kromek
detect image identify

# Kromek Group plc

Annual report and accounts for the year ended 30 April 2020

# Contents




Significantly Increasing Production Capacity p14

Strategic Report p4 - 26

Chief Executive Officer's Review p4



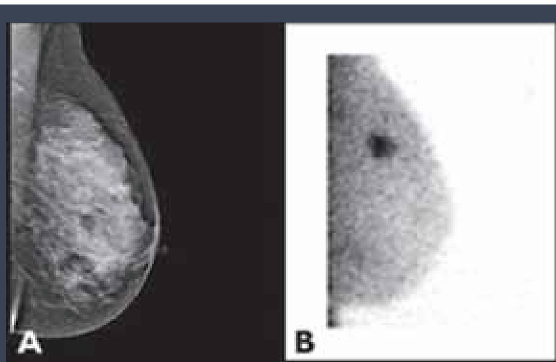

The CZT Production Lifecycle p18



Transforming Knowledge into Real Products p20

Review of Principal Risks p24

Independent Auditor's Report p40



Winning Technology: Low Dose MBI p22

# Financial Headlines

| Revenue | Adjusted EBITDA* | Cash & Equivalents | Product % of Sales | Gross Margin |
|---|---|---|---|---|
| £13.1m | (£0.4m) | £9.4m | 79% | 47% |
| 2018/19: £14.5m | 2019/19: £2.0m | 30 Apr 19: £20.6m | 2018/19: 83% | 2018/19: 57.2% |

**Adjusted EBITDA defined as earnings before interest, taxation, depreciation, amortisation, other income, exceptional items, early settlement discounts and share-based payments. For a reconciliation, see the Chief Financial Officer's Review on page 10.*

*"Notwithstanding the impact of the pandemic, Kromek made significant progress in strengthening its operations with achievements across nuclear detection, medical imaging and security screening"*

*"Substantial expansion programme implemented at UK headquarters to increase CZT manufacturing capacity and D3S production"*

# Operational Highlights

Two-year contract by US Dept of Homeland Security to develop CZT detector modules for advanced X-ray systems for passenger baggage screening

Won contracts with Canadian Nuclear Safety Commission and Curaçao government for civil nuclear solutions. Sold radiation mapping solution for drones to UKAEA and Sellafield

Received and successfully delivered orders of £2.1m from a European government-related company, a new customer, for the provision and integration of D3S-related technologies

Commenced delivery on a significant $58.1m contract to provide an OEM customer with CZT detectors and associated advanced electronics for its state-of-the-art medical imaging systems

Expanded sales team and rapid channel development resulting in D3S platform now having been sold in over 22 countries

Expanded geographic reach with winning competitive tender to provide D3S platform to Irish Civil Defence under three-year contract

Substantial increase in detector manufacturing capacity and introduction of process automation resulted in increased throughput and efficiency in US facility, delivering on substantial medical contracts

Completed licensing agreement for manufacturing and sale of medical ventilators from Metran Co., Ltd, Japan, to support the COVID-19 response

Security screening OEM customer achieved highest level of European liquid explosive detection certification for cabin baggage scanner with Kromek-based software and detectors – enabling commercial deployment

# Chairman's Statement

Sir Peter Williams CBE
Chairman
6 October 2020

*"Our hugely successful D3 series of handheld detectors has continued to develop and secure market share with existing and new customers, both in civil and military applications"*

This has inevitably been a year of great challenge for your Company and the consistent improvement over recent years in revenue and earnings at the Adjusted EBITDA level has been reversed.

The year had, however, begun promisingly, following the successful fund raising in early 2019 and the securing of a major contract to supply single photon emission computed tomography ("SPECT") systems for medical imaging. Planned investments were made in the significant expansion of the cadmium zinc telluride ("CZT") crystal growth facilities in the UK and in detector manufacturing in the US. During the period, GE Healthcare, a world leader in such technology, has and continues to publicly signal the growing strategic importance of CZT in the field of diagnostic imaging. The areas of detection of cancer, cardiac diseases and neural conditions will continue to create demand for our technology and products as the world starts to normalise beyond the effects of the current pandemic.

Elsewhere, in the nuclear security sector, our hugely successful D3 series of handheld detectors has continued to develop and secure market share with existing and new customers, both in civil and military applications. In the US in particular, our relationships with major agencies of the US government have continued to develop, giving us great confidence in our future potential growth, both there and internationally, while delivering on current programmes.

However, the COVID-19 pandemic and its resulting effect on the global economy has been felt with great severity. From late February onwards, major customers were unable to accept shipments as their markets started to shut down. In China in particular, despite the securing of a contract amendment with our major customer in medical imaging, the impediment to our customer's investment, trading and continued travel restrictions has resulted in your Board's decision to impair fully all outstanding trade receivable and amounts recoverable on contract balances in respect of this customer, resulting in the exceptional charge for the year. As and when the Chinese economy reopens and business environment normalises, your Board remains committed to creating value from this contract and more widely from its investment in the underlying technology.

Finally, and as an encouraging pointer for the future, our relationship with DARPA has resulted in the award of a major contract for automated wide-area detection of biological pathogens, involving portable DNA sequencing to identify threats such as COVID-19 in public spaces. Further additions to this contract are anticipated in the coming year.

In conclusion, despite the disappointments of this year, I would like to thank all our employees for their efforts under the extreme circumstances of today. Their forbearance and determination in the face of threats to public health and rapid adaptation to new ways of working is greatly appreciated. The safety and wellbeing of our team will remain a priority as we go through the process of full-scale normal operations both in the US and UK.

*"I would like to thank all our employees for their efforts under the extreme circumstances of today. Their forbearance and determination in the face of threats to public health and rapid adaptation to new ways of working is greatly appreciated"*

Strategic Report

# Chief Executive Officer's Review

Dr Arnab Basu MBE
Chief Executive Officer
6 October 2020

*"Notwithstanding the impact of the pandemic, we made notable progress during the year in the strengthening of our operations"*

We entered 2019/20 in a stronger position than ever before, increasing revenues by 43% in the first half over the previous period. The pandemic caused markets to shut down and materially impacted both our global customer base and supply chain resulting in overall revenues for full year 2019/20 to be lower than the previous year. However, the mitigation measures and operational progress we have made during the year means we are well-positioned to rebound strongly.

Notwithstanding the impact of the pandemic, we made notable progress during the year in the strengthening of our operations. We implemented a substantial expansion programme at our UK headquarters in Sedgefield to increase our CZT manufacturing capacity. We also continue to gain traction for our next-generation molecular imaging SPECT products in medical imaging and our D3S family of products in nuclear detection – which we believe are the key drivers of our future growth.

## Medical Imaging

Medical imaging represents a significant market opportunity for Kromek with SPECT and molecular breast imaging ("MBI") as key target growth areas for our CZT-based detector solutions. In recent years, leading OEMs in these application areas are increasingly adopting CZT detector platforms as the enabling technology for their product roadmaps – leading to growing demand for our solutions. However, because of COVID-19 related factors, hospital resources have temporarily been redirected and logistics constraints hamper new system installations. Consequently, some orders were postponed as medical OEM customers were required to delay new systems sales and product introductions. While this disruption has had a significant impact on our medical imaging business, we expect this to be short-term and believe the market opportunity remains substantial. We are also pleased to note that some customers are now beginning to resume orders and detector production and shipments are being scheduled.

We continued to make progress in this market during the year. In particular, we commenced delivery on one of our most significant contracts to date, which had been awarded in H2 2018/19, to provide an OEM customer with CZT detectors and associated advanced electronics to be used in its state-of-the-art medical imaging systems. The contract is expected to be worth a minimum of $58.1m over an approximately seven-year period.

