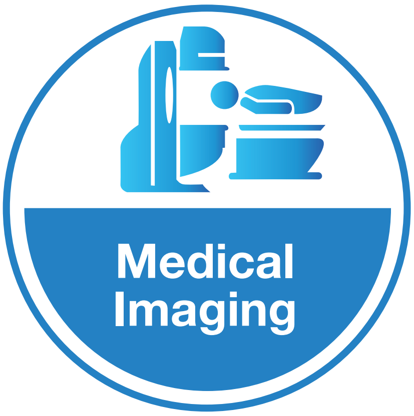
kromek®
detect image identify

Kromek Group plc

Annual report and accounts
for the year ended 30 April 2018

Targeting significant growth opportunities in medical imaging and nuclear detection applications



$1bn+ opportunity in each sector over the next 10 years

Kromek's CZT-based detectors significantly advance the early identification of disease, such as cancer, Alzheimer's, Parkinson's and osteoporosis.

Kromek's D3S is used to identify nuclear threats, such as dirty bombs, to protect civilians and key infrastructure in cities, including ports, borders and transport hubs.

Contents

Financial Highlights

Revenue	EBITDA*	Cash & Equivalents	Product % of Sales	Gross Margin
£11.8m	£0.5m	£9.5m	81%	56.4%
↑32%	↑133%		↑44% value	
2016/17: £9.0m	2016/17: £(1.5m)	31 Oct 2017: £15m	2016/17: 74%	2016/17: 57.1%

*EBITDA defined as earnings before interest, taxation, depreciation, amortisation, other income and share-based payments. For a reconciliation, see the Chief Financial Officer's Review on page 8.

"Secured new purpose-built premises for Kromek's US operations in Pittsburgh, which will enable the facility to become a world-leading manufacturer of SPECT cameras"

"Milestone year as revenue growth from ramp-up in commercial activities enabled Kromek to achieve EBITDA positive for the first time"

Financial & Operational Highlights 01

Operational Highlights

- **$5.38m** Secured five-year contract for CZT-based detector modules in a new osteoporosis product offering for existing BMD customer
- **£1.4m** Awarded three-year Innovate UK programme to deliver Low Dose Molecular Breast Imaging Device
- **£1.2m** Five-year repeat order, post-period end, from an existing customer for the supply of gamma detector modules
- Advanced towards achieving first clinical validation of Kromek's CZT-based SPECT detector system
- **$3.1m** Commenced work on five-year contract with US-based OEM customer to provide components for baggage screening
- **$2.0m** Won five-year contract from new OEM customer for baggage security screening systems technology
- **$1.6m** Extension to DARPA contract to add further technical innovation capability to the Kromek D3S family of equipment
- D3S continued to be deployed and field-tested in major areas in the US by DARPA and other public administrations worldwide
- Used by European authorities during visit of US President to Brussels in May 2017
- Designated qualified contractor under US Dept of Defense IDIQ Procurement contract award vehicle
- Expanded distribution channels in civil nuclear markets. Completed deployment of Quant for GR1 in all UK EDF nuclear plants
- **7 / 29** Seven new patents were filed and 29 granted during the period

Sir Peter Williams CBE
Chairman
29 June 2018

02 Chairman's Statement

"The Nuclear Detection and Medical Imaging businesses continue to offer enormous growth opportunities for us in equal measure"

I am very pleased to report that Kromek had another good year of delivering revenue growth and developing our customer base who continue to launch next generation products incorporating our advanced radiation detectors.

Last year I wrote about the visibility of revenues from the long-term contracts we had signed during the previous 24 months, so a major focus for 2017/18 has been on the delivery of these contracts. I am delighted to report that, as a result, Kromek has achieved EBITDA* profitability for the first time in its history and narrowed its loss before tax. This is an important milestone towards cash flow breakeven and pre-tax profits and significantly, it was achieved against the backdrop of considerable currency volatility during the year.

Kromek's vision is to enable our end users to take optimal decisions, which increase operational efficiency and reduce costs, using superior quality of information. Whether in combatting terrorism or in effectively diagnosing disease, we made significant advances towards these goals in 2017/18. Major progress was made in our Medical Imaging business by completing the integration of our CZT-based single photo emission computed tomography ("SPECT") cameras into a system capable of producing clinical grade images. The detail in SPECT images means this technology will improve early stage diagnosis of diseases such as cancer, Alzheimer's and Parkinson's.

Our D3S product was successfully deployed in safeguarding against nuclear terrorism in many high-profile situations and gained significant visibility in Europe, Asia and the USA. The reputation of the D3S has consequently been greatly enhanced in global markets.

Arnab Basu, our Chief Executive Officer, provides a detailed review of our operational achievements for the year. He outlines our success in strengthening our market position as a key supplier of high-performance detection systems to both commercial and government customers globally. As a result of this, Kromek is now better positioned to capture the opportunities that exist across all our target markets.

Opportunities Remain Significant

The Nuclear Detection and Medical Imaging businesses continue to offer enormous growth opportunities for us in equal measure, although the timing of delivery of long-term contracts may mean that the prominence of their contribution to growth may vary from one year to another in the early developmental phase in these markets.

**For a definition of EBITDA, see the Chief Financial Officer's Review on page 8*

We believe that US government agencies (DoD and DHS) continue to represent a significant radiation detection opportunity for Kromek and expect to expand our work with them. The threat of a "dirty" bomb remains real and government agencies around the world are gearing up to guard against it. In further progress with the US Department of Defense, Kromek was named as a qualified contractor under the department's $8.2bn 'Indefinite Delivery Indefinite Quantity Joint Enterprise - Research, Development, Acquisition, and Production Procurement' contract award vehicle. While the potential of this market in the US remains substantial, the demand for portable advanced radiation detectors for nuclear safeguarding is a significant global market opportunity.

A key driver of revenue growth in our Medical Imaging business has been the delivery under contracts won over the last two years of products resulting from our long-term development programmes. The vast majority of recent new business has been in this segment, which bodes well for the future. Specifically, SPECT is proving to be a strategically important growth opportunity for us with a large addressable market. We have achieved significant milestones in commercialising our technology in this sector this year and remain confident of furthering our strategy of becoming the preferred sub-systems supplier to major OEMs through existing and new relationships.

New Facilities in US

Given the strategic importance to us of the US markets, in 2017/18 the Group laid the foundations to support future growth there and has secured new premises for our US operations near Pittsburgh, Pennsylvania. The new building, under a 20-year operating lease, has been purpose-built to our requirements and provides the Group with a significantly more efficient and cost-effective office, development and manufacturing space with expansion capacity. The location is more suitable for attracting talent, has better transport connectivity and is closer to the growing high-tech hub in Pittsburgh. The new facility will serve as the focus of our Medical Imaging business, providing world-class manufacturing of CZT-based SPECT cameras.

Employees and Partners

As we look to the future, I would also like to express gratitude to those who have enabled us to reach this point. In particular, on behalf of the Board, I would like to thank the senior management team and all of our staff for their efforts and commitment and our shareholders for their loyal on-going support.

Kromek has the market opportunities, the technology and the products to move forward, so, with the strengthening of our foundations and with long-term growth drivers remaining strong, we look forward to delivering significant shareholder value in the years to come.

"Major progress was made in our Medical Imaging business by completing the integration of our CZT cameras into a system capable of producing clinical grade images"

"Last year I wrote about the visibility of revenues from the long-term contracts we had signed during the previous 24 months, so a major focus for 2017/18 has been on the delivery of these contracts. I am delighted to report that, as a result, Kromek has achieved EBITDA profitability for the first time in its history"*

Strategic Report: Chief Executive Officer's Review

Dr Arnab Basu MBE
Chief Executive Officer
29 June 2018

04 Chief Executive Officer's Review

"The multiyear nature of many of these contracts demonstrates the commitment of Kromek's customers to our solutions and the increasing adoption of our products and technologies in our target markets"

Overview

It has been a milestone year for Kromek as we delivered EBITDA* positive results for the first time with an EBITDA profit of £0.5m (2016/17: EBITDA loss £1.5m) for the full year and the loss before tax narrowing from £3.8m to £2.5m. This EBITDA profit was achieved by growing our revenues for 2017/18 as we continued to execute on previously-signed agreements as well as commencing delivery on new high-value contracts won during the year. The multiyear nature of many of these contracts demonstrates the commitment of Kromek's customers to our solutions and the increasing adoption of our products and technologies in our target markets. The shift in the Group's sales mix from R&D to product sales was sustained, with product sales accounting for 81% of total revenue (2016/17: 74%), a year-on-year growth in value of 44%. This transition reflects the increasing value of our contracts, alongside a growing number of customers moving from R&D programmes to full commercialisation. Reported revenue for the Group grew 32% compared with last year, however, on a constant currency basis, the growth would have been 37% as the exchange rate fluctuation during the year was significant.

During the year, we strengthened our market position as a key supplier of CZT-based detection systems to both commercial and government customers globally. Key products were deployed in significant product trials and the Group reached notable performance milestones in both our nuclear and medical markets. Kromek's engagement with leading organisations within our target markets continues to increase and, in a number of instances, the Group has successfully gone through customer due diligence as part of a potential order placement process. These are important steps towards winning new customers and becoming a long-term supplier to high-value customers in our target markets.

Medical Imaging

Kromek's medical imaging solutions can produce high resolution digital images with superior quality to standard detectors currently available in the market. This provides clinicians with the necessary equipment to accurately detect and monitor medical conditions such as cancer, Alzheimer's, Parkinson's and osteoporosis, resulting in better patient outcomes and lowering the overall cost of care.

Kromek made strong progress in medical imaging markets during the year: delivering on previously won orders as well as securing new long-term contracts. The Group now has 11 OEM customers across its key segments of SPECT, bone mineral densitometry ("BMD") and gamma probes.

The Group advanced towards achieving clinical validation of our CZT-based SPECT detector system, under our contract signed in 2014 with an established manufacturer of X-ray diagnostics and analysis equipment. This achievement is the culmination of several years of intensive product development and internal cost improvement. We believe that our CZT-based SPECT camera will significantly enhance the identification and management of diseases such as cancer and Parkinson's.

For a definition of EBITDA, see the Chief Financial Officer's Review on page 8

Further progress was made in the SPECT segment with the award of a three-year £1.4m programme by Innovate UK, to deliver a Low Dose Molecular Breast Imaging ("LDMBI") device based upon our CZT-based SPECT detectors to improve the detection of breast cancer. The project is in partnership with Newcastle-upon-Tyne Hospitals NHS Foundation Trust, where the LDMBI device will be used in a pilot study to demonstrate the clinical benefits of Kromek's SPECT detectors. This is an important step in our engagement with the clinical community to demonstrate both clinical and health economic benefits of our technology.

In the BMD segment, which is used for the detection of osteoporosis, Kromek was awarded a five-year contract, worth a minimum of $5.38m, from an existing customer for the incorporation of our CZT-based detector modules in a new product. This contract highlights the continuing trend of an increasing number of customers transitioning from legacy diagnostic systems to advanced CZT-based systems.

In the gamma probes segment, which are used for radio guided surgery, the Group was awarded multiple repeat contracts by our existing OEM customers to provide customised CZT detectors for their existing gamma probes. In addition, post-period end, the Group secured a long-term repeat order from an existing medical customer for the supply of gamma detector modules for incorporation in the customer's products. The contract, which covers a five-year period, is worth $1.2m.

Nuclear Detection

Kromek's state-of-the-art D3S gamma neutron spectroscopic personal radiation detectors form interconnected, mobile networks enabling wide area monitoring linked to a central command centre, producing detailed maps of radiation levels across large urban areas. This enables threats and non-threats to be clearly differentiated and real-time alarms are triggered when the system locates and identifies unexpected harmful radiation. The D3S can be worn by frontline security workers and it offers an extensive and effective safeguard against the threat of nuclear terrorism. Kromek has already successfully delivered over 10,000 D3S units as a sole supplier to the Defense Advanced Research Projects Agency ("DARPA"), an agency of the US Department of Defense, under its SIGMA programme. This programme has conducted successful trials in Washington DC, New Jersey and many other strategically important areas.

During the year, the Group's D3S continued to be deployed and field-tested in major areas in the US by DARPA and other agencies and by a number of customers in Europe and Asia. This includes being used by European authorities during the visit of the President of the United States to Brussels in May 2017 and by other public administrations across the globe for protection of strategically important events and buildings.

Kromek was also awarded a $1.6m extension to its DARPA contract to add further features to the D3S family of equipment. The enhancements will provide greater operational capability by improving user experience and enabling the device to provide further information to the Homeland Security community and First Responders for some particularly demanding situations.

In addition, Kromek was named as a qualified contractor under the US Department of Defense's Indefinite Delivery Indefinite Quantity ("IDIQ") Joint Enterprise – Research, Development, Acquisition, and Production/Procurement ("JE-RDAP") contract framework. The JE-RDAP vehicle has been allocated $8.2bn to invest over a 10-year period in a number of programmes covering chemical, biological, radiation and nuclear (CBRN) detection, which will be conducted jointly with companies selected from the list of qualified contractors. We believe that Kromek is well-placed to be selected under the programme for delivery of products based on the D3S and other existing platforms.

In the civil nuclear markets, the Group's portfolio includes a range of high resolution detectors and measurement systems used in nuclear power plants, research and for other applications. During the year, Kromek strengthened and expanded its distribution channels in the civil nuclear markets. Kromek also completed the deployment of Quant for GR1 product in all UK EDF nuclear power plants.

"Kromek made strong progress in medical imaging markets during the year: delivering on previously won orders as well as securing new long-term contracts"

Strategic Report: Chief Executive Officer's Review *(Continued)*

Security Screening

In the Security Screening market, Kromek's solutions are used for baggage screening and for identifying the presence of hazardous liquids at airport checkpoints. These are aimed at enhancing national security and improving the safety of passengers while minimising the inconvenience of the security process at airports.

Kromek continued to deliver on contracts secured during previous periods with global security groups for the supply of OEM components for baggage screening products used in aviation security. In particular, the Group commenced work under our first multiyear contract in the Security Screening market, a five-year agreement that was awarded in 2016/17 by an existing US-based customer.

During the year, Kromek was awarded another five-year contract, worth $2.0m, by a new OEM customer that is a leading company in X-ray imaging systems. This customer is in the process of incorporating Kromek's technology into its baggage security screening systems to enhance detection of an extensive range of threat materials. Kromek expects to start the supply of commercial products under this contract during the current year.

"The Group invested in the development of new and enhanced products with a focus on the D3S, SPECT and BMD platforms"

R&D and Manufacturing Facilities

Kromek continued to work on both externally and internally funded R&D activities to develop products and platform technologies that form important elements of our future product roadmap. In particular, the Group invested in the development of new and enhanced products with a focus on the D3S, SPECT and BMD platforms. The Group expects investment in R&D to remain at a steady level over the next few years as we seek to maintain our commercial advantage. During the period, seven new patents were filed and 29 patents were granted.

Over the last year, the Group has put substantial efforts into optimising the manufacturing process for CZT-based cameras for the SPECT market. The efforts have been focused on both consistency and reliability of processes but also the cost structure of the entire manufacturing chain. One of the key areas of development has been to firm up our supply chain to increase security and quality to mitigate future risks as we ramp up.

As noted by Sir Peter Williams, during the year the Group secured new premises for our US operations in Pittsburgh, which has been custom-designed to enable the facility to become a world-leading manufacturer of the next generation CZT-based SPECT camera and other medical products.

The bespoke premises were built for the Group during the financial year and we have since gained access to the site following the signing of the lease with the landlord. I am pleased to report that the move of our entire operation was completed during June 2018. The planning and execution of such a move was critical to ensure that our customers were not significantly affected due to the inevitable disruption to production wind down and subsequent ramp up in this new facility.

Outlook

The momentum of the 2017/18 financial year has been sustained into the current financial year as Kromek's products continue to gain traction in all its business segments from the increasing adoption of CZT-based technology and other products. In particular, the Group is well-positioned to capture the significant opportunities in its key target areas of SPECT and D3S portable advanced radiation detectors.

As a result, as the Group continues to win new customers and, together with executing on previously-won contracts, Kromek expects to deliver growth across its business segments and to report total revenue growth for 2018/19 in line with market expectations.

In particular, Kromek's market-ready offering of CZT general purpose SPECT cameras, at a commercially attractive price, is receiving increasing interest and we are engaged in discussions with a wide range of companies in this segment regarding its adoption. The D3S is being well-received by public administrations and other potential customers across the globe, and Kromek expects some of this activity to materialise into product purchase orders in due course.

