(499)	(235)	(734)	–	(734)
Interest payments (presented as operating cash flows)	482	235	717	–	717
Balance at 31 December 2023	**(12,956)**	**(3,945)**	**(16,901)**	**886**	**(16,015)**

24. Derivative financial instruments
The Group's derivative financial instruments are measured at fair value and are summarised below:

	Note	2023 £000	2022 £000
Non-current assets			
Interest rate swaps – cash flow hedge	23	**886**	1,417
Total non-current derivative financial instruments		**886**	1,417
Current assets			
US Dollar currency exchange instruments – cash flow hedge		**301**	384
Total current derivative financial instruments		**301**	384

24. Derivative financial instruments continued
The Group's cashflow hedge reserve relates to the following hedging instruments:

	Cash flow hedge reserve		
	Currency exchange instruments £000	Interest rate swaps £000	Total £000
At 1 January 2022	–	74	74
Change in fair value of hedging instrument recognised in other comprehensive income	169	1,358	1,527
Reclassified from other comprehensive income to profit or loss	43	(70)	(27)
Net change in fair value of hedging instrument recognised in other comprehensive income	212	1,288	1,500
Deferred tax charge	(90)	(324)	(414)
At 1 January 2023	122	1,038	1,160
Change in fair value of hedging instrument recognised in other comprehensive income	85	(14)	71
Reclassified from other comprehensive income to profit or loss	4	(517)	(513)
Net change in fair value of hedging instrument recognised in other comprehensive income	89	(531)	(442)
Deferred tax credit	15	132	147
At 31 December 2023	**226**	**639**	**865**

The interest rate swaps are used to mitigate interest rate risk (see Note 23).

The Group uses currency exchange instruments to mitigate foreign exchange rate exposure arising from highly probable forecast sales in US Dollars.

Hedge effectiveness is determined at inception of the hedge relationship and at every reporting period end through the assessment of the hedged items and hedging instruments to determine whether there is still an economic relationship between the two.

The critical terms of the currency exchange instruments exactly match the terms of the hedged item. As such the economic relationship and hedge effectiveness are based on the qualitative factors and the use of a hypothetical derivative where appropriate.

Hedge ineffectiveness may arise where the critical terms of the forecast transaction no longer meet those of the hedging instrument, for example if there was a change in the timing of the forecast sales transactions from what was initially estimated or if the volume of currency in the hedged item was below expectations leading to over-hedging.

The hedged items and the hedging instrument are denominated in the same currency and as a result the hedging ratio is always one to one.

All derivative financial instruments used for hedge accounting are recognised initially at fair value and reported subsequently at fair value in the consolidated statement of financial position.

To the extent the hedge is effective, changes in the fair value of derivatives designated as hedging instruments in cash flow hedges are recognised in other comprehensive income and included within the cash flow hedge reserve in equity. Any ineffectiveness in the hedge relationship is recognised immediately in the income statement.

At the time the hedged item affects profit or loss, any gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and presented as a reclassification adjustment within other comprehensive income.

If a forecast transaction is no longer expected to occur, any related gain or loss recognised in other comprehensive income is transferred immediately to profit or loss. If the hedging relationship ceases to meet the effectiveness conditions, hedge accounting is discontinued, and the related gain or loss is held in the equity reserve until the forecast transaction occurs.

24. Derivative financial instruments continued
The impact of the currency exchange instruments on the Consolidated Balance Sheet as at 31 December 2023 is, as follows:

Date of inception	19/10/23
Carrying amount (current asset)	£150,000
Amount hedged per month (12 separate instruments, maturing December 2024)	$500,000
Hedge ratio	1:1
Strike price	$1.25 US Dollars per £1 Sterling
Change in the fair value of the currency exchange instruments since inception	£61,000
Change in the fair value of the hedged item used to determine hedge effectiveness	£61,000

Date of inception	22/12/23
Carrying amount (current asset)	£151,000
Amount hedged per month (12 separate instruments, maturing December 2024)	$500,000
Hedge ratio	1:1
Strike price	$1.25 US Dollars per £1 Sterling
Change in the fair value of the currency exchange instruments since inception	(£11,000)
Change in the fair value of the hedged item used to determine hedge effectiveness	(£11,000)

25. Leases
(a) Leases as lessee (IFRS 16)
The Group leases office facilities for periods between 2 and 10 years, based on the non-cancellable period.