During the year, we also advanced towards achieving clinical validation of our CZT-based SPECT detectors at our customers' site, under a contract signed in 2014. Shipment of these products was planned and agreed with the customer from early 2020, following several visits to the customer in late 2019 and January 2020. However, the severity of the pandemic in China during the early part of 2020 greatly restricted our customer's ability to execute on the contract, which was compounded by the difficulty imposed on movement of goods and our inability to send essential personnel due to continued travel restrictions since the beginning of the year. As a result, we are facing uncertainties to the successful execution of the contract at the present time, which has led the Board to take a prudent approach by impairing the receivables against this contract to date on our balance sheet. This is discussed in considerable detail in the CFO Review section of this report. However, it is important to note that the commercial relationship with this customer continues to remain strong as both parties seek to address the significant market demand for advanced diagnostic imaging products for the detection of cancer.

We also progressed the development of an ultra-low dose MBI technology based on our CZT-based SPECT detectors. This three-year project, which commenced in 2018, sees Kromek work alongside partners in the Newcastle-upon-Tyne Hospitals NHS Foundation Trust in the UK and an OEM partner.

## Nuclear Security

We continued to see opportunities and demand for our D3S platform, which is attracting business interest across the globe – and has been sold in more than 22 countries. This is supported by the expansion of the D3S sales and marketing activities and establishing a wider distribution network, with new channels being regularly put in place.

A key achievement was the award of a strategically significant contract, worth £1.1m, by a European-government related company, a new customer, for the provision of D3S-related technologies, which was subsequently extended by £1.0m to provide technology integration. The customer works with a European government to detect and protect against potential nuclear threats. We have successfully delivered this contract and our solutions are being actively deployed by the customer for wide-area threat monitoring.

Kromek was awarded a new and an extension contract worth over $1m in total under two initiatives by the US government:

- The US government's Countering Weapons of Mass Destruction Office, which is a component within the US Department of Homeland Security, awarded Kromek a $0.7m extension contract to add further technical innovation capability to the D3S family of products.
- The US government's Joint Program Executive Office for Chemical, Biological, Radiological and Nuclear Defense (JPEO-CBRND) awarded Kromek a $0.4m contract to provide D3S-related customisation for military operational transition, which will leverage the DARPA SIGMA Program sensor and technology.

The D3S platform was used in active deployments and field-tests in multiple locations of strategic importance and high risk across the US, Asia and Europe. This includes deployment under an initiative, for which we were awarded a €0.2m contract, by the European Commission's Directorate-General for Migration and Home Affairs, working alongside security authorities in Belgium, Luxembourg, The Netherlands and Spain, to allow the law enforcement authorities to validate new and emerging technologies for homeland protection. The European Commission used the D3S-ID and D3S Drone radiation detectors for the protection of public spaces across multiple European locations covering high risk venues such as airports, train stations and other public areas. Following this initiative, we have received an additional order for software development to expand the capabilities of the D3S Drones as well as more detectors for a new trial application.

We also continued to expand the geographic reach of the D3S with the win of a competitive tender to provide our D3S platform to the Irish Civil Defence under a three-year contract worth up to €0.2m. The first units are now in use and further orders are expected shortly. In addition, the Swiss Government has listed the D3S-ID for use at waste and recycling sites.

Our business and product development pipeline have remained good despite the inevitable delays as a result of a slowdown around the world due to COVID-19. During the year, we launched the latest version of the D3S for first responders, the D3M PRD. We have continued to execute on multiple US government sponsored programmes, including the development of a fully ruggedised radio isotope identification device (RIID), which is expected to be launched later this calendar year. We are starting to see renewed procurement activities in the US, Asia and Europe after a period of slowdown over the last six months. We have continued to strengthen and expand our distribution network both in Europe and Asia. This includes new in-country partners for the D3S in France, Spain, Italy, Poland and Serbia.

## Civil Nuclear

In the civil nuclear markets, we won several new contracts globally for our portfolio of high-resolution detectors and measurement systems used in nuclear power plants, research and for other applications. This included contracts with the Canadian Nuclear Safety Commission as well as other government customers. This was supplemented by the home market, where radiation mapping solutions for drones were sold to UKAEA and Sellafield. Our markets in civil nuclear continue to expand with new customers and repeat orders from existing customers.

# Strategic Report *(Continued)*

## Security Screening

In security screening, we continued to provide our OEM and government customers with components and systems for cabin and hold luggage scanning applications. This includes delivery on the $2.7m expansion order, which was received at the end of the 2018/19 year, under our long-term contract to provide key components for a US-based customer's security screening system for the detection of explosives. The order expansion reflects the growing recognition of the strength of Kromek's detection solution and credentials as a high-quality product supplier. We continue to receive increasing interest in our technologies that can meet the high-performance standards demanded by customers to ensure passenger safety while increasing the convenience and efficiency of the security process.

We also reached a key milestone with another OEM customer in the security screening market, which achieved the highest level of European liquid explosive detection certification for cabin baggage for their new generation scanner that is based on Kromek technologies. This certification enabled commercial deployment of the product and, post period, we have received the first commercial order from our customer.

## Biological-Threat Detection

Post period, we were awarded a contract extension worth up to $5.2m by DARPA, a long-standing customer, to advance the development of a solution for the detection and identification of pathogens in an urban environment via a vehicle-mounted biological-threat identifier. However, in response to the outbreak of COVID-19, the project is expected to be expanded beyond the development of a mobile wide-area bio-surveillance system against possible bio-terrorism.

Once fully developed over the next few months, the technology should be able to sample air and identify the presence of any biological pathogen – including COVID-19 or any mutant version that may emerge over time. It is intended that the technology will be used to immediately flag the presence of someone with a contagious disease and allow effective mitigation of the risk of transmission. By placing samplers in high footfall areas, such as airports and hospitals, or where people are in close proximity for long periods, for example in transport vessels such as aircraft and care homes, threats can be identified without having to individually test people. Knowing a carrier is infected with a disease before they infect further individuals is key to halting the onset of an outbreak and before it causes major global disruption.

We expect to continue further development, piloting and commercial deployments of this solution over the coming months.

## Manufacturing Facilities

In order to meet growing demand for Kromek's products, we continued our planned programme to significantly increase our production capacity and optimise the manufacturing process. During the year, we successfully completed a substantial expansion programme at our UK headquarters in Sedgefield by increasing both the number of furnaces for growing CZT and material processing tools. In addition, we expanded the product assembly space for new and existing handheld radiation detector products in our existing UK factory.

The CZT manufacturing process capability was enhanced with advanced automated sensor assembly capability, significantly improving both process capability and operational capacity. As part of the process, we will be introducing new CZT processing technology, which is expected to further enhance process quality, yield and manufacturing throughput.

This investment in the UK headquarters follows the relocation of our US operations to a new purpose-built premise near Pittsburgh, Pennsylvania. The site move was completed during the year with the operation moving in its entirety during June 2019, which has enabled a ramp-up in production for CZT-based cameras to serve the SPECT market. Both the UK and US manufacturing sites are certified to ISO9001:2015 through the annual ISO audit cycle.

From early 2020, we have experienced a slowing of demand for CZT across our markets due to COVID-19 related disruption around the world. However, we believe this is temporary and all of the expansion, process improvements, automation and the new facility in the US will be critical to address the expected and substantial growth in demand for CZT-based products beyond this immediate period.

## R&D, Product Development and IP

We conduct a continuous appraisal of the global supply chain for electronics components, critical materials and partner capabilities to ensure readiness for both changing customer and market demands. We have continued to expand our IP portfolio through our core technology and product developments, in line with our key aims for IP protection: protect products; create market position and freedom to operate; and increase property value.

During the year, we applied for five new patents and had 20 patents granted across 10 patent families. The new applications cover innovations across our nuclear, medical and biological-threat detection offerings and, while relating to targeted product developments, will also provide value beyond these fields. For example, the patent applications in the nuclear field can apply to multiple uses of scintillator detectors; the medical application will provide valuable IP, which underpins a key benefit of CZT; and the biological applications cover components that will have uses far beyond CBRN detection.