Looking further ahead, the Group expects its OEM customers to launch products incorporating Kromek's technology during the 2018/19 financial year and anticipates that this will prompt additional orders to be placed as sales of these products accelerate. Kromek continues to strengthen its relationships with existing customers and enhance our reputation among potential customers who are increasingly recognising the functional and operational benefits that our products can deliver.

Accordingly, the Board looks to the future with confidence.

Kromek moves to new purpose-built facility

Kromek's main operation in the US has moved to a new purpose-built facility in Zelienople, near Pittsburgh.

The premises were built specifically for Kromek, serving as the focus of its medical imaging business and designed to enable it to become a world-leading manufacturer of CZT-based SPECT cameras and other medical products.

The move, in response to the continued growth of our medical imaging equipment business, gives our US operations a significantly more efficient and cost-effective office, development and manufacturing space with expansion capacity.

The new location is also more suitable for attracting talent, has better connectivity and is closer to the growing high-tech hub in Pittsburgh.

The timing and execution of the move was critical to ensure the least amount of disruption to both our production and delivery of contracts with our customers.

The completion of the move also provided the opportunity to consolidate the Group's branding by replacing the 'eV' name with Kromek.

Strategic Report: Chief Financial Officer's Review

Mr Derek Bulmer
Chief Financial Officer
29 June 2018

08 Chief Financial Officer's Review

"Year-on-year growth in product sales of 44% reflects further traction with the D3S, SPECT and BMD products as we delivered on the supply contracts that have been announced over the last 12–36 months"

This was a seminal year for Kromek as the Group continued its year-on-year revenue growth and for the first time in the Group's history moved to a full year of EBITDA profitability (see below for calculation). The continued increase in product sales and expansion of gross profit resulted in EBITDA of £0.5m for the period (2016/17: loss of £1.5m) and the narrowing of the loss before tax to £2.5m (2016/17: loss £3.8m).

Revenue

The Group achieved revenue growth of 32.0% driven by higher product sales at £9.6m (2016/17: £6.7m), which accounted for 81% of total revenue (2016/17: 74%) as detailed in the table below.

Revenue Mix	2017/18		2016/17	
	£'000	% share	£'000	% share
Product	9,611	81%	6,671	74%
R&D	2,234	19%	2,297	26%
Total	11,845		8,968	

The year-on-year growth in product sales of 44% reflects further traction with the D3S, SPECT and BMD products as we delivered on the supply contracts that have been announced over the last 12 – 36 months.

On a consistent US dollar conversion basis with 2016/17, the Group revenues in 2017/18 would have been £12.3m.

Gross Margin

Gross profit at £6.7m (2016/17: £5.1m) resulted in a margin of 56.4% (2016/17: 57.1%). The stable gross margin, despite a material shift in revenue mix towards product sales, is encouraging as we grow the business and commercialise the technology platform that the business has created over the past years.

Administration Costs

Administration costs and operating expenses were stable at £8.8m for the period (2016/17: £8.7m) despite an increase of £0.5m in amortisation in the period. The Group continues to exercise strong cost control with employment costs being the major contributor to administration and capitalised R&D costs at 54%. The number of staff remains relatively static at 108 (2016/17: 109) with total staff cost stable at £6.6m (2016/17: £6.6m), despite the annual growth in revenue of over 30%.

EBITDA* and Profit/(Loss) from Operations

Due to increased revenues, which have resulted in an expansion of gross profit, EBITDA for 2017/18 was £0.5m compared with a loss of £1.5m for the prior year as set out in the table below:

	2017/18 £'000	2016/17 £'000
Revenue	11,845	8,968
Gross margin (%)	56.4%	57.1%
Loss Before Tax	(2,533)	(3,794)
EBITDA Adjustments:		
Net interest	192	40
Depreciation	785	762
Amortisation	1,907	1,417
Share-based payments	131	99
Other income	-	15
EBITDA earnings/(loss)	**482**	**(1,461)**

**EBITDA defined as earnings before interest, taxation, depreciation, amortisation, other income and share-based payments. EBITDA is considered a key metric to the users of the financial statements as it represents a useful milestone that is reflective of the performance of the business as a result of revenue growth. Share-based payments are added back when calculating the Group's EBITDA as this is currently an expense with a zero direct cash impact on financial performance.*

The improvement in EBITDA in 2017/18 compared with 2016/17 is substantially a result of additional gross margin generated from higher revenues. Together with the control over administration costs noted above, the impact of the operational gearing within the Group is evident.

Loss before tax for the year was narrowed to £2.5m (2016/17: £3.8m loss), driven by the improved EBITDA offset by increases in depreciation and amortisation.

During 2017/18, the Group recognised a loss of £1m (2016/17: profit £0.7m) as other comprehensive income that arose in respect of a net investment in a foreign operation as described in note 3 to the financial statements.

Tax

The Group continues to benefit from the UK Research and Development Tax Credit resulting from the investment in developments of technology and recorded a credit of £1.4m for the year (2016/17: £0.7m). The Group deferred tax provision movement remained static at £nil (2016/17: £nil) due to the distribution of losses between the UK and US operations. These two elements led to an overall tax credit to the income statement for the Group of £1.4m (2016/17: £0.7m).

Earnings per Share ("EPS")

Due to the £1.3m reduction in the loss for the period, the EPS is recorded in the year on a basic and diluted basis as 0.4p loss per share (2016/17: 1.8p loss per share).

R&D

The Group invested £3.4m in the year (2016/17: £4.2m) in near-term product developments that were capitalised on the balance sheet, reflecting the continued commitment to invest for the future growth of the business with new and enhanced products. This investment was offset by further amortisation of development costs in 2017/18 of £1.2m (2016/17: £0.7m). Hence, the net development cost capitalisation in 2017/18 was £1.3m lower at £2.2m compared with £3.5m in 2016/17. A further £4.0m (2016/17: £3.5m) was incurred in the research and development of the core technology platform and manufacturing capabilities and expensed through the income statement in the period.

Key areas of development continue to be through the expansion in the D3S suite of products and the SPECT and BMD platforms linked to existing contract deliverables and of significant future revenue opportunities. The Group continues to undertake this investment in order to advance its commercial advantage. This was manifest in the period in D3S, SPECT and BMD product sales. This investment is considered critical and ongoing as the Group commercialises the opportunities that the technology provides and expands capabilities in several different applications.

During the period, the Group undertook expenditure on patents and trademarks of £0.6m (2016/17: £0.3m) with seven new patents filed and 29 patents were granted.

Capital Expenditure

Capital expenditure in the year amounted to £0.3m (2016/17: £0.3m), which primarily relates to some modest manufacturing projects.

As noted in the Chairman's Statement and Chief Executive Officer's Review, the Group has recently entered a 20-year operating lease and has gained access to the new production facility in the US since the year-end. This facility has been purpose-built near to Pittsburgh, Pennsylvania, for one of the Group's subsidiary companies, eV Products. As part of obtaining preferential rates associated with the lease, the Group was required to place £1.25m cash as security into a money market account during the year. However, as the lease was not signed until after the year end, these amounts were technically not under security at 30 April 2018. Nevertheless, the £1.25m money market investment is not included as part of the cash and cash equivalents at the year end.

Cash Balance

Cash and cash equivalents was £9.5m at 30 April 2018 (31 October 2017: £15m; 30 April 2017: £20.3m). The change compared with the prior year is as a result of several elements. The net movement in working capital expansion in debtors, inventory and payables of £6.7m is the most significant element and was a requirement to ensure production and customer delivery continuity as the US operations transitioned to the new facilities, as noted above. This is due to an expected six months' down time required for the move and reinstallation and commissioning of plant and machinery from the old facility to the new. The Group anticipates that a significant element of the working capital expansion during 2017/18 will reverse during 2018/19.

Further, and related, to this, £1.25m was transferred into investment in a money market account (as detailed above). Product development and capitalisation of £3.4m and capital and IP expenditure of £0.9m made up the larger part of the other cash outflows, partly offset by the EBITDA profit of £0.5m and £0.9m received in R&D Tax Credits.

Reserves Reanalysis

Following a review, we have revisited the historical treatment of certain balances within equity, as recorded at the time of the IPO. As a result, a number of reanalysis adjustments have been made as described in note 3 to the financial statements. There is no overall change in the net assets or equity of the Group.

Strategic Report *(Continued)*

10 Review of Principal Risks

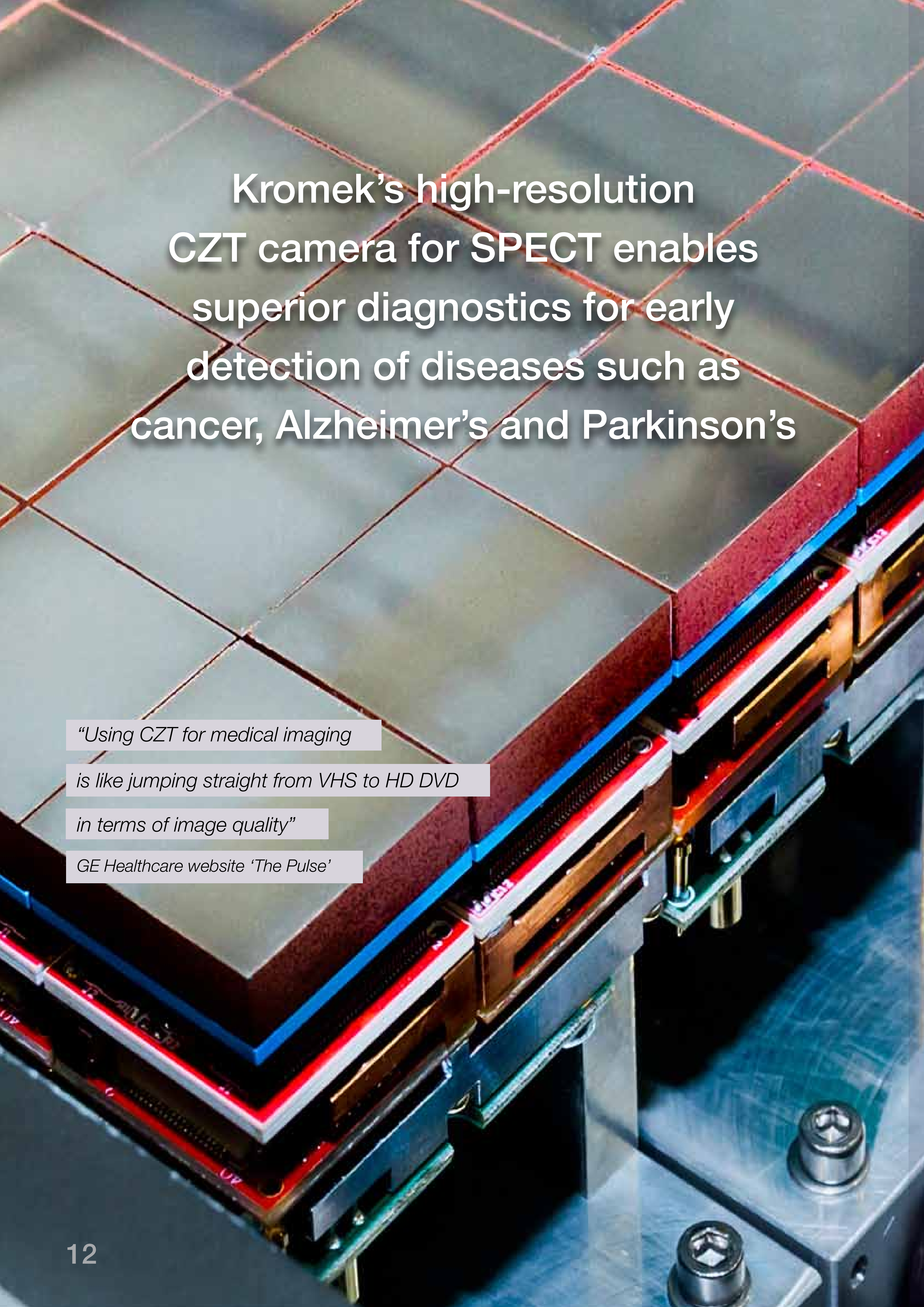
The Board has carried out a robust assessment of the principal risks to achieving its strategic objectives. Risks are reviewed on a regular basis by the Board to identify any changes in risk profiles and to consider the optimal range of mitigation strategies.

Risk	Description	Mitigation
Risks associated with competition	The Group faces competition from two types of competitor: specialised companies targeting discrete markets and divisions of large integrated device manufacturers. The Group's current and future competitors may develop superior technology or offer superior products, sell products at a lower price or achieve greater market acceptance in the Group's target markets. Competitors may have longer operating histories, greater name recognition, access to larger customer bases and resources. As such, they could be able to respond more quickly to changing customer demands or to devote greater resources to the development, promotion and sale of their products than the Group could.	To the extent possible, the Group carefully monitors competing technologies and product offerings. The Group intends to continue to make commercially-driven investments in developing new technologies and products to maintain a strong technology position, and is investing in further and more specialised marketing and sales resources. Group IP gives some additional protection and Kromek has invested in new IP management systems and processes in the last financial year.
Risks associated with management of the Group's growth strategy	The ability of the Group to implement its strategy in rapidly evolving and competitive markets will require effective management planning and operational controls. Significant expansion will be required to respond to market opportunities and the Group's future growth and prospects will depend on its ability to manage this growth and to continue to expand and improve operational and financial performance, whilst at the same time maintaining effective cost controls.	The Group's experienced management team is well versed in the current markets available to the Group and well positioned to adapt to any changes in those markets. The Group also has detailed control systems including R&D cost control and extensive project management criteria. The Group has demonstrated its ability to identify, execute and integrate M&A opportunities with its two successful US acquisitions. The Group has also relocated one of the US subsidiary companies to a custom-built facility that specialises in the production of CZT Gamma Cameras.
Risks associated with product and technology adoption rates	The rate of market acceptance of the Group's products is uncertain as many factors influence the adoption of new products including changing needs, regulation, marketing and distribution, users' habits and business systems and product pricing.	With a widely applicable technology base, the Group only chooses opportunities in which it believes there is a good match between its rare or unique capabilities and strong adoption drivers in growing large markets. The use of common technology platforms across multiple markets and applications reduces the investment risk in any given market segment and diversifies overall adoption risk.

Risk	Description	Mitigation
Risks associated with timing of customer or third-party projects	The Group's strategy includes co-development with, or licensing its technologies to, large OEM partners for additional development, manufacturing or subsequent marketing. Consequently, the Group will be increasingly reliant on securing and retaining such partners, and delays in the progress of the development, manufacturing or marketing of the end product, as a result of a partner's action or inaction, may delay the receipt of product-related revenues.	The Group has a diversified customer base and operates in a carefully selected portfolio of markets with different adoption risks and cycles. As part of its business model it also more directly controls a certain proportion of its revenues via the sale of complete end-user products in three different markets.
Risks associated with exchange rate fluctuations	As a consequence of the international nature of its business, the Group is exposed to risks associated with changes in foreign currency exchange rates on both sales and operations. The Group is based in the UK and presents its financial statements in pounds sterling. However, its subsidiaries eV Products, Inc. and NOVA R&D, Inc., operate in the US and earn revenues and incur costs in US dollars. A growing proportion of the Group's future revenues are expected to be denominated in currencies other than pounds sterling. Exchange rate variations between currencies in which the Group operates could have a significant impact on the Group's reported financial results.	The Group is predominantly exposed to currency risk on sales and purchases made from customers and suppliers. Sales and purchases from customers and suppliers are made on a central basis and the risk is monitored centrally but not hedged utilising any forward exchange contracts. Apart from these particular cash flows, the Group aims to fund expenses and investments in the respective currency and to manage foreign exchange risk at a local level by matching the currency in which revenue is generated and expenses are incurred.
Risks associated with Brexit	As a consequence of the UK's decision to leave the European Union, there is international uncertainty around the impact this will have on business and trade.	The Group has significant operations and market presence in non-EU territories such as the US and the Far East, as well as a portfolio of products that are market leaders because of the technological capabilities offered. As a result, Brexit is not expected to have a material impact on the Group, however, management monitor the current economic climate regularly for any potential future impacts.