At 31 December 2023, the leases had remaining periods of 1 to 9 years.

Right-of-use assets
Information about leases for which the Group is a lessee is presented below.

Group – Land and Buildings	2023 £000	2022 £000
Balance at 1 January	**1,823**	989
Additions	**2,471**	1,702
Lease amendment	**449**	–
Fair value adjustment	**304**	–
Disposals	**–**	(153)
Depreciation charge for the year	**(1,053)**	(827)
Effect of movements in exchange rates	**(65)**	112
Balance 31 December	**3,929**	1,823

Notes to the Financial Statements continued
For the year ended 31 December 2023

25. Leases continued
Lease liabilities
Information about leases for which the Group is a lessee is presented below.

Group – Land and Buildings	2023 £000	2022 £000
Balance at 1 January	1,882	1,553
Additions	2,589	1,691
Amendment	449	–
Repayments in year	(912)	(1,135)
Lease cancellations	–	(369)
Effect of movements in exchange rates	(63)	142
Balance 31 December	**3,945**	1,882

Lease liabilities are payable as follows:

31 December 2023	Within 1 year £000	1–2 years £000	2–3 years £000	3–4 years £000	4–5 years £000	> 5 years £000	Total £000
Lease payments	844	806	781	558	414	1,478	4,881
Finance charges	(218)	(185)	(151)	(119)	(95)	(168)	(936)
Net present values	**626**	**621**	**630**	**439**	**319**	**1,310**	**3,945**

31 December 2022	Within 1 year £000	1–2 years £000	2–3 years £000	3–4 years £000	4–5 years £000	> 5 years £000	Total £000
Lease payments	781	413	351	353	119	–	2,017
Finance charges	(61)	(38)	(24)	(11)	(1)	–	(135)
Net present values	720	375	327	342	118	–	1,882

(b) Leases as lessor
The Group leases out some of the Harston site to third parties on leases which normally have a termination notice period of 3 to 6 months and typically for a 36-month term.

The leases are classified as operating leases from a lessor perspective because they do not transfer substantially all the risk and rewards to the ownership of the assets. Note 15 sets out information about the Harston leases and rental income recognised by the Group during the periods presented.

The following table sets out a maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date.

Operating leases under IFRS 16	2023 £000	2022 £000
Within one year	626	742
Between 1 and 2 years	587	608
Between 2 and 3 years	323	417
Between 3 and 4 years	100	206
Between 4 and 5 years	–	97
Total	**1,636**	2,070

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

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

26. Business combinations continued
The assets and liabilities acquired were as follows:

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

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

Net cash paid on acquisition	2023 £000	2022 £000
Purchase interest in subsidiary/associate	12,409	213
Debt acquired	5,960	–
Cash acquired	(4,446)	–
	13,923	213

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

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

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

The goodwill of £4.2 million is attributable mainly to the skills and technical knowledge of TP Group's workforce. A third-party expert performed a detailed review of the acquired intangible assets. The customer contracts and relationships intangible asset was valued using a multi-period excess earnings methodology. Technology and marketing intangible assets were valued using a royalty savings methodology. The deferred tax liability, in respect of the acquired intangible assets, has been calculated by using the current statutory tax rate of 25%.