## Response to COVID-19

The COVID-19 pandemic presented unprecedented challenges to Kromek's supply chains and operations while adversely impacting demand from certain customers. However, we were fast to respond to the evolving public health emergency and by the middle of March 2020, we had activated our business continuity plan and transitioned most of our employees in the UK and US to remote working in order to protect the health and safety of the workforce.

Furthermore, a number of temporary mitigation measures were implemented to bolster the liquidity of the business and its financial position. Actions taken included the implementation of some organisational restructuring; ceasing all discretionary capital expenditure; curtailing all travel and non-essential spend; and securing a short-term rent concession on some of our leased properties.

However, with the lifting of lockdowns in the US and UK, our workforce that are required to be onsite have been able to return to our facilities as we now start to resume full-scale production. We are also pleased to note that business is showing signs of returning to normal trading, with orders being issued and shipments, once again, being scheduled. However, this still remains a challenge for certain parts of the world where both movement of people and goods continue to be hindered by restrictions.

In April 2020, facing weakening demand from our core markets, we entered a licensing agreement with Metran Co., Ltd, a Japan-based leading developer of medical ventilator products and technology, with the intention to manufacture and sell invasive emergency ventilators to support the COVID-19 crisis. We have established the manufacturing capability for the ventilators, which are now going through the emergency use approval processes in various jurisdictions. We continue to see interest in the product and signed an agreement for the supply of ventilators in a European country, which will become effective following receipt of appropriate certifications in that jurisdiction. We are also in active discussions and negotiations for the distribution and sale of ventilators in other countries where the approval processes are ongoing. The Group anticipates this market to remain active over the next 12-18 months as countries continue to build capacity in the fight against COVID-19 and build resilience against any similar pandemics in the future.

## Outlook

Kromek's position as a leading manufacturer of next-generation CZT-based products, supplying substantial growing markets and multi-year contracts, gives the business a degree of resilience.

The disruption in the final quarter of the 2019/20 year carried through to the first four months of the new financial year. Normal business patterns are now returning, and some customers are beginning to resume orders with detector production and shipments being scheduled. Two customers who had postponed their contracts have now issued instructions to re-commence the work. Additionally, the Group is experiencing increasing visibility from its customers, including from Kromek's largest customer in the medical imaging segment who has provided it with visibility on their plans for the full fiscal year. Demand for the D3S family of products continues to increase and there is renewed procurement activities in the US, Asia and Europe after a period of slowdown over the past six months. As a result, the Board is cautiously optimistic for the year ahead and will provide updates to the market as the outlook becomes clearer moving forward.

From a long-term perspective, Kromek's key addressable markets benefit from fundamental growth drivers. The Group expects to see the refresh of product cycles continue in the medical sector, which is being transformed by CZT-based radiation detection. Early and better diagnostics is recognised as one of the means to deal more effectively with diseases like cancer and cardiac conditions. This pandemic has shown some of the vulnerabilities in the western healthcare systems and the lack of resilience due to under-investment over the last decade, which is expected to drive growth in addition to new demands in countries like China, India and Brazil. In the nuclear detection segment, security authorities continue to invest in sophisticated technologies, while bio-security is an emerging focus with significant long-term implications and monitoring and surveillance is expected to become the only way to deal with threats from novel viruses such as COVID-19.

With substantial long-term market drivers and a significantly expanded production capacity in place, Kromek is well-positioned to deliver on demand from around the world for next-generation radiation detection technologies.

Strategic Report *(Continued)*

# Chief Financial Officer's Review

Mr Derek Bulmer
Chief Financial Officer
6 October 2020

We indeed live and operate in times unprecedented and the operational impacts of this pandemic on the Group have been significant. The financial results that I analyse below are deeply disappointing to deliver having shown so many years of growth, coupled with excitement at the technology platform the Group has created.

The Group started the year well, with half-year revenue increasing by 43% to £5.3m (H1 2018/19: £3.7m) and the Group felt confident of another year of strong growth. I had set out last year the plan to reduce the significant debtor balance regarding Amounts Recoverable On Contract (AROC) and had undertaken several visits to China to effect this.

That process looked very promising during the period up to January 2020, but then China, followed by the rest of the world, was hit by the COVID-19 pandemic. This resulted in inevitable obstacles for the Group. The Group's financial year-end of 30 April 2020 was at the height of global lockdown measures following a highly disrupted fourth quarter from January 2020 onwards. As was noted in the announcement of 1 May 2020, the Group experienced a material impact on its operations because of the COVID-19 outbreak with delays in certain projects due to constraints imposed upon sub-contractors, suppliers, and customers. The Group was also informed that two of its key contracts would be delayed until sometime in the new financial year. I am pleased to confirm that both customers have now issued instruction to re-commence, though initially at lower levels than originally contracted.

As a result of the impacts noted above, revenue has reduced by 10% to £13.1m (2018/19: £14.5m) and gross margin to £6.2m (2018/19: £8.3m). Due to the loss in gross margin and higher administration costs, the adjusted EBITDA decreased to a £0.4m loss compared with earnings of £2.0m for the prior year. The Group has also recorded an exceptional item of £13.1m, being substantially the write down of AROC brought about by the uncertainty of COVID-19. I discuss all these factors in more detail in the sections below.

In light of the economic threat brought about by COVID-19, the Board has sought to protect the business within the parameters under our control and in the middle of March 2020, Kromek activated its business continuity plan in response to COVID-19. The Group's employees in the UK and US were transitioned to a large extent to remote working. Further to this, several temporary mitigation measures have now been implemented to bolster the liquidity of the business and its financial position. Actions taken include the implementation of some organisational restructuring; ceasing all discretionary capital expenditure; curtailing all travel and non-essential spend; and securing short- and medium-term rent concessions on some of the Group's leased properties. We have undertaken job reductions in the US and engaged the Job Retention Scheme in the UK and furloughed a number of staff as a result of the contract delays. These measures, along with others in the pipeline, are expected to reduce running costs and cash outflow. In addition, we have secured further loans with HSBC of £1.4m and, in the US, Paycheck Protection loans of around $1m. I have successfully varied the bank covenants on the Revolving Credit Facility with HSBC to ensure the continued availability of this instrument.

## Revenue

The Group generated total revenue of £13.1m (2018/19: £14.5m). The split between Product sales and revenue from R&D contracts is detailed in the table below:

| Revenue Mix | 2019/20 | | 2018/19 | |
|---|---|---|---|---|
| | £'000 | % share | £'000 | % share |
| **Product** | 10,314 | 79% | **12,060** | 83% |
| **R&D** | 2,806 | 21% | **2,457** | 17% |
| **Total** | **13,120** | | **14,517** | |

Revenue was directly affected in Q4 by the impact of COVID-19. Major customers gave notification that they were unable to accept products at previously expected levels as their own markets had effectively shut down or logistics and operational support were not available due to lockdown restrictions and the prioritisation of the safety of personnel. To strengthen the Group's cash position in light of the direct economic and risk impacts of the pandemic, the Group negotiated an early payment from a specific customer in exchange for an early settlement discount. In line with IFRS 15, these discounts (amounting to £0.7m; 2018/19: £nil) were netted off against revenue. Without this discount, revenue would have been £13.8m and gross profit would have been £6.9m with a gross margin of 50.0%.

## Gross Margin

The year-on-year decrease in revenue, combined with a reduction in gross margin, resulted in a fall in gross profit to £6.2m (2018/19: £8.3m). The fall in gross margin to 47.3% (2018/19: 57.2%) is attributable to three key elements. Firstly, a lower margin yield associated with the initial year of the commencement of production of the 7-year medical imaging contract announced in early 2019. This process also required the commissioning and production ramp up of a significant number of furnaces and fabrication equipment, plus the running of several new processes and yield programs. We have seen some very positive developments in these areas and expect to see this commissioning, ramp up and process development drive improvements in margin in subsequent years. The second key element, as noted above, results from a discount on an early settlement to one key customer in airport security relating to a substantial call-off and payment ahead of schedule. This both de-risked this commercial opportunity, but also ensured that the Group could record further receipts of $2m at the year-end and thus strengthen the cash position in light of the pandemic. The third key element to the reduction in gross margin was the cost impact of bought in goods where alternative suppliers had to be sought to complete the products and services that could be shipped during the final two months of the year.