Dr Arnab Basu MBE

Chief Executive Officer
29 June 2018



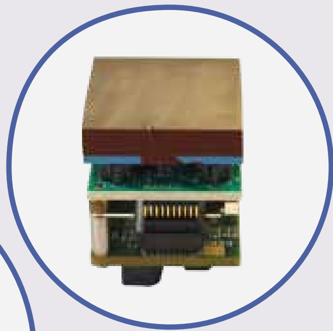
Kromek's high-resolution CZT camera for SPECT enables superior diagnostics for early detection of diseases such as cancer, Alzheimer's and Parkinson's

"Using CZT for medical imaging is like jumping straight from VHS to HD DVD in terms of image quality"

GE Healthcare website 'The Pulse'

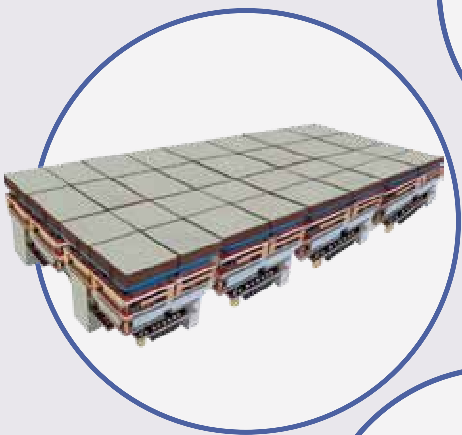
Medical Imaging

SPECT: Nuclear Medicine diagnostic imaging where the patient is injected with a radio-pharmaceutical which concentrates at sites indicating diseases like cancer, Alzheimer's or Parkinson's



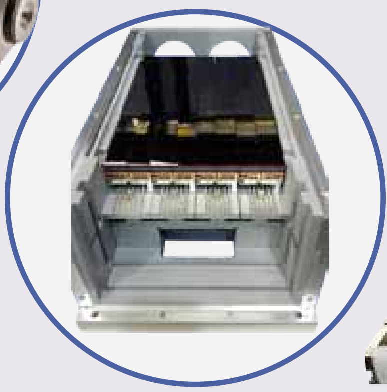
Kromek Offering

Kromek provides simple turn-key product solutions and a robust supply chain for OEMs to integrate CZT cameras into their new systems and/or retrofit installed base

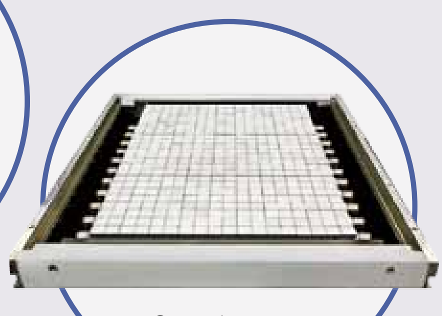


Kromek Strengths
Achieved detector solution at acceptable price premium over conventional detector technology
Offers plug-and-play solution providing fast route-to-market and a stable and low technical risk solution to the OEMs
Able to offer OEMs performance differentiation vs GE and each other through camera customization and application optimisation
Partnership with Chinese OEMs to target emerging market opportunity within China

Thyroid camera



Small field of view (FoV) camera



General purpose camera

$100m+
Annual market opportunity for Kromek

Nuclear Detection

Kromek's offering

Kromek's state-of-the-art D3S gamma neutron spectroscopic personal radiation detector forms mobile networks for wide area monitoring linked to a central command centre producing detailed maps of radiation levels across large urban areas.

This enables threats and non-threats to be clearly differentiated with real-time alarms triggered when the system locates and identifies unexpected harmful radiation.

The D3S can be worn by frontline security workers and it offers an extensive and effective safeguard against the threat of nuclear terrorism.

Saving major cities from the threat of a radiological dirty bomb

During the year, the Group's D3S continued to be field-tested in major areas in the US by DARPA and other agencies and a number of customers in Europe and Asia. It was also used by European authorities during the visit of the President of the United States to Brussels in May 2017 and by other public administrations across the globe for protection of strategically important events and buildings.

It is being well-received by these parties, enhancing the Group's standing with government agencies and other potential customers. Kromek expects some of this activity to materialise into product purchase orders in due course.

Kromek was awarded a $1.6m extension to its DARPA contract to add further features to the Kromek D3S family of equipment. The enhancements will provide greater operational capability by improving user experience and enabling the device to provide further information to the Homeland Security community and First Responders for some particularly demanding situations.

In addition, Kromek was named as a qualified contractor under the US Department of Defense's Indefinite Delivery Indefinite Quantity ("IDIQ") Joint Enterprise – Research, Development, Acquisition, and Production/Procurement ("JE-RDAP") contract framework. The JE-RDAP vehicle has been allocated $8.2bn to invest over a 10-year period in a number of programmes covering chemical, biological, radiation and nuclear detection (CBRN), which will be conducted jointly with companies selected from the list of qualified contractors. The Group's management believes that Kromek is well-placed to be selected under the programme for delivery of products based on the D3S and other existing platforms.

Kromek has already successfully delivered over 10,000 D3S units as a sole supplier to the Defense Advanced Research Projects Agency ("DARPA"), an agency of the US Department of Defense, under its SIGMA programme. This programme has conducted successful trials in Washington DC, New Jersey and many other strategically important areas.

Kromek strengths
First-mover and incumbency advantage for small form factor networked radiation detectors
Sole supplier to DARPA and endorsed by US government
Price / value proposition supports large scale adoption economics
Qualified contractor for US military for D3S
Strong brand awareness among international governments

10,000
D3S units delivered

"Now permanently deployed in the Port of New York and New Jersey"

"Used to protect President Trump in Brussels"

$100m+
Annual market opportunity for Kromek

Kromek's GR1 is the world's smallest and highest performance room temperature gamma-ray spectrometer...

it's also one of the most versatile!

"Aerial drones incorporating Kromek's GR1 spectrometer, can be deployed at any nuclear incident to give real-time monitoring of the radiation intensity and its distribution"

"The GR1 was selected as the primary mobile detection tool by authorities for the post-Fukushima response and clean up"

Kromek's GR1 family of spectrometers are universally recognised as the world's smallest and highest-performing room temperature gamma-ray spectrometers offering leading-edge specification in a compact form.

The GR1 was selected as the primary mobile detection tool by authorities for the post-Fukushima response and clean up after the Tohoku earthquake and tsunami resulted in the nuclear meltdown at the Daiichi power plant.

Fukushima showed that it was impossible to quickly and safely assess the spread of radiation and its intensity with handheld instruments without risking the users' safety.

A team from Bristol University, led by Dr Peter Martin, devised a system using aerial drones incorporating the GR1, that can be deployed at any nuclear incident to give real-time monitoring of the radiation intensity and its distribution.

Software takes the altitude and GPS of the device and combines that with the radiation signal collected from the GR1 and processes it to create a radiation intensity heatmap depicting areas of contamination, particularly useful for planning escape and evacuation routes from a nuclear incident or identifying contaminated areas for clean up or isolation.

Exhaustively tested, results showed GR1 generated data from the drone was just as accurate as a handheld device but eliminated risking exposing the user to potentially hazardous situations.

Keeping users' out of harm's way

The drone can be remotely operated (up to 4½ miles away), ensuring operator safety. It can also be pre-programmed with GPS way-points allowing it to autonomously record the radiation signal on a given flightpath or programmed to repeat a search pattern allowing measurements to be built up and compared over time.

The GR1 / drone combination replaces expensive large fixed arrays of detectors with single mobile detector units to accurately map large areas that are contaminated with nuclear radiation.

The GR1 / drone technology has been successfully deployed at numerous sites across the globe since Fukushima, Sellafield nuclear fuel reprocessing and nuclear decommissioning site in the UK, the Chernobyl nuclear site in the Ukraine, old tin mines in Cornwall UK (an area of high naturally occurring radiation) and various other sites where nuclear material is stored.

Principal applications

- Monitoring nuclear sites
- Rapid response disaster monitoring whether from a radiation leak, large scale nuclear disaster or a terrorist event
- The mining industry for prospecting radioactive ore bodies
- Within the oil and gas industry for detecting NORM (normally occurring radioactive matter)

Sir Peter Williams
Chairman
Audit Committee Chair

Sir Peter completed his degree and PhD at Cambridge, and then taught at Selwyn College. He then moved into industry, working at VG Instruments where he became Deputy Chief Executive and at Oxford Instruments, the first spin out from Oxford University, where he held the positions of CEO and Chairman. He also chaired Isis Innovation Ltd, the technology transfer arm of Oxford University. He received a CBE in 1992 and was knighted in the Queen's Birthday Honours list of 1998. He is currently Chairman of the National Physical Laboratory, and VP and Treasurer of the Royal Society.

18 Directors' Biographies

Dr Arnab Basu
Chief Executive Officer

Dr Basu has a PhD in physics from Durham University, specialising in semiconducting sensor materials. Arnab held senior management positions in his family business, serving over 250 major telecommunications and consumer electronics manufacturers, including Siemens and GEC. He worked in commercial product development for Elmwood Sensors Ltd (Honeywell Group, UK). A prominent figure within the business community, he was awarded Ernst and Young 'Entrepreneur of the Year' (2009) and received an MBE for services to regional development and international trade (2014).

Mr Derek Bulmer
Chief Financial Officer and
In-House Counsel

A qualified Chartered Accountant and Barrister, Mr Bulmer has worked with KPMG and undertaken a number of senior management roles with blue chip public companies including Bass plc, AWG plc and Ibstock plc. Additionally, and more recently, a number of roles as Finance Director of privately owned groups in both the IT and oil and gas industries have provided a wealth of experience in executing and managing business acquisitions plus significant aspects of the commercial and legal disciplines of corporate management.

Mr Lawrence Kinet

Non-Executive Director

Mr Kinet has 40 years' experience in the medical device and bio-pharmaceutical industry in leadership positions, most recently as Group Chief Executive of LMA International NV and President of Smiths Medical, London. Lawrence has raised more than $100m in funding for early stage companies, taking one through an IPO, and made over $1bn worth of acquisitions. His career began at Baxter International, running a number of overseas operations eventually becoming President of Baxter's International Division. He holds a BSc from the University of Birmingham (UK) and an MBA from the University of Chicago.

Dr Graeme Speirs

Non-Executive Director

Dr Speirs is an experienced entrepreneur and owner of the Polymer Holdings Group and Polymer N2, an investment company focused on UK start-ups in the technology, life sciences and energy sectors. Graeme graduated with first class honours in chemistry and a PhD in molecular physics from Aberdeen University, and holds a masters degree in Technology and Economics from the University of Birmingham. Involved in the oil and gas industry, Graeme is an expert in the design and manufacture of polymer composite products.

Mr Jerel Whittingham

Non-Executive Director

Remuneration Committee Chair

Mr Whittingham has extensive experience in investor, operational and strategy roles with technology-rich companies including Incuvest LLC, Generics Group plc, Durlacher plc, Amphion Innovations plc, INMARSAT and a number of start-ups. He was appointed to the Board of Kromek Group plc in September 2013 and also served on the Board of DSC Ltd, a predecessor company of the Group. Currently he combines NED and operational roles in technology growth companies. He also served as CEO and later Executive Chairman of Myconostica Ltd, a medical technology company spun out from a leading UK university.

Mr Christopher Wilks

Non-Executive Director

Mr Wilks has considerable experience in the fields of both science and finance. He is currently CFO at Signum Technology, which he co-founded in 2012. As CFO at Sondex plc, he successfully managed their Main Market listing on the LSE and several post IPO acquisitions. Sondex was acquired by GE in 2007. After graduating from Durham University, he joined Marconi Space Systems designing space craft power systems; he then trained as a Chartered Accountant at Arthur Young (now Ernst & Young).

20 Directors' Report

The Directors present their annual report on the affairs of the Group, together with the financial statements and auditor's report, for the year ended 30 April 2018.

Principal activities

Kromek Group plc is the leading developer of radiation detectors based on cadmium zinc telluride (CZT), providing improved detection and characterisation capabilities within the medical imaging, nuclear detection and security screening markets.

Business and strategic review

The information that fulfils the requirements of the strategic report and business review, including details of the results for the year ended 30 April 2018, principal risks and uncertainties, research and development, financial KPIs and the outlook for future years, are set out in the Chairman's and Chief Executive Officer's Statements and the Chief Financial Officer's Review, on pages 2-9.

Future developments

The Group's development objectives for 2018–19 are disclosed in the Strategic Report on pages 4-11.

The Directors continue to monitor the potential impacts of the UK's decision to leave the European Union (EU). As the Group's turnover is generated globally and the proportion of UK to EU trade is not a significant portion of this, the Directors believe that the impact will not be significant in the short term. The Directors will put in place plans to reduce or mitigate the risks arising once they have been firmly established.

Capital structure

The capital structure is intended to ensure and maintain strong credit ratings and healthy capital ratios in order to support the Group's business and maximise shareholder value. It includes the monitoring of cash balances, available bank facilities and cash flows.

No changes were made to these objectives, policies or processes during the year ended 30 April 2018.

Results and dividends

The consolidated income statement is set out on page 31.

The Group's loss after taxation amounted to £1.10m (2016/17: £3.08m).

The Directors do not recommend the payment of a dividend for the year ended 30 April 2018.

During the year ended 30 April 2018, the Group made political donations of £nil (2016/17: £nil) and charitable donations of £nil (2016/17: £nil).

Directors

The Directors who served throughout the year and up to the date of signing this report were as follows:

Dr A Basu

Mr D Bulmer

Sir P Williams

Mr L Kinet

Dr G K Speirs

Mr J H Whittingham

Mr C Wilks (appointed 1 October 2017)

The emoluments and interests of the Directors in the shares of the Group are set out in the Remuneration report.

Details of significant events since the balance sheet date are contained in note 16 to the parent company financial statements.

Directors' indemnities

The Group has made qualifying third-party indemnity provisions for the benefit of its Directors, which were made during the year and remain in force at the date of this report.

Statement of 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.

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 as adopted by the EU (IFRSs as adopted by the EU) and applicable law and have elected to prepare the parent Company financial statements on the same basis.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- 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 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, whether due to fraud or error, 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.

Auditor

Each of the persons who is a Director at the date of approval of this annual report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Group's auditor is unaware; and
- the Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Deloitte LLP resigned as auditor during the period. KPMG LLP were appointed to fill the vacancy. KMPG LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Substantial shareholders

As at 30 May 2018, shareholders holding more than 3% of the share capital of Kromek Group Plc were:

Name of shareholder	Number of shares	% of voting rights
Miton Asset Management Ltd	49,201,886	18.89
Polymer Holdings	20,273,475	7.78
Hargreaves Lansdown Asset Management	16,077,031	6.17
Herald Investment Management	13,747,059	5.28
Kilik & Co	9,482,169	3.64
Interactive Investor Shareholding	8,985,402	3.45
NFU Mutual Investment Services Ltd	8,228,569	3.16

By order of the Board

Dr Arnab Basu MBE
Chief Executive Officer
29 June 2018

22 Corporate Governance Report

As an AIM listed company, Kromek Group plc is not obliged to comply with the UK Corporate Governance Code. However, the Board follows, as far as practicable, the recommendations on corporate governance of the Quoted Companies Alliance for companies with shares traded on AIM.

The Board

The Board normally meets at least four times per year in person and four times per year telephonically. Its direct responsibilities include approving annual budgets, reviewing trading performance, approving significant capital expenditure, ensuring adequate funding, setting and monitoring strategy and reporting to shareholders. The Non-Executive Directors have a particular responsibility to ensure that the strategies proposed by the Executive Directors are fully considered.

Audit committee

The audit committee is chaired by Sir Peter Williams, an Independent Non-Executive Director. The other members are Lawrence Kinet, Jerel Whittingham and Christopher Wilks, all Independent Non-Executive Directors, and Graeme Speirs, a large shareholder and Non-Executive Director of the Board. The committee meets at least four times a year.

The audit committee is responsible for reviewing the half-year and annual financial statements, interim management statements, preliminary results announcements and any other formal announcement or presentation relating to the Group's financial performance.

The audit committee reviews significant financial returns to regulators and any financial information covered in certain other documents such as announcements of a price sensitive nature.

The audit committee also reviews the effectiveness of the Group's internal control over financial reporting and considers key financial judgements made in the financial statements.

The audit committee advises the Board on the appointment of external auditors and on their remuneration (both for audit and non-audit work) and discusses the nature, scope and results of the audit with the auditors. The audit committee reviews the extent of the non-audit services provided by the auditors and reviews with them their independence and objectivity. The Chairman of the audit committee reports the outcome of audit committee meetings to the Board and the Board receives minutes of the meetings.