27. Contingent liabilities
At 31 December 2023, there were no contingent liabilities (2022: £nil).

28. Related party transactions
The Group provides support and consultancy services to its wholly owned 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	2023 Loans due (to)/ from £000	2023 Sale of goods and services £000	2022 Loans due (to)/ from £000	2022 Sale of goods and services £000
Frontier Smart Technologies Limited	3,775	579	1,404	821
Oakland Innovation Ltd	–	–	611	(179)
Quadro Epsom Limited	–	–	20	191
Leatherhead Research Limited	–	–	–	256
TP Group Limited	4,092	–	–	–
Critical Maritime Systems & Support Limited	580	273	–	–
TPG Services Limited	722	508	–	–
Osprey Consulting Services Limited	180	127	–	–
Sagentia Inc.	78	(13)	–	–
	9,427	1,474	2,035	1,089
OTM Consulting Ltd	(177)	–	(316)	–
Sagentia Limited	(16,116)	(1,547)	(19,827)	(1,774)
Sagentia Inc.	–	–	–	(153)
Quadro Harston Limited	(332)	25	–	280
Quadro Epsom Limited	(225)	25	–	–
Oakland Innovations Ltd	(72)	12	–	–
Leatherhead Research Limited	(79)	381	–	–
Technology Sciences Group Limited	(3,314)	653	(124)	–
Technology Sciences Group Consulting Limited	–	–	(2,650)	645
Technology Sciences Group Inc.	(866)	312	(1,463)	165
	(21,181)	(139)	(24,380)	(837)

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 Science Group plc Board.

28. Related party transactions
Aggregate remuneration

Year ended 31 December	2023 £000	2022 £000
Short-term employee benefits (including social security costs)	1,586	1,669
Pension costs	42	40
Share-based payment transactions	541	445
	2,169	2,154

29. 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
Property residual values
Residual values have been estimated for the Epsom and Harston properties at £6.5 million and £12.0 million respectively based on estimates of the amounts the Group would receive currently for the properties if they were already of an age and in the condition expected at the end of their useful lives. The residual values are reviewed annually to ensure that they do not exceed the estimated market values of the properties. The property book values (see Note 15) have been considered in comparison to third party valuation reports as well as value in use to the Group. Taking into account these valuation indicators, the Directors are comfortable the book values are appropriately stated and hold up to a robust level of sensitivity stress testing.

Assessment of the percentage of completion of long-term contracts
The Group's revenue recognition policy, which is set out in Note 2.18, requires forecasts to be made of the outcomes of long-term design and manufacture contracts. This requires estimates of labour hours and rates, and material costs to determine forecast costs to completion and therefore revenue recognition on each long-term contract. Where actual costs incurred differ to forecast costs, or where forecast cost estimates change, the assessment of the percentage of completion of long-term contracts will be affected and therefore revenue and profits or losses recognised impacted. Estimates are reviewed regularly throughout the contract life and adjustments are made based on the latest available information.

As at 31 December 2023, the amounts due from contract customers and amounts due to contract customers amounted to £6,708,000 and £15,669,000 respectively as set out in Note 5. The Group has considered the nature of the estimates involved in deriving these balances and concluded that it is possible that outcomes within the next financial year may be different from the assumptions applied at 31 December 2023, which could require a material adjustment to revenue and profits or losses recognised and the carrying amounts of the related assets and liabilities in the next financial year.

Impairment of non-financial assets and goodwill
In assessing impairment, the Group estimates the recoverable amount of each asset or cash generating unit based on expected future cash flows and uses an interest rate to discount them. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (see Note 14).

(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 Business 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.

Further information about the space let out to third party tenants is included in Note 15.

Recognition of deferred tax assets
The extent to which deferred tax assets are recognised is based on an assessment of the probability that future taxable income will be available against which deductible temporary differences and tax losses can be utilised.

The Group recognises deferred tax assets in respect of carried forward unused tax losses to the extent that the assets are deemed recoverable from future taxable profits. The deferred tax asset value is based upon an estimate of the next 2 years of respective taxable profits (or a longer period where the use of losses is less restrictive), this being the period over which the Group has reasonable confidence in estimating future taxable profits that meet the evidence requirement for deferred tax asset recognition purposes.

30. Post balance sheet events
There are no post balance sheet events to disclose.

NOTES

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