## Administration Costs

Administration costs and operating expenses increased by £1.6m to £10.6m (2018/19: £9.0m). This increase is substantially the net result of:

- £1.2m additional staff costs due to the planned expansion of the sales and production teams, plus technology personnel to support the biological detection project. This is largely as planned and notified to the market during the fund raise of February 2019.
- £0.3m is the additional costs of depreciation largely relating to the capital expenditure on the furnace and fabrication expansion of £6.1m.
- £0.3m is the additional costs of amortisation due to continued investment in the technology platform and product applications.
- £(0.7)m foreign exchange credit largely due to a surplus realised on the Group's US$ overdraft facility settled during the year.
- £0.5m relating to a combination of other items, including an increase in the US cost base, largely compensated by the foreign exchange gain noted above.

# Strategic Report *(Continued)*

## Exceptional Items

Kromek's customers are often first adopters. Entrepreneurial small- to medium-sized businesses that have the flexibility to bring this technology to the forefront of their business model. Much of this is in the East, especially in China, as such markets are not typically hampered by legacy platforms attached to pre-CZT technology. As such, COVID-19 has severely disrupted their business models and made their access to sufficient financial support more difficult.

Several visits to China were undertaken partly to assess the possible impacts of the escalating level of trade friction between the US and China, but also to assess the market opportunity, business case of our customers and to explore to what extent Kromek could assist in accelerating and expanding the opportunity. These visits in late autumn 2019 and early in this calendar year went extremely well and we had strong visibility of the roll out of the product and thus the monetisation of the AROC. Further, we determined a number of channels and partners to assist in de-risking this position. Nonetheless, we could not achieve this prior to the impact of COVID-19.

Whilst the Board remains very confident on the market opportunity given the scale of populous in China and the sadly prevalent and growing rates of cancer, the financial status of some our customers has become uncertain. That said, we are continuing to work with our customers to enable the fulfilment of these opportunities for Kromek and for them. The Board is confident that once there is greater clarity on the flow of funds through investment and movement of goods and people, both globally and within China, this position will reverse, and we will see the opportunities materialise.

However, due to the uncertainty noted above following the direct impact of COVID-19 on the flow of capital to our customers, the Board has prudently chosen to take a full provision against the AROC balance and I note an exceptional item of £13.1m in relation to this. Despite the uncertainties of credit risk, the Board has concluded relating to said customers, that all parties remain committed to delivering on the opportunity presented by this market. We have secured a contract addendum for medical imaging systems with our major customer that sets out clear call-off schedules and a commitment to a multi-year opportunity, which also assists in monitoring any changes in deemed credit status. As noted earlier by our Chairman, as the Chinese economy reopens and this contract addendum becomes effective, the Board remains committed to creating value from this relationship, but also more widely from the investment in the underlying technology. Our exposure and reputation for this technology in China is growing and our network and support structures in the region will ensure that we can effectively work with our customers and expand our opportunities.

## Adjusted EBITDA* and Result from Operations

Primarily due to the impact of COVID-19 on the operations of the Group and, consequently, the financial performance, adjusted EBITDA for 2019/20 was a loss of £0.4m compared with earnings of £2.0m for the prior year as set out in the table below:

| | **2019/20 £'000** | **2018/19 £'000** |
|---|---|---|
| Revenue | 13,120 | 14,517 |
| Gross profit margin | 6,208 | 8,309 |
| Gross margin (%) | 47.3% | 57.2% |
| Loss before Tax | (18,345) | (1,270) |
| **EBITDA Adjustments:** | | |
| ***Non- COVID-19 Related Items:*** | | |
| Net interest | 544 | 364 |
| Depreciation of PPE and Right of Use assets | 1,185 | 879 |
| Amortisation | 2,142 | 1,806 |
| Share-based payments | 225 | 195 |
| ***COVID-19 Related Items:*** | | |
| *Early settlement discount* | **746** | **-** |
| *Exceptional Item* | **13,062** | **-** |
| **Adjusted EBITDA*** | **(441)** | **1,974** |

**Adjusted EBITDA is defined as earnings before interest, taxation, depreciation, amortisation, other income, exceptional items, early settlement discounts and share-based payments. The impact of COVID-19 has resulted in an exceptional item of £13.1m relating to receivables and AROC and a specific airport security customer early settlement discount of £0.7m as neither are in the normal course of events and are significant in their size, practice and nature. Share-based payments are added back when calculating the Group's adjusted EBITDA as this is currently an expense with a zero direct cash impact on financial performance. Adjusted 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 resulting from movements in revenue, gross margin and the costs of the business. This definition has changed from 2018/19 to include the exceptional item and early settlement discount. However, in 2018/19 there were no exceptional items or such specific early settlement discounts meaning the Adjusted EBITDA from 2018/19 has not changed.*

The £2.4m decrease in adjusted EBITDA in 2019/20 compared with 2018/19 is substantially a result of a loss in gross profit of £2.1m due to the lower revenue and reduction in gross margin noted above.

Loss before tax for the year increased substantially to £18.3m (2018/19: £1.3m loss), largely due to the loss in gross profit of £2.1m, additional administration costs of £1.6m and the exceptional item of £13.1m.

During 2019/20, the Group recognised other comprehensive income of £1.0m (2018/19: £1.2m income) that arose in respect of exchange differences on a net investment in a foreign operation as described in note 2 to the financial statements. Unlike the £0.7m gain resulting from foreign exchange on consolidation and revaluations and realisation of working capital balances noted above that were expensed to the profit and loss account, this gain has been treated as a reserve movement, consistent with the prior year.

## 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 £0.9m for the year (2018/19: £1.0m).

Following a review, we have revisited the historical treatment of deferred tax in relation to development costs capitalised in our US operations since reporting under IFRS. As a result, through a prior year adjustment, a deferred tax liability has now been recognised on the Group's balance sheet as at 30 April 2019 totalling £0.9m with the corresponding adjustments made to the profit and loss account and retained earnings. This liability has subsequently been fully eliminated during the year ended 30 April 2020 following an offset with a deferred tax asset arising in our US operations relating to accumulated losses to date. Please refer to note 2 to the financial statements for a summary of the adjustments made.

Due to the elimination of the deferred tax liability and the UK Research and Development Tax Credit, the tax charge for the year is a credit of £1.8m (2018/19: £0.6m credit).

## Earnings per Share ("EPS")

Due to a £3.5m loss after tax from continuing operations (after excluding exceptional items) for the year, the EPS is recorded in the year on a basic and diluted basis as 1.0p loss per share (2018/19 restated: 0.2p loss per share). Due to a £16.5m loss after tax from continuing operations (including exceptional items) for the year, the EPS is recorded in the year on a basic and diluted basis as 4.8p loss per share (2018/19 restated: 0.2p loss per share).

## R&D

The Group invested £5.3m in the year (2018/19: £2.7m) in technology and product developments that were capitalised on the balance sheet, reflecting the ongoing investment in new products and new applications for the future growth of the business. This capitalisation is higher in the current year because of two key factors. Firstly, last year the figure was artificially reduced due to the facility move in the US during the first half of 2018/19 and the restrictions this disruption placed on development work. Secondly, the Group has chosen to pursue the opportunity in automated wide-area detection of biological pathogens, involving portable DNA sequencing. It is the Board's belief that this technology will enable the identification of a COVID-19 threat in public spaces and offers opportunities for the Group in this critical market. This is a position endorsed by the US government with DARPA awarding Kromek a major contract in May 2020 as part of the development of this platform and product applications.