Remuneration committee

The remuneration committee is chaired by Jerel Whittingham, an Independent Non-Executive Director. The other members are Lawrence Kinet, an Independent Non-Executive Director, and Graeme Speirs, a large shareholder and Non-Executive Director of the Board. The committee is responsible for making recommendations to the Board, within agreed terms of reference, on the Group's framework of executive remuneration and its cost. The committee determines the contract terms, remuneration and other benefits for each of the Executive Directors, including performance-related bonus schemes and pension rights. Further details of the Group's policies on remuneration and service contracts are given in the Directors' remuneration report on pages 24-26.

Relations with shareholders

Communication with shareholders is given high priority. There is regular dialogue with major and institutional shareholders including presentations after the Group's announcements of the half-year and full-year results. Presentations are also often made to analysts at those times to present the Group's results and report on developments. This assists with the promotion of knowledge of the Group in the investment marketplace and with shareholders.

The Board uses both the annual report and financial statements and the Annual General Meeting to communicate directly with private and institutional investors and welcomes their participation.

The Chairman aims to ensure that the Chairs of the audit and remuneration committees are available at the Annual General Meeting to answer questions.

Internal control

The Board is responsible for establishing and maintaining the Group's system of internal control and for reviewing its effectiveness. The system is designed to manage rather than eliminate the risk of failure to achieve the Group's strategic objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. As an AIM-listed company, the Group does not need to comply with Code provision C2.1 regarding the Directors giving a summary of the process applied by the Board in reviewing the effectiveness of the system of internal control. Instead, the Directors have set out below some of the key aspects of the Group's internal control procedures.

An ongoing process has been established for identifying, evaluating and managing the significant risks faced by the Group. The process has been in place for the full year under review and up to the date of approval of the annual report and financial statements. The Board regularly reviews this process as part of its review of such risks within its meetings. Where any weaknesses are identified, an action plan is prepared to address the issues and is then implemented.

Each year the Board approves the annual budget. Key risk areas are identified, reviewed and monitored. Performance is monitored against budget, relevant action is taken throughout the year and updated forecasts are prepared as appropriate.

Capital and development expenditure is regulated by a budgetary process and authorisation levels. For expenditure beyond specified levels, detailed written proposals have to be submitted to the Board for approval. Reviews are carried out after the purchase is complete. The Board requires management to explain any major deviations from authorised capital proposals and to seek further sanction from the Board.

The Board has reviewed the need for an internal audit function and concluded that this is not currently necessary in view of the small size of the Group and the close supervision by the senior leadership team of its day-to-day operations. The Board will continue to keep this under review.

The Group has a whistle-blowing policy and procedures to encourage staff to contact the audit committee if they need to raise matters of concerns other than via the Executive Directors and senior leadership team.

Going concern

As at 30 April 2018, the Group had net assets of £40.3m (2016/17: £42.2m) and cash and cash equivalents of £9.5m (2016/17: £20.3m) as set out in the consolidated statement of financial position. The Directors have prepared detailed forecasts of the Group's financial performance over the next five years. As a result of this review, which incorporated sensitivities and risk analysis, the Directors believe that the Group has sufficient resources and working capital to meet their present and foreseeable obligations for a period of at least twelve months from approval of these financial statements. Accordingly, they continue to adopt the going concern basis in preparing the Group financial statements.

24 Directors' Remuneration Report (Unaudited)

As the Group is AIM listed, the Directors are not required, under Section 420(1) of the Companies Act 2006, to prepare a Directors' remuneration report for each financial year of the Group and so Kromek Group plc makes the following disclosures voluntarily, which are not intended to comply with the requirements of the Companies Act 2006.

The remuneration committee is responsible for recommending the remuneration and other terms of employment for the Executive Directors of Kromek Group plc.

In determining remuneration for the year, the committee has given consideration to the requirements of the UK Corporate Governance Code.

Remuneration policy

The remuneration of Executive Directors is determined by the committee and the remuneration of Non-Executive Directors is approved by the full Board of Directors. The remuneration of the Chairman is determined by the Independent Non-Executive Directors.

The remuneration packages of Executive Directors comprise the following elements:

Basic salary and benefits

Basic salaries for Executive Directors are reviewed annually having regard to individual performance and market practice. In most cases, benefits provided to Executive Directors comprise the provision of a Group car, or appropriate allowance, health insurance and contributions to a Group personal pension scheme.

Annual bonus

A contractual bonus is awarded at the end of each financial year, the quantum of which is at the discretion of the Board, having considered the recommendations of the remuneration committee. The maximum bonus currently ranges from between 25%–100% of basic salary to reward for Executives' contribution to the growth in revenue, and specific targeted or strategic objectives.

Long-Term Incentive Plan ("LTIP")

The Group believes that share ownership by Executive Directors and employees strengthens the link between their personal interests and those of the Group and the shareholders.

The Group has executive incentive schemes, which are designed to promote long-term improvement in the performance of the Group, sustained increase in shareholder value and clear linkage between executive reward and the Group's performance.

The LTIP is based on total shareholder return ("TSR") relative to an AIM peer group. Any awards made vest only after three years. A review was undertaken by external advisors during the year which resulted in some modifications of the criteria to bring them in line with market best practice. The annual LTIP award was reduced to reflect the introduction of a parallel value creation share plan "VC" following the 2017/18 review. The VC will vest in May 2022 and pay-outs, if any, are based on the absolute value of the Group at that date. There is a minimum value threshold before any pay-out may occur and a maximum value cap.

The Remuneration Committee and Board use external independent advisors to provide guidance on benchmarks, scheme structures and metrics. During 2017/18 three different companies provided advice on specific matters. Of the three, KPMG LLP provided advice on LTIP best practice but not on specific executive schemes. The use of KPMG in this capacity predated their role as the Group's auditor.

Service contracts

Arnab Basu and Derek Bulmer have service contracts with notice periods (to the Company) of nine and six months respectively.

The committee considers the Directors' notice periods to be appropriate as they are in line with the market and take account of the Directors' knowledge and experience.

Non-Executive Directors

The salaries of the Non-Executive Directors are determined by the full Board within the limits set out in the Memorandum and Articles of Association. The Non-Executive Directors are not eligible for bonuses, pension benefits or share options.

Directors' emoluments (Audited)

Emoluments of the Directors for the year ended 30 April 2018 are shown below.

Pension contributions

During the year, the Group made annual pension contributions for Arnab Basu and Derek Bulmer to a personal pension scheme (i.e. a defined contribution scheme). Neither benefits in kind nor bonuses are pensionable.

Details of contributions payable by the Group are:

Director	30 April 2018 £'000	30 April 2017 £'000
Arnab Basu	10	10
Derek Bulmer	10	53

Directors' shareholdings

Beneficial interests of the Directors in the shares of the Group are shown below:

	30 April 2018		30 April 2017	
	Number	**%**	**Number**	**%**
Arnab Basu	2,952,000	1.1	2,952,000	1.1
Derek Bulmer	100,000	0.0	63,934	0.0
Peter Williams	100,000	0.0	80,000	0.0
Lawrence Kinet	250,000	0.1	200,000	0.1
Graeme Speirs*	23,768,415	9.2	23,768,415	9.2
Jerel Whittingham	364,890	0.0	114,890	0.0
Christopher Wilks	75,000	0.0	-	-

* Graeme Speirs has a direct interest in 3,494,940 (2017: 3,494,940) ordinary shares and is interested in 20,273,475 ordinary shares (2017: 20,273,475) held through Polymer Holdings Ltd. In total, Mr Speirs is interested, directly or indirectly, in 23,768,415 (2017: 23,768,415) ordinary shares amounting to 9.2% (2017: 9.2%) of the issued share capital.

Directors' emoluments for the year ended 30 April 2018

The table below forms part of the audited financial statements:

	Salary £'000	Fees £'000	Benefits £'000	Bonus Paid £'000	Pension contributions £'000	**Total emoluments 2018 £'000**	Total emoluments 2017 £'000
Non-executive Chairman							
Sir Peter Williams	74	-	-	-	-	**74**	74
Executive							
Arnab Basu	210	-	9	127	10	**356**	235
Derek Bulmer	137	-	7	50	10	**204**	197
Non-executive							
Lawrence Kinet	36	-	-	-	-	**36**	36
Graeme Speirs	36	-	-	-	-	**36**	36
Jerel Whittingham	39	-	-	-	-	**39**	39
Christopher Wilks	19	-	-	-	-	**19**	-

Executive Directors' share incentive scheme (LTIP)

Share incentive scheme for Arnab Basu, Chief Executive Officer, and Derek Bulmer, Chief Financial Officer

The remuneration committee agreed, in December 2017, an incentive award scheme for Arnab Basu and Derek Bulmer, to offer them up to 471,910 and 307,865 shares respectively, at a price of 1p per share to vest based on specified performance criteria.

The remuneration committee agreed, in January 2017, an incentive award scheme for Arnab Basu and Derek Bulmer, to offer them up to 595,200 and 370,647 shares respectively, at a price of 1p per share to vest based on specified performance criteria.

The remuneration committee agreed, in October 2015, an incentive award scheme for Arnab Basu and Derek Bulmer, to offer them up to 544,263 and 271,140 shares respectively, at a price of 1p per share to vest based on specified performance criteria.

These share incentives noted above are measured by a TSR condition, calculated as the average total return in comparison to a peer group. The Board receives specialist advice from the Group's auditor.

As at 30 April 2018, the shares issued in 2016, 2017 and 2018 remained unvested.

During 2017/18 as noted on page 24, a new incentive award scheme was introduced regarding an Average Valuation Creation of the Company, referred to as the "VC". This has awarded Arnab Basu and Derek Bulmer 2,001,791 and 1,601,432 options under the scheme respectively. However, these options only vest after 5 years (at 1p per share) and are subject to challenging specific performance criteria over that period commencing 1 May 2017. The quantity of options that vest is weighted, such that the maximum amount only vests on achievement of all performance criteria.

Directors' Remuneration Report *(continued)*

Share price during the year

During the year to 30 April 2018, the highest share price was 35.63p (2017: 33.75p) and the lowest share price was 19.75p (2017: 19.86p). The market price of the shares at 30 April 2018 was 21.15p (2017: 30.12p).

Directors' interests in material contracts

No Director was materially interested either at the year end or during the year in any contract of significance to the Group other than their employment or service contract.

Executive Directors' share options

The following table shows the movement in the total share options that have been granted to Arnab Basu and Derek Bulmer (separate to those under the LTIP scheme as detailed on the previous page). These options are not linked to any specified performance criteria:

Director	Date of grant	Exercise price p	At 1 May 2017 number	Awarded during the year	Exercised during the year	At 30 April 2018 number	Expiry date
Arnab Basu	20 November 2011	20.0	1,000,000	-	-	1,000,000	20 September 2021
Derek Bulmer	13 September 2010	20.0	500,000	-	-	500,000	13 September 2020
Derek Bulmer	15 October 2012	20.0	125,000	-	-	125,000	15 October 2022
Derek Bulmer	31 May 2013	20.0	250,000	-	-	250,000	31 May 2023

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Consolidated Financial Statements
for the year ended 30 April 2018

Independent Auditor's Report To The Members of Kromek Group plc

1 OUR OPINION IS UNMODIFIED

We have audited the financial statements of Kromek Group plc ("the Company") for the year ended 30 April 2018 which comprise the consolidated income statement, the consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cash flows, company statement of changes in equity, company statement of financial position, company statement of cash flows and the related notes, including the accounting policies in note 3.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 30 April 2018 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

2 KEY AUDIT MATTERS: OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which 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 arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows:

Group: Recoverability of capitalised development costs: £13.4m (2017: £11.6m)

Refer to page 36 (Accounting Policy) and page 51 (financial disclosures).

- **The risk**

  Subjective valuation – The Group is developing its own technologies and products across various markets and sectors, with each project being at various stages of development. The nature of the technologies is market disruptive and there is no proven historic track record for the commercial success of the Group's products. The ultimate recoverability therefore of costs capitalised is inherently subjective and requires a judgement as to the likely financial success in the market place of the products developed. The estimated recoverable amount is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows.

- **Our response**

  Our procedures included:

  - **Tests of detail** - Comparing the sum of the forecast discounted cash flows relevant to the sale of products developed as a result of the development costs capitalised, and comparing to the carrying value of those assets to identify any shortfall.
  - **Sensitivity analysis** – We performed sensitivity analysis on the assumptions, including growth rates and discount rates included in the above valuations to identify the breakeven point.
  - **Sector experience** - for qualifying projects, considering the Group's assessment of their future financial prospects by reference to our knowledge of the Group's business and our experience of the industry.
  - **Historical comparisons** – We compared the historic budget versus actual financial data in order to make an assessment of the Group's forecasting ability given the reliance on future forecast revenues in the discounted cashflows used to support the carrying value.

Group: revenue from contract customers £5,422,000 (2017: £2,218,000).

Refer to page 36 (Accounting Policy) and pages 43 to 46 (financial disclosures).

- **The risk**

  Subjective estimate: Certain of the Group's contracts with its customers involve the construction of complex technical equipment and provision of associated services that are not separable from the products over a period of more than one year. These contracts are accounted for in accordance with IAS11. This requires an estimate at each period end as to the stage of completion of those contracts, revenue being recognised with reference to that stage of completion. The stage of completion is estimated by the Group with reference to costs incurred compared to total forecast contract costs. This requires an estimate of costs to complete the contract. Many of the contracts include new technologies or applications such that estimates of total contract costs are inherently judgmental.

- **Our response**

  Our procedures included:
  - **Tests of detail** – For material contracts, we performed testing of specific items in detailed breakdowns of costs incurred to date and costs to complete by comparing to the supporting invoices and timesheets.
  - **Personnel interviews** – we held discussions with non-finance personnel to gain an understanding of work performed to date and those still required to complete the contract, in order to challenge the Group's assessment of its stage of completion. This included project managers on each contract to ensure that technical input is sought as part of the total contract cost estimates.
  - **Historical comparisons** – we evaluated the historical accuracy of the Group's cost to complete estimation by comparing actual costs to budgeted forecasts.
  - **Independent reperformance** – we agreed costs to complete to detailed breakdowns and checked mathematical accuracy. We also reperformed the revenue recognition calculations based upon the percentage stage of completion to ensure revenue recognised had been calculated and processed correctly.

Parent Company only: Recoverability of carrying value of inter-company receivable £43.0m (2017: £38.8m)

Refer to page 39 (Accounting Policy) and page 68 (financial disclosures).

- **The risk**

  Forecast-based valuation – The parent company balance sheet includes a receivable from a subsidiary of £43.0m (2017: £38.8m). The subsidiary is the intermediate holding company and itself has subsidiaries that are currently loss making and given the nature of their development stage activities, the Company's assessment of potential impairment is inherently subjective. Given the nature of the business, the Company assesses recoverability with reference to their expectations of the success of current and future contracts/developments in the marketplace.
- **Our response**

  Our procedures included:
  - **Our sector experience** – We considered the current stage of the various projects currently in development in the subsidiaries, progress in the market with related products and likelihood of success given the nature of those developments and discussions with potential counter-parties.
  - **Comparing valuations** - Comparing the sum of the forecast discounted cash flows relevant to the activities of the subsidiaries, and comparing to the carrying value of those assets to identify any shortfall and therefore indicator of impairment.
  - **Sensitivity analysis** – We performed breakeven analysis on the assumptions made in the forecast valuation, including the discount rate and forecast growth rates.
  - **Comparing valuations** – We considered the carrying value of investment and inter-company receivable with reference to the net assets of the subsidiaries and the market capitalisation of the Group.

3 OUR APPLICATION OF MATERIALITY AND AN OVERVIEW OF THE SCOPE OF OUR AUDIT

The materiality for the Group financial statements as a whole was set at £179,000, determined with reference to a benchmark of Group loss before taxation, normalised over a 5 year period, of which it represents 5%.

Materiality for the Parent Company financial statements as a whole was set at £134,000, determined with reference to a benchmark of net assets and chosen to be lower than materiality for the Group financial statements as a whole. It represents 0.3% of the stated benchmark.

We agreed to report to the Audit Committee any corrected and uncorrected identified misstatements exceeding £8,950 in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 5 reporting components, we subjected 5 to full scope audits for Group reporting purposes. These components accounted for 100% of: total Group revenue, Group loss before taxation and total Group assets.

The Group team approved the component materialities, which ranged from £11,000 to £134,000, having regard to the mix of size and risk profile of the Group across the components. All component audits, including that of the parent company, were performed by the Group team.