The other key areas of development continue to be the expansion of the D3S suite of products and the SPECT platforms. All such investments in research and development are linked to contract deliverables and in the Board's belief in the significant future revenue opportunities that the Group's technology offers. The Group continues to undertake this investment to strengthen its commercial advantage.

During the year, the Group undertook expenditure on patents and trademarks of £0.2m (2018/19: £0.2m) with five new patents filed and 20 patents granted across 10 patent families. The new applications cover innovations in all our sectors, including biological-threat detection, covering our specific product developments, but also providing value beyond these fields. In particular, the biological applications cover components that the Group believes will have uses beyond terrorist threat detection.

## Capital Expenditure

Capital expenditure in the year amounted to £7.0m (2018/19: £3.6m) and was announced during the early months of 2019. This planned increase relates substantially to the expansion of the CZT growth facility, manufacturing processes and capacity in both the UK and US. Over recent years, the Group has demonstrated that it can now replicate this capability on multiple sites and significantly implement and scale up operations. This is a major achievement by the Group and the many members of our team that have worked on this project. The capital project is now installed, commissioned and in operation - delivering against multiple projects, but particularly against the medical imaging contract announced in early 2019.

## Cash Balance

Cash and cash equivalents were £9.4m as of 30 April 2020 (30 April 2019: £20.6m). The £11.2m decrease in cash during 2019/20 was a combination of the following:

- An Adjusted EBITDA loss for the year of £0.4m
- Net cash used in financing activities of £0.9m
- £0.4m reduction in working capital, excluding the exceptional write off of the AROC balance of £13.1m.
- R&D Tax Credit receipts of £0.9m.
- Investment in product development and other intangibles, with capitalised development costs of £5.3m and IP additions of £0.2m.
- Capital expenditure of £7.0m, as noted above.
- £1.3m conversion of the Investment in long-term cash deposits into a more liquid form.

The movement in key working capital balances is analysed as follows:

- A £3.2m increase in inventories held on 30 April 2020 to £6.4m (30 April 2019: £3.2m). Following the $58.1m medical imaging contract awarded in January 2019, the Group is holding more component stock and work in progress to meet the call-off plan of the contract. Due to delays driven

# Strategic Report *(Continued)*

by COVID-19, a substantial element of shipments intended for March and April 2020 were held back due to customer requests. A revised call-off plan has been received during August 2020 and it is anticipated that this inventory will begin to flow into a monthly rolling production and shipment plan.

- A £1.3m increase in trade and other receivables (excluding exceptional items) reflecting the timing of invoicing and payments during the strict lockdown of the Group's Q4.
- A £3.9m increase in trade and other payables to £8.8m (2018/19: £4.9m). This increase is due to capital expenditure in the year and the timing of invoicing around the year end. This is further compounded by the build-up of inventory to meet the needs of the medical imaging contract noted above. The Group also secured a £0.7m grant during the year regarding job creation in County Durham following the aforementioned $58.1m medical imaging contract, which is currently recognised on the balance sheet as deferred income.
- As I noted last year, in March 2019, the Group renewed its existing Revolving Credit Facility with HSBC. The facility was extended to £5.0m from £3.0m and the renewal period was increased to a minimum of three years, with an additional option for up to five years. At 30 April 2020, £3.1m of the facility was drawn (30 April 2019: £3.0m) to support the working capital expansion. A further £1.8m of the facility has been used to fund plant and machinery. Given the downward impacts on immediate outlook because of COVID-19, we have renegotiated the bank covenants to ensure that the Group can continue to rely on the flexibility of this facility.

## Going Concern

Given the degree of uncertainty surrounding the impacts of the COVID-19 pandemic on economies and businesses, the Board has considered a number of scenarios. As I note in my introduction, the Group activated its business continuity plan in response to COVID-19 from March 2020 and, subsequent to that, the costs of the Group have been reduced. Further to that, since 30 April 2020, we have managed to bring in additional funds through securing additional loans with HSBC of £1.4m, to further support some of the capital expenditure, and, in the US, Paycheck Protection loans of around £0.8m. As described above, we have successfully agreed a variation in the bank covenants on the Revolving Credit Facility with HSBC to ensure the continued availability of this instrument. Combining this additional liquidity and reduced costs, the key factor that the Board considered in the going concern assessment related to revenue expectations and visibility. The Board was mindful of the guidance surrounding a severe but plausible assessment and, accordingly, considered a number of scenarios in revenue reduction against the original plans. On a revised base case scenario, the Board is comfortable that the Group can continue its operations for at least a 12-month period following the approval of these financial statements.

Applying an even more severe set of assumptions, beyond the Board's estimate of base case scenario, with further reductions in revenue whilst maintaining a full cost base, it is possible that the Group may breach one of the bank's five covenants during the going concern review period. However, for the purpose of stress testing the going concern in light of the pandemic, the Board has specifically excluded any significant upsides from these scenarios. This is despite COVID-19 representing potential major opportunities for the Group in terms of its biological detection capabilities and license agreements to manufacture ventilators. This most severe scenario also excludes any mitigating reduction in the cost base that the Board would clearly undertake in this event. 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 12 months from the approval of these financial statements.

## Financial Reporting and Audit

It is my normal practice to have the financial reports completed with final results announcement before the end of June. This year, the final results announcement was in October 2020, some three months later than normal. This is largely due to the impacts of COVID-19 resulting in additional audit and Corporate Governance protocols around areas of key audit importance. Further, we had to conduct a virtual audit between both my team and those of KPMG. Whilst this was compounded by a change of audit engagement partner just days before the commencement of the audit, all parties endeavoured to operate in a lockdown environment and to deal with the additional challenges that this brought. The financial results are deeply disappointing, however the efforts of those involved to support the preparation of this report were critical and are much appreciated.


The number of furnaces increased more than fivefold

CZT materials preparation facilities have also been considerably expanded

# Expansion of CZT Crystal Growth and Detector Manufacturing Facilities

Cadmium Zinc Telluride (CZT) is now a recognised technology that overcomes the limitations of the prevalent legacy detectors. CZT-based detectors provide high-resolution information on material composition and structure and are used in multiple applications, ranging from the identification of cancerous tissues to hazardous materials, such as explosives, and the analysis of radioactive materials.

Kromek manufactures CZT in both the UK and US. It is a continuous process of CZT manufacturing and device fabrication run on dedicated R&D furnaces and fab lines that is now a fully automated, end-to-end process without human intervention.

Over the past 18 months, Kromek continued its planned expansion programme to significantly increase production capacity in order to meet the growing demand for its products. We optimised the manufacturing process through a major capital investment programme in increasing crystal growth manufacturing capacity but also by significantly expanding the level of process automation in both the UK and US.

During the year, we successfully completed a substantial expansion programme at our UK headquarters in Sedgefield by increasing both the number of furnaces for growing CZT and material processing tools. In addition, we expanded the product assembly space for new and existing handheld radiation detector products.

In the UK, the number of furnaces increased more than five-fold, ramping up production capacity from 1,500kg of CZT processed each year to in excess of 10,000kg, thereby enabling the manufacture of more than 70,000 finished detectors annually.

The CZT materials preparation facilities have also been considerably expanded and automated to support the new furnace volumes.

This investment in the UK headquarters follows the relocation of our US operations to a new purpose-built premises near Pittsburgh, Pennsylvania.

*"Annual production capacity has increased from 1,500kg of CZT to 10,000kg, enabling the manufacture of more than 70,000 finished detectors"*


*CZT Ingot*

# Full automation increases capacity, improves product quality and enhances reliability

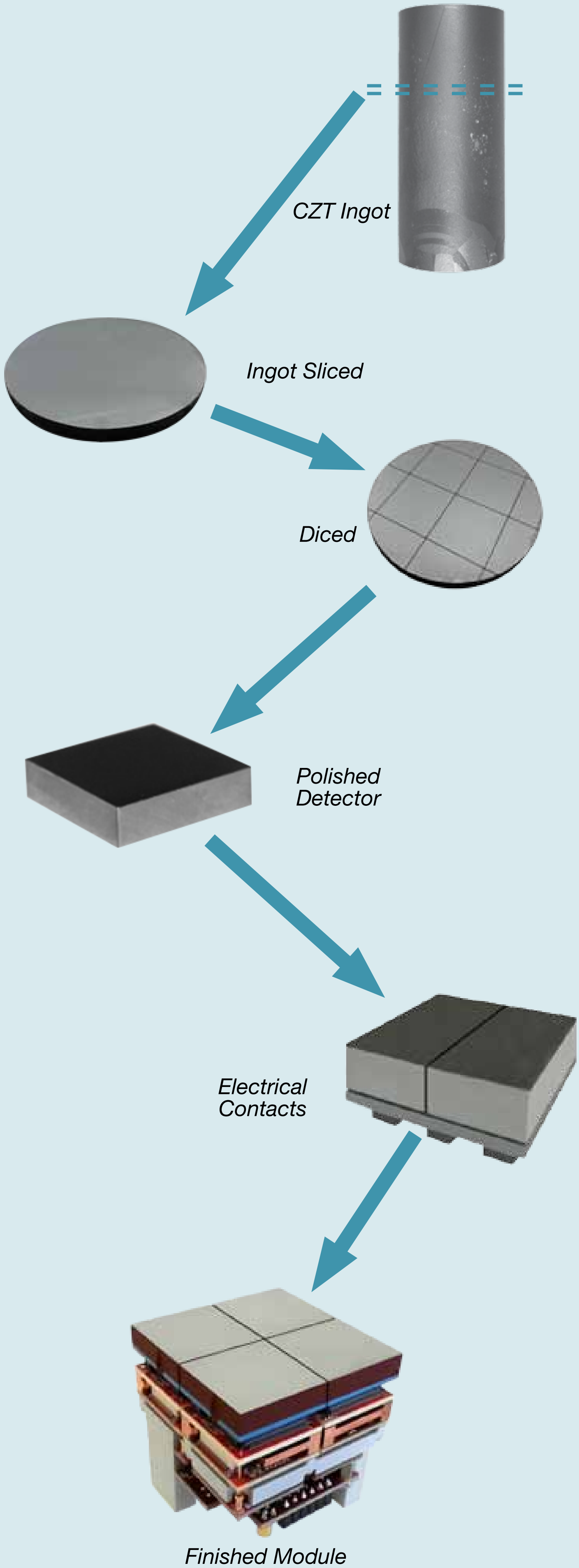
High volume CZT crystal production

High throughput automated wire sawing and dicing

Automated high throughput surface polishing

Automated processing of electrical contacts

Automated bonding and assembly of CZT detector modules



# New Equipment Investment Across CZT Production Operations

In June 2019, our US operations relocated to a new, purpose-built premises near Pittsburgh, Pennsylvania. The facility offers a world-class platform upon which to build next-generation CZT-based molecular imaging SPECT detector assemblies and other medical imaging products.

The building provides a significantly more efficient facility and allows for further capacity expansion, which means that we can deliver on the anticipated growth in medical imaging – which has already been evidenced by the award of the significant seven-year $58.1m contract.

Substantial additional investment has been made in new equipment for process automation necessary to expand our throughput capacity with specialist machine tools for detector fabrication designed to improve operating efficiencies throughout the CZT production cycle.

The site move has enabled a ramp-up in production for CZT-based detector assemblies to serve the SPECT market. We have introduced new CZT processing technology, which is expected to further enhance process quality, yield and manufacturing throughput.

The CZT manufacturing process capability was enhanced with advanced automated sensor assembly capability, significantly improving both process capability and operational capacity.

An illustration of how the increase in automated processes will impact detector fabrication can be seen opposite.

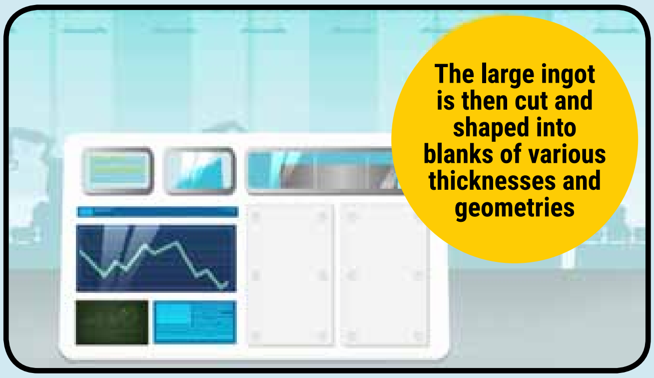
Both the UK and US manufacturing sites are certified to ISO9001:2015 through the annual ISO audit cycle.

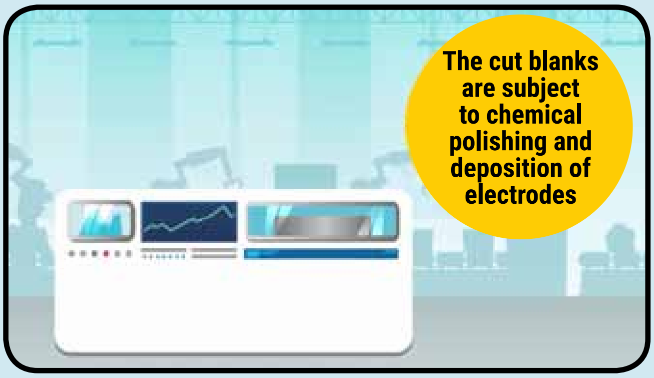

Kromek offers a full turnkey solution from CZT material to detector module production, at volume, in one place

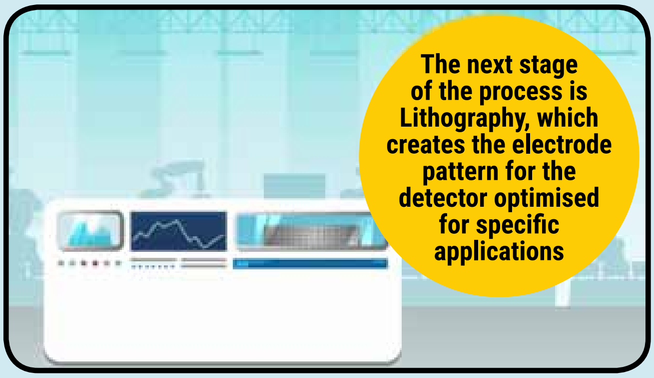

We manufacture in the USA and the United Kingdom...