4 WE HAVE NOTHING TO REPORT ON GOING CONCERN

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

5 WE HAVE NOTHING TO REPORT ON THE OTHER INFORMATION IN THE ANNUAL REPORT

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Independent Auditor's Report *(continued)*

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

6 WE HAVE NOTHING TO REPORT ON THE OTHER MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

Under the Companies Act 2006, we are required to report to you if, in our opinion:

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

We have nothing to report in these respects.

7 RESPECTIVE RESPONSIBILITIES

Directors' responsibilities

As explained more fully in their statement set out on pages 20 to 21, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent 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 they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

8 THE PURPOSE OF OUR AUDIT WORK AND TO WHOM WE OWE OUR RESPONSIBILITIES

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.

Nick Plumb (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX
29 June 2018

Consolidated income statement

For the year ended 30 April 2018

	Note	2018 £'000	2017 £'000
Continuing operations			
Revenue	5	**11,845**	8,968
Cost of sales		**(5,161)**	(3,851)
Gross profit		**6,684**	5,117
Other operating income	5	**-**	(15)
Distribution costs		**(214)**	(194)
Administrative expenses		**(8,811)**	(8,662)
Operating loss		**(2,341)**	(3,754)
Finance income	10	**35**	5
Finance costs	11	**(227)**	(45)
Loss before tax	7	**(2,533)**	(3,794)
Tax	12	**1,429**	710
Loss for the year from continuing operations		**(1,104)**	(3,084)
Loss per share	14		
- basic (p)		**(0.4)**	(1.8)
- diluted (p)		**(0.4)**	(1.8)

Consolidated statement of comprehensive income

For the year ended 30 April 2018

	2018 £'000	2017 £'000
Loss for the year	**(1,104)**	(3,084)
Items that are or may be subsequently reclassified to profit or loss:		
Exchange differences on translation of foreign operations	**(1,026)**	685
Total comprehensive loss for the year	**(2,130)**	(2,399)

Consolidated statement of financial position

As at the year ended 30 April 2018

	Note	2018 £'000	As restated* 2017 £'000
Non-current assets			
Goodwill	15	**1,275**	1,275
Other intangible assets	16	**16,555**	14,824
Investments – Long term cash deposits		**1,250**	-
Property, plant and equipment	17	**3,097**	3,698
		22,177	19,797
Current assets			
Inventories	19	**3,014**	3,204
Trade and other receivables	21	**11,334**	6,005
Current tax assets	21	**1,167**	596
Cash and bank balances		**9,488**	20,343
		25,003	30,148
Total assets		**47,180**	49,945
Current liabilities			
Trade and other payables	23	**(3,500)**	(4,567)
Borrowings	25	**(3,000)**	(3,000)
Provisions for liabilities	24	**(424)**	(169)
		(6,924)	(7,736)
Net current assets		**18,079**	22,412
Non-current liabilities			
Deferred tax liabilities	22	**-**	-
Total liabilities		**(6.924)**	(7,736)
Net assets		**40,256**	42,209
Equity			
Share capital	27	**2,604**	2,591
Share premium account	28	**42,625**	42,592
Merger reserve		**21,853**	21,853
Translation reserve	29	**(269)**	757
Accumulated losses	30	**(26,557)**	(25,584)
Total equity		**40,256**	42,209

*See note 3 for details of the restatement.

The financial statements of Kromek Group plc (registered number 08661469) were approved by the board of directors and authorised for issue on 29 June 2018. They were signed on its behalf by

Dr Arnab Basu MBE
Chief Executive Officer

Consolidated statement of changes in equity

For the year ended 30 April 2018

	Share capital £'000	Share premium account £'000	Merger reserve £'000	Capital redemption reserve £'000	Translation reserve £'000	Accumulated losses £'000	Total equity £'000
Balance at 1 May 2016 as reported	**1,522**	**44,484**	**-**	**1,175**	**72**	**(22,599)**	**24,654**
Prior period adjustment see note 3)	-	(20,678)	21,853	(1,175)	-	-	-
As restated	1,522	23,806	21,853	-	72	(22,599)	(24,654)
Loss for the year	-	-	-	-	-	(3,084)	(3,084)
Exchange difference on translation of foreign operations	-	-	-	-	685	-	685
Total comprehensive losses for the year	-	-	-	-	685	(3,084)	(2,399)
Issue of share capital net of expenses	1,069	18,786	-	-	-	-	19,855
Credit to equity for equity-settled share based payments	-	-	-	-	-	99	99
Balance at 30 April 2017 (as restated)	**2,591**	**42,592**	**21,853**	**-**	**757**	**(25,584)**	**42,209**
Loss for the year	-	-	-	-	-	(1,104)	(1,104)
Exchange difference on translation of foreign operations	-	-	-	-	(1,026)	-	(1,026)
Total comprehensive losses for the year	-	-	-	-	(1,026)	(1,104)	(2,130)
Issue of share capital net of expenses	13	33	-	-	-	-	46
Credit to equity for equity-settled share based payments	-	-	-	-	-	131	131
Balance at 30 April 2018	**2,604**	**42,625**	**21,853**	**-**	**(269)**	**(26,557)**	**40,256**

Consolidated statement of cash flows

For the year ended 30 April 2018

	Note	**2018 £'000**	2017 £'000
Net cash used in operating activities	31	**(4,613)**	(1,500)
Investing activities			
Investment into Money Market account		**(1,250)**	-
Interest received		**35**	5
Purchases of property, plant and equipment		**(272)**	(261)
Purchases of patents and trademarks		**(641)**	(320)
Capitalisation of development costs		**(3,450)**	(4,187)
Net cash used in investing activities		**(5,578)**	(4,763)
Financing activities			
Revolving credit facility		**-**	3,000
Net proceeds on issue of shares		**46**	19,855
Interest paid		**(227)**	(45)
Net cash generated from financing activities		**(181)**	22,810
Net (decrease)/increase in cash and cash equivalents		**(10,372)**	16,547
Cash and cash equivalents at beginning of year		**20,343**	3,857
Effect of foreign exchange rate changes		**(483)**	(61)
Cash and cash equivalents at end of year		**9,488**	20,343

Notes to the consolidated financial statements

For the year ended 30 April 2018

1. GENERAL INFORMATION

Kromek Group plc is a company incorporated and domiciled in the United Kingdom under the Companies Act. These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out in note 3.

The Group's financial information has been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and on a basis consistent with that adopted in the previous year.

2. ADOPTION OF NEW AND REVISED STANDARDS

The Group has adopted all amendments to standards with an effective date relevant to this year end with no material impact on its results, assets or liabilities. All other accounting policies have been applied consistently.

Standards not affecting the reported results nor the financial position

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases, had not yet been adopted by the EU):

- IFRS 9 "Financial Instruments" will supersede IAS 39 "Financial Instruments – Recognition and Measurement" and is effective for annual periods beginning on or after 1 January 2018. IFRS 9 covers classification and measurement of financial assets and financial liabilities, impairment of financial assets and hedge accounting.
- IFRS 15 "Revenue from Contracts with Customers" provides a single model for accounting for revenue arising from contracts with customers, focusing on the identification and satisfaction of performance obligations, and is effective for annual periods beginning on or after 1 January 2018. IFRS 15 will supersede IAS 18 "Revenue" IAS 11 Construction Contracts.
- IFRS 16 "Leases" provides a new model for lessee accounting in which all leases, other than short-term and small-ticket item leases, will be accounted for by the recognition on the balance sheet of a right-to-use asset and a lease liability, and the subsequent amortisation of the right-to-use asset over the lease term. IFRS 16 will be effective for annual periods beginning on or after 1 January 2019.

The Directors have considered the impact of IFRS 9 and IFRS 15 and conclude that these new standards are not expected to have a significant impact on the accounts when adopted. With regard to IFRS 9, the only area considered of key relevance relates to provisions in respect of trade receivables. Given Group's approach to provisions for doubtful or bad debts the Directors consider that no further analysis will be required. On the matter of IFRS 15, the Group has undertaken a full review of all current revenue streams and contracts and concluded that none of them will require any significant change in measure under the new standard.

The Directors continue to assess the impact of IFRS 16 Leases before it is implemented for periods beginning on or after 1 January 2019. The Group currently has property lease agreements in place for its main sites of business in the UK (Sedgefield and Huddersfield) and in the US (Pittsburgh, PA and Riverside, CA) which are currently accounted for as operating leases. These property leases typically span periods of between 2-20 years. The adoption of the standard will have a material impact on the balance sheet of the Group when recognising the property asset and the present value of future lease payments. There are no other significant leases in the Group other than these property leases. The Group will be able to give a quantification of the impact of IFRS 16 by the end of 2019.

We continue to evaluate the impacts of these new standards as we progress through our project for transition and there remains a risk that the final outcome may be different once that project is completed and the standards are adopted.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The Group financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRSs") and IFRIC interpretations.

The financial statements have been prepared on the historical cost basis modified for assets recognised at fair value on acquisition. Historical cost is generally based on the fair value of the consideration given in exchange for the assets. The principal accounting policies adopted are set out below.

During the year, following a review, the Directors identified that the capital of the Group and Company differed from each other. On investigation, it was identified that the difference arose from the accounting entries made as part of the Group reconstruction in the year ended 30 April 2014. On further investigation, it was noted that a number of capital entries related to the former 'topco', Kromek Limited, had been included within the capital of the Group. This included a capital redemption reserve of £1,175,000 and share premium of £20,678,000. These capital entries have been removed and replaced with a merger reserve of £21,853,000 to reflect the difference between the capital of the Company and the book value of the net assets recognised as at the date of the Group reconstruction. These adjustments did not have an impact on the net assets or loss of the Group. See note 1 in the Company accounts for an associated adjustment that has been made to the prior period Company balance sheet.

Basis of consolidation

The consolidated financial statements incorporate the results and net assets of the Group and entities controlled by the Group (its subsidiaries) made up to 30 April each year. Control is achieved where the Group has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to results of subsidiaries

Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Basis of consolidation (continued)

to bring the accounting policies used into line with those used by the Group. All intra-group transactions, balances, income and expenses, and profits are eliminated on consolidation.

Going concern

As at 30 April 2018, the Group had net assets of £40.3m (2017: £42.2m) and cash and cash equivalents of £9.5m (2017: £20.3m) including £3m (2017: £3m) drawn down on the Group's Revolving Credit Facility as set out in the consolidated statement of financial position. The Directors have prepared detailed forecasts of the Group's financial performance over the next five years. As a result of this review, which incorporated sensitivities and risk analysis, the Directors believe that the Group has sufficient resources and working capital to meet their present and foreseeable obligations for a period of at least twelve months from approval of these financial statements. Accordingly, they continue to adopt the going concern basis in preparing the Group financial statements.

Business combinations

The Group financial statements consolidate those of the Company and its subsidiary undertakings. Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The financial information of subsidiaries is included from the date that control commences until the date that control ceases. Intra-Group balances and transactions, and any unrealised income and expenses arising from intra-Group transactions, are eliminated in preparing the consolidated financial information.

Acquisitions on or after 1 May 2010

For acquisitions on or after 1 May 2010, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, the negative goodwill is recognised immediately in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortised but is reviewed for impairment at least annually. 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. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. 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.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes and comprises:

i) Sale of goods and services

The Group's income derives from the sale of goods to primarily OEM customers and from the research and development contracts which are typically with government agencies, such as Innovate in the UK, DARPA and DNDO in the US. Revenue on product sales is recognised when the risk and reward of ownership pass to the customer, the amount can be measured reliably, and it is probable that future economic benefits will flow to the Company. The terms of sale are agreed with each customer on an individual basis, which are generally under FCA INCOTERMS. Revenue from research and development contracts is recognised as revenue in the accounting period in which the milestones are achieved which reasonably reflects the stage of completion of the contract.

ii) Revenue from grants

Revenue from grants is recognised when the costs relating to the project activity have been incurred, the customer is in agreement with the expenses which are being claimed as grant revenue, and subsequent invoices have been issued to the customers.

Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

iii) Long-term contracts

The Group accounts for long-term contracts under IAS 11, and reflects revenue by reference to the stage of completion of the contract activity at the statement of financial position date. Revenue and profits are determined by estimating the outcome of the contract and determining the costs and profit attributable to the stage of completion. Any expected contract loss is recognised immediately. Revenue that has been recognised in the income statement but remain unbilled at the date of the statement of financial position are included as amounts recoverable on contract.

iv) Interest revenue

Interest income is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other payables. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate of interest costs charged to the income statement on the outstanding balance.

Foreign currencies

The individual results of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in pound sterling, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements. The Directors have applied IAS 21 The Effects of Changes in Foreign Exchange Rates and have come to the conclusion that the inter-company loans held by Kromek Limited, substantially form part of the net investment in Kromek USA, and so any gain or loss arising on the inter-company loan balances are recognised as other comprehensive income in the period.

In preparing the results of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each statement of financial position date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the statement of financial position date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity.

On consolidation, the results of overseas operations are translated into Sterling at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations, including goodwill arising on the acquisition of those operations, are translated at the rate ruling at the statement of financial position date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised directly in other comprehensive income and are credited/(debited) to the retranslation reserve.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants towards job creation and growth (RGF) costs are recognised as income over the periods necessary to match them with the related costs of creating those jobs.

Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Operating result
Operating loss is stated as loss before tax, finance income and costs.

Retirement benefit costs
The Group operates a defined contribution pension scheme for employees.

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. For these schemes the assets of the schemes are held separately from those of the Group in independently administered funds. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

Taxation
The tax expense represents the sum of the tax currently payable and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. The R&D tax credit is calculated using the current rules as set out by HMRC and is recognised in the income statement during the period in which the R&D programmes occurred.

i) Current tax
The tax credit is based on taxable loss for the year. Taxable loss differs from net loss as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the statement of financial position date.

ii) Deferred tax
Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the Consolidated Statement of Financial Position and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the statement of financial position date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis

Property, plant and equipment
Fixtures and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is recognised so as to write off the cost or valuation of assets (other than land and properties under construction) less their residual values over their useful lives, using the straight-line method, on the following bases:

Plant and machinery	6% to 25%
Fixtures, fittings and equipment	15%
Computer equipment	25%

The gain or loss arising on the disposal or scrappage of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

Internally-generated intangible assets – research and development expenditure
Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the Group's product development is recognised only if all of the following conditions are met:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;

Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Internally-generated intangible assets – research and development expenditure (continued)

- its intention to complete the intangible asset and use or sell it;
- its ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Research expenditure is written off as incurred. Development expenditure is also written off, except where the Directors are satisfied as to the technical, commercial and financial viability of individual projects. In such cases, the identifiable expenditure is deferred and amortised over the period during which the Group is expected to benefit. This period normally equates to the life of the products the development expenditure relates to. Where expenditure relates to developments for use rather than direct sales of product the cost is amortised straight-line over a 2-15-year period. Provision is made for any impairment.

Amortisation of the intangible assets recognised on the acquisitions of NOVA R&D, Inc. and eV Products, Inc. are recognised in the income statement on a straight-line basis over their estimated useful lives of between five and fifteen years.

Patents and trademarks

Patents and trademarks are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives.

Impairment of tangible and intangible assets excluding goodwill

At each statement of financial position date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash generating unit (CGU) to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

An intangible asset with an indefinite useful life is tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or CGU) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs comprise direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated in the statement of financial position at standard cost, which approximates to historical cost determined on a first in, first out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Work in progress costs are taken as production costs, which include an appropriate proportion of attributable overheads.

Provision is made for obsolete, slow moving or defective items where appropriate. Items which have not shown activity for between 12-18 months will be provided for at a rate of 50%, and those which have not shown activity in 18 months or longer will be provided for at a rate of 100% after consideration is given to the full or residual value where appropriate. Given the nature of the products and the gestation period of the technology, commercial rationale necessitates that this provision is reviewed on a case by case basis.

Provisions for liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Such provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the

Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Provisions for liabilities (continued)
balance sheet date. The discount rate used to determine the present value reflects current market assessments of the time value of money. Provisions are not recognised for future operating losses.