...exporting worldwide serving a global customer base

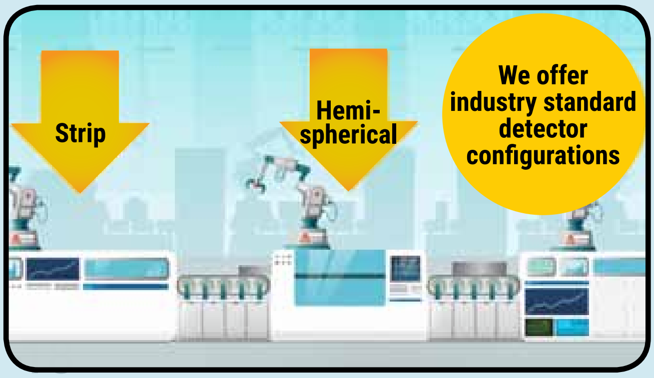

We produce high-quality CZT ingots


The large ingot is then cut and shaped into blanks of various thicknesses and geometries


The cut blanks are subject to chemical polishing and deposition of electrodes

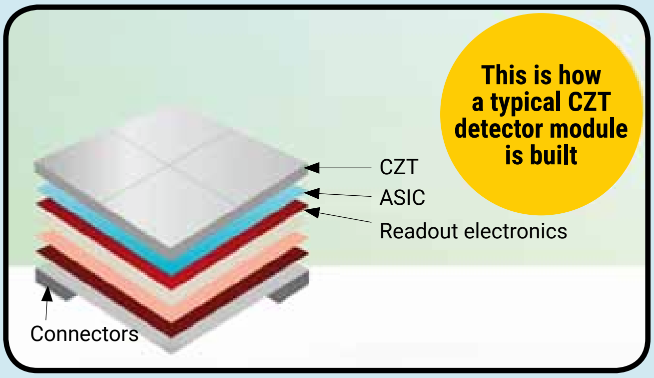

The next stage of the process is Lithography, which creates the electrode pattern for the detector optimised for specific applications

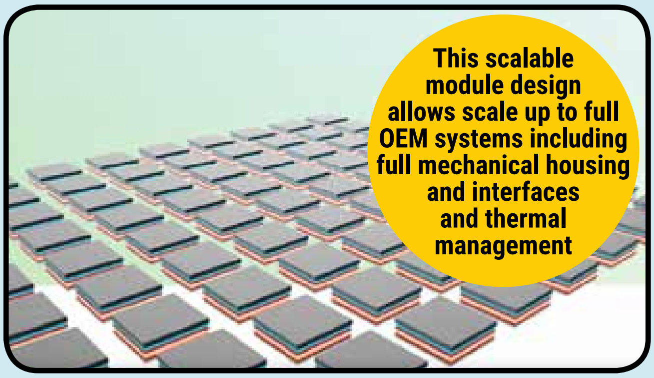

We can develop the detector design to suit customer requirements

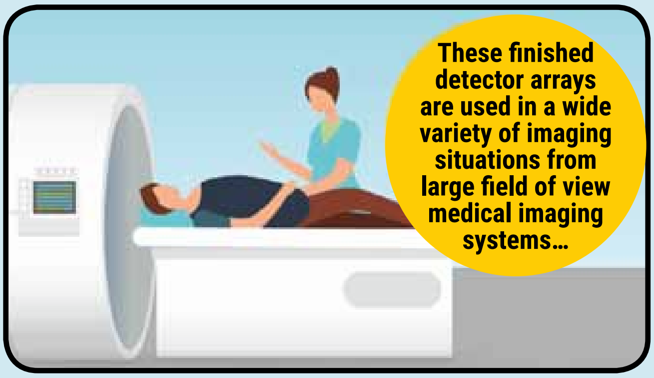

Strip
Hemi-spherical
We offer industry standard detector configurations


CPG
Pixelated
Detector production is a high throughput automated process







**We are our customer's partner for design, development and high-volume supply of CZT and scintillator-based detection and imaging assemblies, advanced handheld and compact systems for radiation detection for civil nuclear use and CBRNE Homeland Defence**

# Transforming Knowledge into Real Products

*Kromek developed the advanced algorithm for the system creating a robust and capable product achieving the ECAC Type C, Standard 3 certification, the highest available. It is the first dual-view system to achieve this level.*

*Background image: jeshoots.com*

*This programme has demonstrated how Kromek is adapting its technology to integrate into future systems for advanced automated liquid explosives detection applications and beyond*

Bomb attacks on civil aviation make detecting explosive devices and explosive material in passenger baggage a major concern. Specifically, the threat of a major terrorist incident involving liquid, aerosol, and gel-based explosives (LAGs) has been constant since a plot to simultaneously blow up nine aircrafts using liquid explosives was foiled in August 2006.

Since then, Kromek's CZT-based technology has been at the leading edge in the development of liquid explosives detection systems (LEDS); whether in manufacturing its own ground-breaking Identifier inspection system or working to meet the exacting requirements of regulator or screening manufacturer customers.

**Knowledge: separating science fact from science fiction**

Kromek was invited to take part in a funded research project, under a 'Eurostars' grant, to develop sophisticated algorithms to accurately determine the contents of bottles when scanned by a generic cabin baggage scanner.

This was to lead to Kromek's transition from producing standalone LED systems to integrating the LEDs' algorithms into applications for next-generation cabin baggage screening equipment.

**Approved: Explosive Detection Systems for Cabin Baggage (EDSCB)**

In 2017, Kromek partnered with a leading European OEM to further develop the algorithm and produce a field-ready product capable of achieving the highest level of threat detection compliance in European Civil Aviation – ECAC certification.

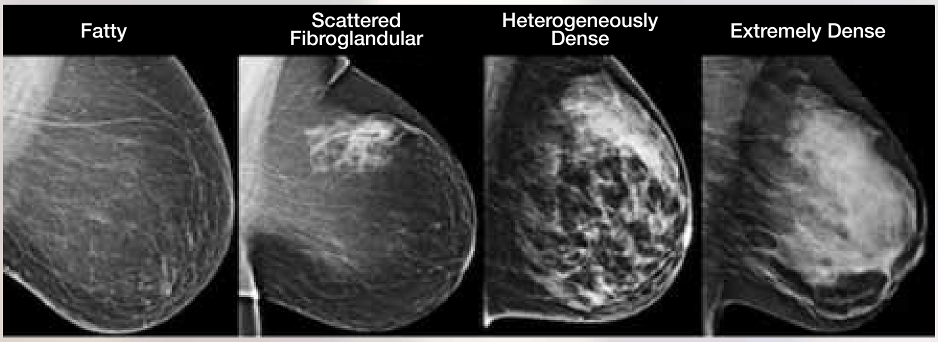
The two-year programme saw Kromek develop an advanced algorithm and a set of accessories for the system, creating a robust and capable product, which achieved the ECAC Type C, Standard 3 certification, the highest available, in January 2020.

***It is the first dual-view system to achieve this level of certification.***

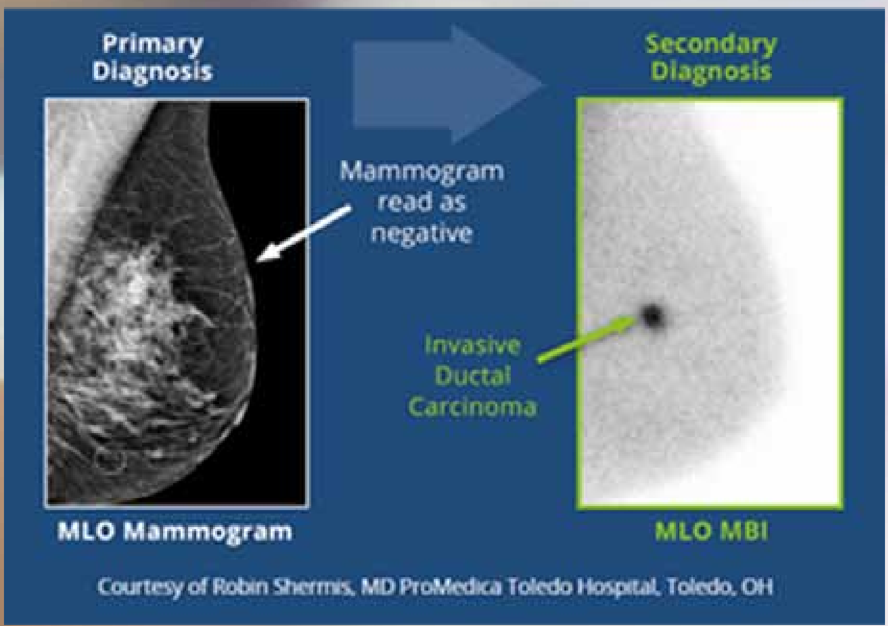
The ECAC certification enabled commercial deployment of the product to begin and, post period, in August 2020, Kromek received its first commercial orders, and deliveries are currently underway.