Financial instruments
Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

i) Financial assets
All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified category: 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. The Group held no fair value through profit and loss ("FVTPL"), available for sale ("AFS") or held-to-maturity ("HTM") financial assets during the period.

ii) Loans and receivables
Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

The Group interacts with other technology-based companies to obtain market penetration for its products. These arrangements initially require funding to allow for marketing of the Group's products, with longer lead times for sale. As a consequence, the terms with these customers are not always on normal payment terms (30 to 60 days), and management confirm that it could take longer before recoverability of the cash on these sales.

iii) Impairment of financial assets
Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each statement of financial position date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

iv) Derecognition of financial assets
The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received

v) Financial liabilities and equity
Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

vi) Equity instruments
An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

vii) Financial liabilities
Financial liabilities are classified as 'other financial liabilities'. The Group held no financial liabilities that would be classified as FVTPL.

viii) Other financial liabilities
Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate method is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

ix) Derecognition of financial liabilities
The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Share-based payments
Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date and spread over the period during which the employees become unconditionally entitled to the options, which is based on a period of employment of three years from grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 33.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. The vesting date is determined based on the date an employee is granted options, usually three years from date of grant. At each statement of financial position date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves.

Cash
Cash, for the purposes of the statement of cash flows, comprises cash in hand and deposits repayable on demand, less overdrafts repayable on demand.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the Group's accounting policies
The following are the critical judgements that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Development costs
As described in note 3, the Group expenditure on development activities is capitalised if it meets the criteria as per IAS 38. Initial capitalisation of costs is based on management's judgement that technological and economic feasibility is assessed, usually when a product development project has reached a defined milestone.

The recoverability of the development costs are assessed on an annual basis using the latest forecasts and management expectations regarding the markets in which the Group operates in. Where the recoverable amount is deemed less than the currently carrying value of the development cost a provision is made for any impairment. Where no internally-generated intangible asset can be recognised, development expenditure is expensed in the period in which it is incurred.

Impairment of other non-financial assets
The Group assesses whether there are any indicators of impairment as at the transition date and thereafter for all non-financial assets at each reporting date. Goodwill is tested for impairment annually and at other times when such indicators exist, such as negative cash flows and operating losses of subsidiaries. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Recoverability of receivables
As disclosed in note 3, in order to obtain market penetration through technology-based customers, the Group recognises that normal payment terms from these customers may not be adhered to when assessing recoverability of receivables. Management have judged the recoverability at the balance sheet date and provided where appropriate.

Key sources of estimation uncertainty
The key assumptions concerning the future, and other key sources of estimation uncertainty at the statement of financial position date, 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.

i) Development costs
As disclosed in note 16, Development costs are capitalised in accordance with the accounting policy noted above. These capitalised assets are amortised over the period during which the Group is expected to benefit. This period normally equates to the life of the products the development expenditure relates to. Where expenditure relates to developments for use rather than direct sales of product the cost is amortised over a 15-year period.

Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2018

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(CONTINUED)*

Key sources of estimation uncertainty *(continued)*

ii) Contract revenue

This policy requires forecasts to be made of the outcomes of long-term contracts, which include assessments and judgements on changes in expected costs. A change in the estimate of total forecast contract costs would impact the stage of completion of those contracts and the level of revenue recognised thereon which could have a material impact on the results of the Group.

iii) R&D tax credit

The R&D tax credit is calculated using the current rules as prescribed by HMRC. The estimation is based on the actual UK R&D projects that qualify for the scheme that have been carried out in the period. Management form an estimation of the tax credit on a prudent basis and then obtain additional professional input from the current tax providers prior to submission of the claim to HMRC

5. REVENUE

An analysis of the Group's revenue is as follows:

	2018 £'000	2017 £'000
Continuing operations		
Sales of goods and other services	**5,399**	6,676
Revenue from grants	**1,024**	74
Revenue from contract customers	**5,422**	2,218
Total revenue	**11,845**	8,968
Grant income	**-**	(15)
Other income	**-**	-
Total income	**11,845**	8,953

6. OPERATING SEGMENTS

Products and services from which reportable segments derive their revenues

For management purposes, the Group is organised into two geographical business units (USA and UK) and it is on these operating segments that the Group is providing disclosure.

Both business units focus on the three key markets of the Group (Medical Imaging, Nuclear detection and Security Screening). Typically, the USA business unit focuses on Medical Imaging and the UK on Nuclear detection and Security Screening. However, this arrangement is flexible and can vary based on the geographical location of the Group's customer.

The chief operating decision maker is the Board of Directors who assess performance of the segments using the following key performances indicators: revenues, gross profit and operating profit. The amounts provided to the Board with respect to assets and liabilities are measured in a way consistent with the Financial Statements.

The turnover, profit on ordinary activities and net assets of the Group are attributable to one business segment, i.e. the development of digital colour X-ray imaging enabling direct materials identification, as well as developing a number of detection products in the industrial and consumer markets.

Analysis by geographical area

A geographical analysis of the Group's revenue by destination is as follows:

	2018 £'000	2017 £'000
United Kingdom	**1,253**	931
North America	**3,547**	4,455
Asia	**6,080**	3,276
Europe	**949**	296
Australasia	**16**	10
Total revenue	**11,845**	8,968

Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2018

6. OPERATING SEGMENTS *(CONTINUED)*

A geographical analysis of the Group's revenue by origin is as follows:

Year ended 30 April 2018

	UK Operations £'000	US Operations £'000	**Total for Group £'000**
Revenue from sales			
Revenue by segment:			
-Sale of goods and services	2,914	5,585	**8,499**
-Revenue from grants	1,024	-	**1,024**
-Revenue from contract customers	129	5,293	**5,422**
Total sales by segment	4,067	10,878	**14,945**
Removal of inter-segment sales	(940)	(2,160)	**(3,100)**
Total external sales	3,127	8,718	**11,845**
Segment result – operating (loss)/profit	(3,955)	1,614	**(2,341)**
Interest received	35	-	**35**
Interest expense	(227)	-	**(227)**
(Loss)/profit before tax	(4,147)	1,614	**(2,533)**
Tax credit	1,429	-	**1,429**
(Loss)/profit for the year	(2,718)	1,614	**(1,104)**
Reconciliation to EBITDA:			
Net interest	192	-	**192**
Other operating income	-	-	**-**
Tax	(1,429)	-	**(1,429)**
Depreciation of PPE	307	478	**785**
Amortisation	1,132	775	**1,907**
Non-recurring other income	-	-	**-**
Share-based payment charge	111	20	**131**
EBITDA	(2,405)	2,887	**482**
Other segment information			
Property, plant and equipment additions	17	83	**100**
Depreciation of PPE	307	478	**785**
Intangible asset additions	790	3,300	**4,090**
Amortisation of intangible assets	1,132	775	**1,907**
Statement of financial position			
Total assets	26,975	20,205	**47,180**
Total liabilities	(5,503)	(1,421)	**(6,924)**

Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2018

6. OPERATING SEGMENTS *(CONTINUED)*

Year ended 30 April 2017

	UK Operations £'000	US Operations £'000	**Total for Group £'000**
Revenue from sales			
Revenue by segment:			
-Sale of goods and services	4,515	3,794	**8,309**
-Revenue from grants	74	-	**74**
-Revenue from contract customers	349	1,869	**2,218**
Total sales by segment	4,938	5,663	**10,601**
Removal of inter-segment sales	(494)	(1,139)	**(1,633)**
Total external sales	4,444	4,524	**8,968**
Segment result – operating loss	(1,727)	(2,027)	**(3,754)**
Interest received	5	-	**5**
Interest expense	(45)	-	**(45)**
Loss before tax	(1,767)	(2,027)	**(3,794)**
Tax credit	710	-	**710**
Loss for the year	(1,057)	(2,027)	**(3,084)**
Reconciliation to EBITDA:			
Net interest	40	-	**40**
Other operating income	15	-	**15**
Tax	(710)	-	**(710)**
Depreciation of PPE	324	438	**762**
Amortisation	923	494	**1,417**
Non-recurring other income	-	-	**-**
Share-based payment charge	48	51	**99**
EBITDA	(417)	(1,044)	**(1,461)**
Other segment information			
Property, plant and equipment additions	107	154	**261**
Depreciation of PPE	324	437	**761**
Intangible asset additions	2,051	2,456	**4,507**
Amortisation of intangible assets	923	494	**1,417**
Statement of financial position			
Total assets	35,993	13,952	**49,945**
Total liabilities	(6,428)	(1,308)	**(7,736)**

Inter-segment sales are charged on an arms-length basis.

No other additions of non-current assets have been recognised during the year other than property, plant and equipment, and intangible assets.

No impairment losses were recognised in respect of property, plant and equipment and intangible assets including goodwill.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment (loss) represents the (loss) earned by each segment. This is the measure reported to the Group's Chief Executive for the purpose of resource allocation and assessment of segment performance.

Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2018

6. OPERATING SEGMENTS *(CONTINUED)*

Revenues from major products and services

The Group's revenues from its major products and services were as follows:

	2018 £'000	2017 £'000
Product revenue	**9,611**	6,671
Research and development revenue	**2,234**	2,297
Consolidated revenue	**11,845**	8,968

Information about major customers

Included in revenues arising from USA operations are revenues of approximately £4,773k (2017: £1,869k) which arose from the Group's largest customer (2017: major customer). Included in revenues arising from UK operations are revenues of approximately £1,265k (2017: £2,925k) which arose from a major customer (2017: largest customer).

7. LOSS BEFORE TAX FOR THE YEAR

Loss before tax for the year has been arrived at after (crediting)/charging:

	2018 £'000	2017 £'000
Net foreign exchange (gains)/losses	**(593)**	(792)
Research and development costs recognised as an expense	**4,015**	3,520
Depreciation of property, plant and equipment	**785**	762
Amortisation of internally-generated intangible assets	**1,907**	1,417
Cost of inventories recognised as expense	**4,672**	4,534
Staff costs (see note 9)	**6,642**	6,638

8. AUDITOR'S REMUNERATION

The analysis of the auditor's remuneration is as follows:

	2018 £'000	2017 £'000
Fees payable to the Company's auditor and their associates for other services to the Group		
–The audit of the Company and its subsidiaries	**55**	56
Total audit fees	**55**	56
- Taxation and other services	**33**	2
Total non-audit fees	**33**	2
Total	**88**	58

Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2018

9. STAFF COSTS

The average monthly number of employees (excluding non-executive directors) was:

	2018 Number	2017 Number
Directors (executive)	**2**	2
Research and development, production	**89**	88
Sales and marketing	**6**	7
Administration	**11**	12
	108	109

Their aggregate remuneration comprised:

	2018 £'000	2017 £'000
Wages and salaries	**5,662**	5,592
Social security costs	**504**	526
Pension scheme contributions	**345**	421
Share based payments	**131**	99
	6,642	6,638

The total Directors' emoluments (including non-executive directors) was £744k (2017: £616k). The aggregate value of contributions paid to money purchase pension schemes was £20k (2017: £63k) in respect of two directors (2017: two directors).

The highest paid director received emoluments of £346k (2017: £235k) and amounts paid to money purchase pension schemes was £10k (2017: £10k).

Key management compensation:

	2018 £'000	2017 £'000
Wages and salaries and other short-term benefits	**1,307**	1,047
Social security costs	**258**	187
Pension scheme contributions	**57**	134
Share based payment expense	**97**	81
	1,719	1,449

Key management comprise the Executive Directors and senior operational staff.

10. FINANCE INCOME

	2018 £'000	2017 £'000
Bank deposits	**35**	5
Total finance income	**35**	5

Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2018

11. FINANCE COSTS

	2018 £'000	2017 £'000
Interest on bank overdrafts, loans and borrowings	**227**	45
Total interest expense	**227**	45

12. TAX

Recognised in the income statement

	2018 £'000	2017 £'000
Current tax credit:		
UK corporation tax on losses in the year	**1,167**	596
Adjustment in respect of previous periods	**262**	114
Foreign taxes paid	**-**	-
Total current tax	**1,429**	710
Deferred tax:		
Origination and reversal of timing differences	**-**	-
Adjustment in respect of previous periods	**-**	-
Total deferred tax	**-**	-
Total tax credit in income statement	**1,429**	710

Corporation tax is calculated at 19% (2017: 19.9%) of estimated taxable loss for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Reconciliation of tax credit

The charge for the year can be reconciled to the profit in the income statement as follows:

	2018 £'000	2017 £'000
Loss before tax	**2,533**	3,794
Tax at the UK corporation tax rate of 19% (2017: 19.918%)	**481**	755
Expenses not deductible for tax purposes	**115**	(29)
Effect of R&D	**879**	833
Rate differences effect of R&D	**-**	-
Share scheme deduction under Part 12 CTA 2009	**64**	89
Unrecognised movement on deferred tax	**(305)**	(71)
Effects of other tax rates/credits	**-**	-
Effects of overseas tax rates	**-**	-
Adjustment in respect of previous periods	**262**	114
Unrelieved tax losses arising in the period	**10**	(897)
Fixed asset timing differences	**(77)**	(84)
Total tax credit for the year	**1,429**	710

Further details of deferred tax are given in note 22. There are no tax items charged to other comprehensive income.

Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2018

12. TAX *(CONTINUED)*

Reconciliation of tax credit *(continued)*
The rate of corporation tax for the year is 19% (2017: 19.92%). Finance (No.2) Act 2015 reduced the rate from 19% to 18% (with effect from 1 April 2020). The 2020 rate was further reduced to 17% by Finance Act 2016. Accordingly, deferred tax has been provided in line with the rates at which temporary differences are expected to reverse. There is a potential deferred tax asset on excess tax deductions arising from share-based payments on exercise of share options of £46k (2017: £168k). The asset has not been recognised as it is not considered probable that there will be future profits available.

The other tax jurisdiction that the Group currently operates in is the US. Any deferred tax arising from the US operations is calculated at 26% which represents the revised rate of 21% following recent tax reform in the US (plus an allowance for state taxes at 5%). The recent tax reform that has taken place in the US over the last 12 months is not expected to have a significant impact.

13. DIVIDENDS

The Directors do not recommend the payment of a dividend (2017: £nil).

14. LOSSES PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

Losses

	2018 £'000	2017 £'000
Losses for the purposes of basic and diluted losses per share being net losses attributable to owners of the Group	**(1,104)**	(3,084)

Number of shares	**2018 Number**	2017 Number
Weighted average number of ordinary shares for the purposes of basic losses per share	**260,161,744**	174,572,586
Effect of dilutive potential ordinary shares:		
Share options	**2,606,464**	3,564,858
Weighted average number of ordinary shares for the purposes of diluted losses per share	**262,768,208**	178,137,444

	2018	2017
Basic (p)	**(0.4)**	(1.8)
Diluted (p)	**(0.4)**	(1.8)

Due to the Group having losses in each of the years, the fully diluted loss per share for disclosure purposes, as shown in the income statement, is the same as for the basic loss per share.

Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2018

15. GOODWILL

	£'000
Cost	
At 1 May 2017	1,275
At 30 April 2018	1,275
Accumulated impairment losses	
At 1 May 2017	-
At 30 April 2018	-
Carrying amount	
At 30 April 2018	**1,275**
At 30 April 2017	1,275

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. Before recognition of impairment losses, the carrying amount of goodwill had been allocated as follows:

	2018 £'000	2017 £'000
US operations	**1,275**	1,275

The goodwill arose on the acquisition of NOVA R&D, Inc. in 2010, and represents the excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired.

Goodwill has been allocated to Kromek USA (a combination of eV Products and NOVA R&D Inc.) as a cash generating unit (CGU). This is reported in note 6 within the segmental analysis of the US operations.

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired, by comparing the net book value of the goodwill and non-current assets for the CGU to its value in use on a discounted cash flow basis.

The recoverable amount has been determined on a value in use basis on each cash-generating unit using the management approved 10 year forecasts for each cash-generating unit. The base 10-year projection is year-on-year growth over the next 10 years, with overheads remaining relatively stable. The annual growth rate of the CGU for the next 10 years is expected to be 70%. These cash flows are then discounted at the Company's weighted average cost of capital of 12.37% (2017: 11.42%).

Based on the results of the current year impairment review, no impairment charges have been recognised by the Group in the year ended 30 April 2018 (2017: £nil). Management have considered various sensitivity analyses in order to appropriately evaluate the carrying value of goodwill.

Having assessed the anticipated future cash flows the Directors do not consider there to be any reasonably possible changes in assumptions that would lead to such an impairment charge in the year ended 30 April 2018. For illustrative purposes, a compound reduction in revenue of 10% in each of years 1-10 whilst holding overheads constant would not affect the conclusion of the review.

The Directors have reviewed the recoverable amount of the CGU and do not consider there to be any impairment in 2018 or 2017.

Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2018

16. OTHER INTANGIBLE ASSETS

	Development costs £'000	Patents, trademarks & other intangibles £'000	**Total £'000**
Cost			
At 1 May 2017	12,940	6,285	**19,225**
Additions	3,449	641	**4,090**
Exchange differences	(456)	(141)	**(597)**
At 30 April 2017	**15,933**	**6,785**	**22,718**
Amortisation			
At 1 May 2017	1,317	3,084	**4,401**
Charge for the year	1,218	689	**1,907**
Exchange differences	(26)	(119)	**(145)**
At 30 April 2018	**2,509**	**3,654**	**6,163**
Carrying amount			
At 30 April 2018	**13,424**	**3,131**	**16,555**
At 30 April 2017	11,623	3,201	14,824

The Group amortise the capitalised development costs on a straight-line basis over a period of 2-15 years rather than against product sales directly relating to the development expenditure. Provision is made for any impairment.

Patents and trademarks are amortised over their estimated useful lives, which is on average 10 years.

The carrying amounts of the acquired intangible assets arising on the acquisitions of NOVA R&D, Inc. and eV Products, Inc. as at the 30 April 2018 was £1,067k (2017: £1,521k), with amortisation to be charged over the remaining useful lives of these assets which is between 3 and 13 years.

The amortisation charge on intangible assets is included in administrative expenses in the consolidated income statement.

Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2018

17. PROPERTY, PLANT AND EQUIPMENT

	Computer Equipment £'000	Plant and machinery £'000	Fixtures and fittings £'000	**Total £'000**
Cost or valuation				
At 1 May 2017	848	7,897	222	8,967
Additions	99	133	40	272
Disposals	-	-	(1)	(1)
Exchange differences	(15)	(191)	(10)	(216)
At 30 April 2018	**932**	**7,839**	**251**	**9,022**
Accumulated depreciation and impairment				
At 1 May 2017	617	4,488	164	5,269
Charge for the year	101	662	22	785
Eliminated on disposal	-	–	(1)	(1)
Exchange differences	(8)	(118)	(2)	(128)
At 30 April 2018	**710**	**5,032**	**183**	**5,925**
Carrying amount				
At 30 April 2018	**222**	**2,807**	**68**	**3,097**
At 30 April 2017	231	3,409	58	3,698

Assets held under finance leases with a net book value of nil (2017: £40k) are included in the above table within plant and machinery.

18. SUBSIDIARIES

A list of the subsidiaries, including the name, country of incorporation, and proportion of ownership interest is given in note 3 to the Company's separate financial statements.

19. INVENTORIES

	2018 £'000	2017 £'000
Raw materials	**1,093**	1,846
Work-in-progress	**1,488**	1,132
Finished goods	**433**	226
	3,014	3,204

The cost of inventories recognised as an expense during the year in respect of continuing operations was £4,672k (2017: £4,534k).

The write-down of inventories to net realisable value amounted to £235k (2017: nil). The reversal of write-downs amounted to nil (2017: £2k). The partial release of the write-downs was because of a revised estimate of the net realisable value of certain inventory lines based upon actual sales made of the inventory during the period.

Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2018

20. AMOUNTS RECOVERABLE ON CONTRACTS

	2018 £'000	2017 £'000
Contracts in progress at the balance sheet date:		
Amounts due from contract customers included in trade and other receivables	**7,556**	3,139
	7,556	3,139
Contract costs incurred plus recognised profits less recognised losses to date	**8,062**	3,139
Less: progress billings	**(506)**	-
	7,556	3,139

21. TRADE AND OTHER RECEIVABLES

	2018 £'000	2017 £'000
Amount receivable for the sale of goods	**3,245**	2,304
Amounts recoverable on contracts (see note 20)	**7,556**	3,139
Other receivables	**200**	183
Prepayments	**333**	379
Current tax assets	**1,167**	596
	12,501	6,601

Amount receivable for the sale of goods
Trade receivables disclosed above are classified as loans and receivables and are therefore measured at amortised cost. The average credit period taken on sales of goods is 54 days. The Group initially recognises an allowance for doubtful debts of 100% against receivables over 120 days. However, this is subject to management override where there is evidence of recoverability, most notably, where specific support is being provided to strategic partners in the marketing of new products.

Before accepting any new customer, the Group uses an external credit scoring system to assess the potential customer's credit quality and defines credit limits by customer.

The Group does not hold any collateral or other credit enhancements over any of its trade receivables, with the exception of stock recovered from customers in respect of the doubtful debts disclosed below.

Ageing of past due but not impaired receivables at the statement of financial position date was:

	2018 £'000	2017 £'000
31-60 days	**114**	50
61-90 days	**58**	12
91-120 days	**-**	15
121+ days	**876**	48
Total	**1,408**	125

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date.

The Directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value.

Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2018

21. TRADE AND OTHER RECEIVABLES *(CONTINUED)*

Ageing of impaired receivables at the statement of financial position date was:

	2018 £'000	2017 £'000
31-60 days	**-**	-
61-90 days	**-**	-
91-120 days	**-**	-
121+ days	**303**	667
Total	**303**	667

Of the £303k of debtors at 121+ days a cumulative full provision totalling £303k for doubtful debts has been made at 30 April 2018 as noted below.

At 30 April 2018, trade receivables are shown net of an allowance for doubtful debts of £303k (2017: £435k) arising from the ordinary course of business, as follows:

	2018 £'000	2017 £'000
Balance at 1 May 2017	**435**	408
Provided during the year	**32**	-
(Released) during the year	**(155)**	-
Impact of foreign exchange	**(9)**	28
Balance at 30 April 2018	**303**	436

The doubtful debt provision records impairment losses unless the Group is satisfied that no recovery of the amount owing is possible, at which point the amounts considered irrecoverable are written off against the trade receivables directly.

Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2018

22. DEFERRED TAX LIABILITIES

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting period.

	Fair value revaluation of acquired intangibles £'000	Accelerated capital allowances £'000	Short term timing differences £'000	Tax losses £'000	**Total £'000**
At 1 May 2017	1,073	873	(16)	(1,930)	**-**
(Credit)/charge to profit or loss	(350)	(29)	(11)	390	**-**
At 30 April 2018	**723**	**844**	**(27)**	**(1,540)**	**-**

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2018 £'000	2017 £'000
Deferred tax liabilities	**1,540**	1,930
Deferred tax assets	**(1,540)**	(1,930)
	-	-

At the statement of financial position date, the Group has unused tax losses of £21,786k (2017: £20,991k) available for offset against future profits. A deferred tax asset has been recognised in respect of £6,763k (2017: £6,763k) of such losses. The asset is considered recoverable because it can be offset to reduce future tax liabilities arising in the Group. No deferred tax asset has been recognised in respect of the remaining £15,023k (2017: £14,228k) as it is not considered probable that there will be future taxable profits available. All losses may be carried forward indefinitely subject to a significant change in the nature of the Group's trade with US losses having a maximum life of 20 years.

23. TRADE AND OTHER PAYABLES

	2018 £'000	2017 £'000
Trade payables and accruals	**3,490**	3,557
Deferred income	**10**	1,010
	3,500	4,567

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 49 days. For all suppliers, no interest is charged on the trade payables. The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

Deferred income relates to government grants received which have been deferred until the conditions attached to the grants are met.

The Directors consider that the carrying amount of trade payables approximates to their fair value.

Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2018

24. PROVISIONS FOR LIABILITIES

	2018 £'000	2017 £'000
At 1 May	**169**	-
Charge to profit or loss	**269**	169
Impact of foreign exchange	**(14)**	-
At 30 April	**424**	169

During the prior year, the Company was given notice on one of its sites. The site's delapidations provision reflects management's best estimates and ability to measure the likely costs that may be incurred restoring the building back to its original state. An onerous lease provision has been recognised in the current year. Given that both provisions are expected to be settled in the next 12-18 months, the impact of discounting the provision would be immaterial.

25. BORROWINGS

	2018 £'000	2017 £'000
Secured borrowing at amortised cost		
Revolving credit facility	**3,000**	3,000
Finance lease liabilities	**-**	-
	3,000	3,000
Total borrowings		
Amount due for settlement within 12 months	**3,000**	3,000
Amount due for settlement after 12 months	**-**	-

In February 2017, the Group agreed a 24-month facility with its bank for a £3m revolving credit facility. This facility is secured by a debenture and a composite guarantee across the Group. The terms of the revolving credit facility are a nominal interest rate of LIBOR+2.5% and a repayment term of six months from date of drawdown. The fair value equates to the carrying value.

The borrowings are secured by a floating charge over the Group's assets.

Finance lease liabilities are secured by the assets leased. The borrowings are at a fixed interest rate with repayment periods not exceeding five years.

The weighted average interest rates paid during the year were as follows:

	2018 %	2017 %
Revolving credit facility	**3.10**	3.10
Finance lease liabilities	**0.82**	0.82

Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2018

26. DERIVATIVES FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

At 30 April 2018 and 30 April 2017, the Group had no derivatives in place for cash flow hedging purposes.

27. SHARE CAPITAL

	2018 £'000	2017 £'000
Allotted, called up and fully paid:		
259,095,618 (2017: 152,211,082) Ordinary shares of £0.01 each	**2,591**	1,522
1,300,000 (2017: 106,884,536) Ordinary shares issued at £0.01 each	**13**	1,069
Total 260,435,618 (2017: 259,095,618) Ordinary shares of £0.01 each	**2,604**	2,591

During the year 1,340,000 shares (2017:1,755,000) were allotted under EMI share option schemes.

28. SHARE PREMIUM ACCOUNT

	£'000
Balance at 1 May 2017 - As restated (see note 3)	45,592
Premium arising on issue of equity shares	33
Balance at 30 April 2018	**45,625**

29. TRANSLATION RESERVE

	£'000
Balance at 1 May 2017	757
Exchange differences on translating the net assets of foreign operations	(1,026)
Balance at 30 April 2018	(269)

Exchange differences relating to the translation of the net assets of the Group's foreign operations, which relate to subsidiaries only, from their functional currency into the parent's functional currency, being Sterling, are recognised directly in the translation reserve.

30. ACCUMULATED LOSSES

	£'000
Balance at 1 May 2017	(25,584)
Net loss for the year	(1,104)
Effect of share-based payment credit	131
Balance at 30 April 2018	**(26,557)**

Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2018

31. NOTES TO THE CASH FLOW STATEMENT

	2018 £'000	2017 £'000
Loss for the year	**(1,104)**	(3,084)
Adjustments for:		
Finance income	**(35)**	(5)
Finance costs	**227**	45
Income tax credit	**(1,429)**	(710)
Government grants credit	**-**	-
Depreciation of property, plant and equipment	**783**	762
Amortisation of intangible assets	**1,907**	1,417
Share-based payment expense	**131**	99
Operating cash flows before movements in working capital	**480**	(1,476)
(Increase)/decrease in inventories	**191**	(394)
(Increase) in receivables	**(5,330)**	(846)
(Decrease)/increase in payables	**(1,067)**	122
Increase in provisions	**255**	169
Cash used in operations	**(5,471)**	(2,425)
Income taxes received	**858**	925
Net cash used in operating activities	**(4,613)**	(1,500)

Cash and cash equivalents

	2018 £'000	2017 £'000
Cash and bank balances	**9,488**	20,343

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less, net of outstanding bank overdrafts. The carrying amount of these assets is approximately equal to their fair value.

Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2018

32. OPERATING LEASE ARRANGEMENTS

The Group as lessee

	2018 £'000	2017 £'000
Lease payments under operating leases recognised as an expense in the year	**625**	532

At the statement of financial position date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2018 £'000	2017 £'000
Within one year	**250**	528
In the second to fifth years inclusive	**156**	590
	406	1,118

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of 5 years.

At 30 April 2018 and 2017, the Group had no capital commitments or contingencies.

During June 2018, the key US operation took possession of the new custom-built premises for eV Products, located near Pittsburgh, Pennsylvania. This facility will be under a 20-year lease commencing from June 2018. As such, this lease is not included in the amounts above as at 30 April 2018.

33. SHARE BASED PAYMENTS

Equity-settled share option scheme

The Company has a share option scheme (EMI scheme) for all employees of the Group. Options are exercisable at a price equal to the average quoted market price of the Company's shares on the date of grant. The average vesting period is three years. If the options remain unexercised after a period of 10 years from the date of grant the options expire. Options are forfeited if the employee leaves the Group before the options vest.

Details of the share options outstanding during the year are as follows.

	2018 Number of share options	**2018 Weighted average exercise price (£)**	2017 Number of share options	2017 Weighted average exercise price (£)
Outstanding at beginning of the year	**10,514,870**	**0.16**	12,505,010	0.16
Granted during the year	**910,600**	**0.26**	142,400	0.30
Exercised during the year	**(1,340,000)**	**0.015**	(1,755,000)	0.015
Forfeited during the year	**(234,400)**	**0.27**	(377,540)	0.24
Outstanding at the end of the year	**9,851,070**	**0.17**	10,514,870	0.16
Exercisable at the end of the year	**8,500,570**	**0.17**	10,231,570	0.16

The weighted average share price at the date of exercise for share options exercised during the year was £0.015 (2017: £0.27). The options outstanding at 30 April 2018 had a weighted average exercise price of £0.17 (2017: £0.16) and a weighted average remaining contractual life of four years (2017: five years). The range of exercise prices for outstanding share options at 30 April 2018 was 1.5p to 79p (2017: 1.5p to 79p). In 2018, the aggregate of the estimated fair values of the options granted is £46k (2017: £15k). The inputs into the Black-Scholes model are as follows:

	2018	2017
Weighted average share price	**27p**	31p
Weighted average exercise price	**27p**	30p
Expected volatility	**31.14%**	36.42%
Expected life	**6 years**	6 years
Risk-free rate	**0.37**	0.46
Expected dividend yields	**0%**	0%

Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2018

33. SHARE BASED PAYMENTS *(CONTINUED)*

Equity-settled share option scheme *(continued)*

Expected volatility was determined by calculating the historical volatility of similar listed businesses over the previous three years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

The Kromek Group Plc 2013 Long Term Incentive Plan

On 10 October 2013, a new Long Term Incentive Plan was adopted. Under the plan, awards will be made annually to key employees. Subject to the satisfaction of the required TSR performance criteria, these grants will vest evenly over a three-year reporting period, with the first having ended on 30 April 2014, and the remainder on subsequent year end dates.

During January 2018, 1,443,829 (2017: 1,875,066) options were granted under the 2013 LTIP to a number of key employees, including two executive directors of the Group. The fair value of these options granted was £61k (2017: £79k). The amounts recognised as a share-based payment expense for the year ended 30 April 2018 was £20k (2017: £71k).

The 2013 Long Term Incentive Plan award was valued using the Monte Carlo pricing model. The inputs into the Monte Carlo pricing model are as follows:

	2018	2017
Weighted average share price	**22p**	22p
Weighted average exercise price	**1p**	1p
Expected volatility	**35.00%**	35.00%
Expected life	**3 years**	3 years
Risk-free rate	**0.32**	0.32
Expected dividend yields	**0%**	0%

During 2017/18, a new incentive award scheme was introduced for a number of key employees regarding an Average Valuation creation of the Company, referred to as the "VC". This has awarded key employees 8,007,162 options under the scheme. However, these options only vest after five years (at 1p per share) and are subject to challenging specific performance criteria over that period commencing 1 May 2017. The quantity of options that vest is weighted, such that the maximum amount only vests on achievement of all performance criteria.

The Group recognised total expenses of £131k (2017: £99k) related to all equity-settled share-based payment transactions. This is inclusive of both the equity settled share option scheme and the 2013 LTIP.

34. RETIREMENT BENEFIT SCHEMES

Defined contribution schemes

The Group operates defined contribution retirement benefit schemes for all employees. Where there are employees who leave the schemes prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

The employees of the Group's subsidiaries in the United States of America are members of a state-managed retirement benefit scheme operated by the government of the United States of America. The subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The total cost charged to income of £345k (2017: £421k) represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes. As at 30 April 2018, contributions of £23k (2017: £23k) due in respect of the current reporting period had not been paid over to the scheme.

35. FINANCIAL INSTRUMENTS

Financial Instruments

The Group's principal financial instruments are cash and trade receivables.

The Group has exposure to the following risks from its operations:

Capital risk

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy has remained unchanged between 2017 and 2018.

The capital structure of the Group consists of net debt, which includes the borrowings disclosed in note 25 after deducting cash and cash equivalents, and equity attributable to equity holders of the Company, comprising issued capital, reserves and accumulated losses as disclosed in notes 26 to 30.

The Group is not subject to any externally imposed capital requirements.

Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2018

35. FINANCIAL INSTRUMENTS *(CONTINUED)*

Capital risk (continued)
The Group's primary source of capital is equity. By pricing products and services commensurately with the level of risk and focusing on the effective collection of cash from customers, the Group aims to maximise revenues and operating cash flows.

Cash flow is further controlled by ongoing justification, monitoring and reporting of capital investment expenditures and regular monitoring and reporting of operating costs. Working capital fluctuations are managed through employing the revolving credit facility available, which at the year end was £3.0m (2017: £3.0m). Details of the revolving credit facility have been included in note 25.

The Group considers that the current capital structure will provide sufficient flexibility to ensure that appropriate investment can be made, if required, to implement and achieve the longer-term growth strategy of the Group.

Market risk
The Group may be affected by general market trends, which are unrelated to the performance of the Group itself. The Group's success will depend on market acceptance of the Group's products and there can be no guarantee that this acceptance will be forthcoming.

Market opportunities targeted by the Group may change and this could lead to an adverse effect upon its revenue and earnings.

Foreign currency risk
The Group's operations are split between the UK and the US, and as a result the Group incurs costs in currencies other than its presentational currency of pounds sterling. The Group also holds cash and cash equivalents in non-sterling denominated bank accounts.

The following table shows the denomination of the year end cash and cash equivalents balance:

	2018 £'000	2017 £'000
£ sterling	**8,847**	22,783
US$ sterling equivalent	**202**	(2,832)
€ sterling equivalent	**439**	393

Had the foreign exchange rate between sterling, US$ and € changed by 6% (2017: 11%), this would affect the loss for the year and net assets of the Group by £65k (2017: £208k). 6% (2017: 11%) is considered a reasonable assessment of foreign exchange movement as this has been the movement noted between 2017 and 2018 (2016 and 2017).

Credit risk
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group only transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available, and if not available, the Group uses other publicly available financial information and its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

Trade receivables consist of a small number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

The Group's standard credit terms are 30 to 60 days from date of invoice. Invoices greater than 60 days old are assessed as overdue. The maximum exposure to credit risk is the carrying value of each financial asset included on the statement of financial position as summarised in note 21.

The Group's management considers that all the above financial assets that are not impaired or past due for each of the reporting dates under review are of good quality.

Liquidity risk
Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has established an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.
The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. The contractual maturity is based on the earliest date on which the Group may be required to pay.

Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2018

35. FINANCIAL INSTRUMENTS *(CONTINUED)*

Liquidity risk *(continued)*

	Weighted average effective interest rate %	Less than 1 month £'000	1-3 months £'000	3 months to 1 year £'000	1-5 years £'000	5+ years £'000	**Total £'000**
Revolving credit facility 30 April 2017	3.1	-	-	3,000	-	-	**3,000**
Revolving credit facility 30 April 2018	3.1	-	-	3,000	-	-	**3,000**

Significant accounting policies

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the basis of measurement and the bases for recognition of income and expenses) for each class of financial asset, financial liability and equity instrument are disclosed in note 3.

Categories of financial instruments

	2018 £'000	2017 £'000
Financial assets		
Investment in money market accounts	**1,250**	-
Cash and bank balances	**9,488**	20,343
Loans and receivables	**11,001**	5,626
Financial liabilities		
Amortised cost	**(3,925)**	(4,736)

Fair Values of Financial Assets and Financial Liabilities

The following hierarchy classifies each class of financial asset or liability depending on the valuation technique applied in determining its fair value:

Level 1: The fair value is calculated based on quoted prices traded in active markets for identical assets of liabilities.

Level 2: The fair value is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The fair value of a financial instrument is the price that would be received to sell and asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Level 3: The fair value is based on inputs for the asset or liability that are not based on observable market data (unobservable inputs). In these financial statements, all of the above financial instruments are considered to be Level 2 in the fair value hierarchy. There have been no transfers between categories in the current or preceding year. The fair value of financial instruments held at fair value have been determined based on available market information at the balance sheet date of 30 April 2018.

36. RELATED PARTY TRANSACTIONS

Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its related parties are disclosed below.

During the year, the Group were charged a fee of nil (2017: £100k) from Polymer N2 Limited, as an equitable resolution relating to commitments at the time of the IPO in 2013. Polymer N2 Limited is a company under the control of the one of the Group's non-executive Directors and shareholder, Graeme Speirs. At 30 April 2018, the balance outstanding in respect of this fee was nil (2017: £100k) following payment on 24 May 2017.

Director's transactions

Other than those disclosed within this note and the shareholding transaction with directors noted in the Directors Report, there have been no other transactions with related parties.

Company statement of financial position

As at the year ended 30 April 2018

		2018 £'000	As restated* 2017 £'000
Non-current assets			
Investment in subsidiaries	3	**4,000**	4,000
Investment in money market account		**1,250**	-
		5,250	4,000
Current assets			
Trade and other receivables	5	**43,008**	38,828
Cash and cash equivalents		**1,778**	7,778
		44,786	46,606
Total assets		**50,036**	50,606
Current liabilities			
Trade and other payables	6	**(271)**	(352)
Borrowings	7	**(3,000)**	(3,000)
Total liabilities		**(3,271)**	(3,352)
Net assets		**46,765**	47,254
Equity			
Share capital	11	**2,604**	2,591
Share premium account	12	**42,625**	42,592
Merger reserve		**3,221**	3,221
Accumulated losses	13	**(1,685)**	(1,150)
Total Equity		**46,765**	47,254

The loss for the year was £535k (2017: loss £476k). *See note 1 for details of the restatement.

The financial statements of Kromek Group plc (registered number 08661469) were approved by the Board of Directors and authorised for issue on 29 June 2018. They were signed on its behalf by:

Dr Arnab Basu MBE

Chief Executive Officer

Company statement of changes in equity

For the year ended 30 April 2018

	Equity attributable to equity holders of the Company				
	Share capital £'000	Share premium account £'000	Merger reserve £'000	Accumulated losses £'000	**Total equity £'000**
Balance at 1 May 2016 (as reported)	**1,522**	**23,806**	**-**	**(674)**	**24,654**
Prior period adjustment (see note 1)	-	-	3,221	-	3,221
Balance at 1 May 2016 (as restated)	1,552	23,806	3,221	(674)	27,875
Loss for the year and total comprehensive losses for the year	-	-	-	(476)	(476)
Issue of share capital net of expenses	1,069	18,786	-	-	19,855
Balance at 30 April 2017 (as restated)	**2,591**	**42,592**	**3,221**	**(1,150)**	**47,254**
Loss for the year and total comprehensive loss for the year	-	-	-	(535)	(535)
Issue of share capital net of expenses	13	33	-	-	46
Balance at 30 April 2018	**2,604**	**42,625**	**3,221**	**(1,685)**	**46,765**

Company statement of cash flows

For the year ended 30 April 2018

		2018 £'000	2017 £'000
Net cash used in operating activities	10	**(577)**	(181)
Investing activities			
Investment in Money market account		**(1,250)**	-
Net cash used in investing activities		**(1,250)**	-
Financing activities			
Net proceeds from issue of share capital		**47**	19,855
Loans made to Group companies		**(4,144)**	(22,874)
Loans paid		**-**	-
Revolving credit facility		**-**	3,000
Net interest paid		**(76)**	(58)
Net cash from financing activities		**(4,173)**	(77)
Net decrease in cash and cash equivalents		**(6,000)**	(258)
Cash and cash equivalents at beginning of year		**7,778**	8,036
Cash and cash equivalents at end of year		**1,778**	7,778

Notes to the Company financial statements

For the year ended 30 April 2018

1. SIGNIFICANT ACCOUNTING POLICIES

The separate financial statements of the Company are presented as required by the Companies Act 2006. As permitted by that Act, the separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) adopted by the European Union.

The financial statements have been prepared on the historical cost basis except for the remeasurement of certain financial instruments to fair value. The principal accounting policies adopted are the same as those set out in note 3 to the consolidated financial statements except as noted below.

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

The Company's financial statements are included in the consolidated financial statements of Kromek Group plc. Accordingly, the Company has taken advantage of the exemption from publishing an income statement, and the losses for the Company are shown within the Company Statement of Financial Position.

As noted in note 3 to the Group accounts, an adjustment has been made to the prior period capital of the Company and the Group. As part of the Group reconstruction in 2013 a cost of investment equal to the net assets of Kromek Limited should have been recognised at the time of the share-for-share exchange. As a result, the investment held on the balance sheet of the Company in respect of Kromek Limited has now been reflected at £4,000,000, being the net assets of Kromek Limited at the time of the Group reconstruction. As a consequence, a merger reserve of £3,221,000 has also been recognised and the original entry of £779,000, previously taken to intercompany debtor due from Kromek Limited, has been reversed.

These adjustments increased net assets by £3,221,000 with no impact on the Company's losses.

2. AUDITOR'S REMUNERATION

The auditor's remuneration for audit and other services is disclosed in note 8 to the consolidated financial statements.

3. SUBSIDIARIES

Details of the Company's direct and indirect subsidiaries as at 30 April 2018 are as follows:

Name	Place of incorporation (or registration) and operation	Class of shares held	Proportion of ownership interest %	Activity %
Kromek Limited (Direct)	NETPark, Sedgefield, TS21 3FD, United Kingdom	Ordinary	100	Scientific research and development
Kromek Germany Limited (Indirect through Kromek Limited)	NETPark, Sedgefield, TS21 3FD, United Kingdom	Ordinary	100	Sales and marketing
Kromek, Inc. (Indirect through Kromek Limited)	373 Saxonburg Blvd, Saxonburg, PA 16056, United States of America	Ordinary	100	Holding company
NOVA R&D, Inc. (Indirect through Kromek Limited)	833 Marlborough Avenue, Riverside CA 92507, United States of America	Ordinary	100	Scientific research and development
eV Products, Inc. (Indirect through Kromek Limited)	373 Saxonburg Blvd, Saxonburg, PA 16056, United States of America	Ordinary	100	Scientific research and development
Durham Scientific Crystals Limited (Indirect through Kromek Limited)	NETPark, Sedgefield, TS21 3FD, United Kingdom	Ordinary	100	Dormant company

The Company owns 100% of the share capital in Kromek Limited. Kromek Limited owns 100% of the share capital in Kromek Inc. and 100% of the share capital in Kromek (Germany) Limited. Kromek Inc. owns 100% of the share capital in eV Products Inc. and NOVA R&D Inc.

The investments in subsidiaries are all stated at cost.

	£,000
At 1 May 2017 (as restated, see note 1)	4,000
At 30 April 2018	**4,000**

Notes to the Company financial statements *(continued)*

For the year ended 30 April 2018

4. STAFF COSTS

The average monthly number of employees (excluding non-executive directors) was:

	2018 £'000	2017 £'000
Research and development, production	**2**	2
Sales and marketing	**1**	1
Administration	**2**	2
	5	5

Their aggregate remuneration comprised:

	2018 £'000	2017 £'000
Wages and salaries	**354**	385
Social security costs	**47**	49
Pension scheme contributions	**75**	79
	476	513

5. TRADE AND OTHER RECEIVABLES

	2018 £'000	As restated (see note 1) 2017 £'000
Amounts due from subsidiary undertakings	**42,968**	38,824
Prepayments	**40**	4
Other receivables	**-**	-
	43,008	38,828

Amounts due from subsidiary undertakings are unsecured, interest free and repayable on demand.

6. TRADE AND OTHER PAYABLES

	2018 £'000	2017 £'000
Trade payables and accruals	**248**	315
Social security and other taxation	**23**	37
	271	352

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 30 days. For all suppliers no interest is charged on the trade payables. The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

The Directors consider that the carrying amount of trade payables approximates to their fair value.

Notes to the Company financial statements *(continued)*

For the year ended 30 April 2018

7. BORROWINGS

Details regarding the borrowings of the Company are disclosed in note 25 to the consolidated financial statements.

8. FINANCIAL ASSETS

Intercompany balances

The carrying amount of these assets approximates their fair value. There are no past due or impaired receivable balances.

Cash and cash equivalents

These comprise cash held by the Company and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

9. FINANCIAL LIABILITIES

Trade and other payables

Trade payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 30 days.

The carrying amount of trade payables approximates to their fair value.

10. NOTES TO THE STATEMENT OF CASH FLOWS

	2018 £'000	2017 £'000
Loss for the year	**(535)**	(476)
Adjustments for:		
Finance costs	**75**	58
Operating cash flows before movements in working capital	**(460)**	(418)
(Increase)/decrease in receivables	**(36)**	14
(Decrease)/increase in payables	**(81)**	223
Net cash from operating activities	**(577)**	(181)

11. SHARE CAPITAL

	2018 £'000	2017 £'000
Allotted, called up and fully paid:		
259,095,618 (2017: 152,211,082) Ordinary shares of £0.01 each	**2,591**	1,522
1,340,000 (2017: 106,884,536) Ordinary shares issued at £0.01	**13**	1,069
Total 260,435,618 (2017: 259,095,618) Ordinary shares of £0.01 each	**2,604**	2,591

12. SHARE PREMIUM ACCOUNT

	2018 £'000
Balance at 1 May 2017	42,592
Premium arising on issue of equity shares	33
Expenses arising on issue of equity shares	-
Balance at 30 April 2018	**42,625**

Notes to the Company financial statements *(continued)*

For the year ended 30 April 2018

13. ACCUMULATED LOSSES

	£'000
Balance at 1 May 2017	(1,150)
Net loss for the year	(535)
Balance at 30 April 2018	**(1,685)**

14. FINANCIAL INSTRUMENTS

The Company's principal financial instruments are cash and trade receivables.

The Company has exposure to the following risks from its operations:

Capital risk
The Company manages its capital to ensure that entities in the Company will be able to continue as going concerns while maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of the Company consists of equity attributable to equity holders of the Company, comprising issued capital, reserves and accumulated losses as disclosed in notes 26 to 30 to the consolidated financial statements.

The Company is not subject to any externally imposed capital requirements.

Cash flow is controlled by ongoing justification, monitoring and reporting of capital investment expenditures and regular monitoring and reporting of operating costs.

The Company considers that the current capital structure will provide sufficient flexibility to ensure that appropriate investment can be made, if required, to implement and achieve the longer-term growth strategy of the Company.

Market risk
The Company may be affected by general market trends, which are unrelated to the performance of the Company itself. The Company's success will depend on market acceptance of the Company's products and there can be no guarantee that this acceptance will be forthcoming.

Market opportunities targeted by the Company may change and this could lead to an adverse effect upon its revenue and earnings.

Foreign currency risk
The Company currently does not undertake transactions denominated in foreign currencies.

Credit risk
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company only transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available, and if not available, the Company uses other publicly available financial information and its own trading records to rate its major customers. The Company's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

The Company's management considers that all the above financial assets that are not impaired or past due for each of the reporting dates under review are of good quality.

Liquidity risk
Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has established an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

The following table details the Company's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. The contractual maturity is based on the earliest date on which the Group may be required to pay.

Notes to the Company financial statements *(continued)*

For the year ended 30 April 2018

14. FINANCIAL INSTRUMENTS *(CONTINUED)*

Liquidity risk *(continued)*

	Weighted average effective interest rate %	Less than 1 month £'000	1-3 months £'000	3 months to 1 year £'000	1-5 years £'000	5+ years £'000	**Total £'000**
Revolving Credit Facility at 30 April 2017	3.1	-	-	3,000	-	-	**3,000**
Revolving Credit Facility at 30 April 2018	3.1	-	-	3,000	-	-	**3,000**

15. ULTIMATE CONTROLLING PARENT AND PARTY

In the opinion of the Directors, there is no ultimate controlling parent or party.

16. EVENTS AFTER THE BALANCE SHEET DATE

There have been no events after the reporting date that require disclosure in line with IAS10 events after the reporting period.

17. RELATED PARTY TRANSACTIONS

During the year, the Group was charged a fee of nil (2017: £100k) from Polymer N2 Limited, as an equitable resolution relating to commitments at the time of the IPO in 2013. Polymer N2 Limited is a company under the control of the one of the Group's non-executive Directors and shareholder, Graeme Speirs. At 30 April 2018, the balance outstanding in respect of this fee was nil (2017: £100k) following payment on 24 May 2017.

No dividends were paid in the period in respect of ordinary shares held by the Company's Directors.

Directors, Secretary and Advisers

DIRECTORS

Dr A Basu
Mr D Bulmer
Sir P Williams
Mr L H N Kinet
Dr G K Speirs
Mr J H Whittingham
Mr C Wilks (appointed 1 October 2017)

COMPANY SECRETARY

Mr D Bulmer

REGISTERED OFFICE

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