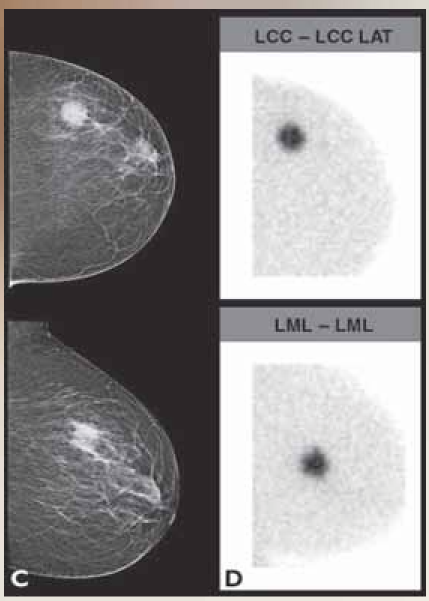
The equipment is co-branded with the OEM and Kromek in a similar fashion to Intel (Intel Inside) with PC manufacturers with equipment displaying ***'Kromek enabled'***.

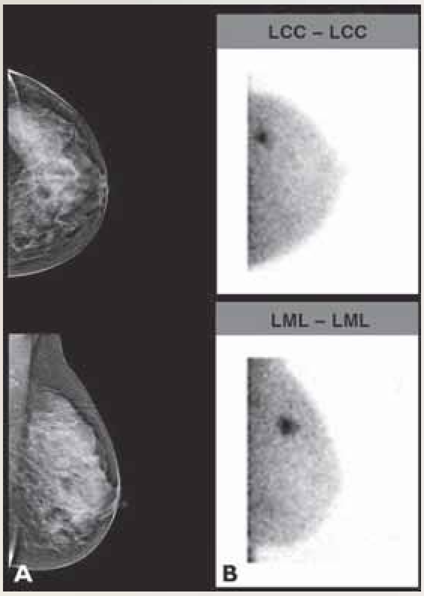
Over the next three years, Kromek will be looking to improve the software capability of the algorithms to meet the current and constantly evolving threat listing to address new threats from both liquid and bulk explosives.




*“Molecular Breast Imaging (MBI) has opened up a new frontier in the fight against breast cancer. The SPECT gamma cameras are able to detect breast cancers missed by mammography and ultrasound, particularly in women with dense breasts tissue.”*



# Winning Technology: Low Dose Molecular Breast Imaging

Finding cancer early means that it is less likely to have spread and treatment can be started earlier in the course of the disease.

Screening mammograms are still the most used method for detecting breast cancer early. Mammograms can usually find lumps two or three years before a woman or her doctor can feel them. However, not all breasts look the same on a mammogram – a woman's age or breast density can make cancers more or less difficult to see. In general, screening mammograms are less effective in younger women because they tend to have denser breast tissue.

Some cancers cannot be detected on a mammogram due to the location of the cancer or the density of the breast tissue. About 25% of cancers in women aged 40-49 are not detectable by a screening mammogram, compared with about 10% in women older than 50.

Molecular Breast Imaging (MBI) is a nuclear medicine technique with proven performance benefits. In a recent clinical trial published by Mayo clinic, with the addition of MBI to mammography, the overall cancer detection rate (per 1000 screened) increased from 3.2 to 12.0. For mammography alone, sensitivity (true positives) was 24% and specificity (true negatives) 89%. For MBI, sensitivity was 81% and specificity 94%.

One of the major barriers for adoption of this proven technology has been higher dose exposure to patients compared with a 2D mammogram.

***Using our expertise to overcome the barriers***

Working with Newcastle Upon Tyne NHS Foundation Trust, Kromek is developing the technology to create a lower dose (with the target dose to equal that of a mammogram) with the ability to guide a biopsy to the tumour.

Building on the core technology of SPECT imaging, the technique reduces the time taken for a scan – providing comfort for the patient but also reducing the radiation exposure time.

A qualitative study on the impact of the device on the clinical workflow will be conducted and published.

Preparations for a clinical trial will be conducted so that both the technology and the clinical protocol have the appropriate ethical and regulatory clearances.

This project is further evidence that CZT-based detectors are becoming a core technology in replacing legacy diagnostic products across the medical imaging sector. Our innovative SPECT detectors are capable of significantly lowering radiation doses, thereby offering cost savings for health services and, crucially, making enhanced detection and early diagnosis of breast cancer accessible on a much wider scale.

Strategic Report *(Continued)*

# 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.*

## Risks associated with COVID-19

### Description

The Group, like so many businesses, faces the significant risk associated with the impacts of the COVID-19 pandemic on the business environment and, at a broader level, in terms of providing a safe working environment for its staff.

### Mitigation

In light of the economic threat brought about by COVID-19, the Board has sought to protect the business within the parameters of our control and in the middle of March 2020, Kromek activated its business continuity plan in response to COVID-19. Management have an extensive forecasting process that can adapt to evolving economic conditions. The Group regularly reviews the operational markets it operates in, adapting its trading prospects in its key markets. Its key markets of nuclear, medical imaging and security screening are not expected to be materially impacted in the long term. In order to mitigate the immediate global reaction to COVID-19, management have secured additional debt funding in the form of Term loans in the UK and Paycheck Protection loans in the US. Extensions have also been achieved regarding existing debt covenants to alleviate any possible short-term uncertainties in financial performance the Group may experience. The Group is able to service existing markets from either the UK or the US, which allows a degree of flexibility should there be differing lockdown guidance in respective geographical areas. Approximately 50% of the workforce is able to work from home effectively, which has been evident through the delivery of a financial year end at the peak of UK/US lockdown measures in April 2020. The operating sites follow local guidance and have implemented a controlled return to work policy and additional hygiene measures regarding the use of PPE. Further details of this are included in the Chief Financial Officer's Review. Some of the Group's existing customers are driving the technology adoption in the key markets. However, this could result in the increase in short-term counterparty risk meaning potential expected credit losses due to COVID-19 disruption. Whilst the Group is confident that this is only a short-term impact, management take a proactive view on such circumstances and are working with the necessary customers in a flexible and collaborative way to minimise any potential impact. From a supply chain perspective specifically for the Group, the main material source of supply is semiconductor material. Due to this being used in critical markets such as medical imaging, our supply chain is widely regarded as essential and is therefore likely to function at relatively normal levels during any local or global lockdowns.

## Risks associated with product and technology adoption rates

### Description

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.

### Mitigation

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 large growing 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.

## Risks associated with competition

### Description

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 more 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.

### Mitigation

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

### Description

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 and working capital.

### Mitigation

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 used for SPECT.

## Risks associated with timing of customer or third-party projects

### Description

The Group's strategy includes co-development with 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.

### Mitigation

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

### Description

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 headquartered 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.

### Mitigation

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.

# Strategic Report *(Continued)*

## Review of Principal Risks *(Continued)*

### Risks associated with Brexit

### Description

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 will continue to monitor Brexit and other macroeconomic factors such as US and China relations. Kromek, as an export led Group, may be subject to risks associated with international trade, including operational impacts on logistics, potential tariffs and duties (for example on imports on some categories of semiconductor material), and export control matters for some of the Group's nuclear products as a result of the final terms of the UK's departure from the European Union. There is unlikely to be an impact on staff relating to any restriction on the movement of labour.

### Mitigation

The Group has significant operations and market presence in non-EU territories such as the US and Asia, as well as a portfolio of products that are market leaders because of the technological capabilities offered. As a result, the Group is strategically well-placed to navigate whatever will be the outcome of the Brexit process. However, management continually monitors the political environment and keeps the potential impact of Brexit under review and other global economic events such as the existing relationship between the US and China. The Group employs specialist skills within its functions and applies regular technical update training to constantly monitor the changing environment and latest government guidelines and industry best practice.

### Section 172 Statement

Under s172 of the Companies Act 2006, the Directors have a duty to act in good faith in a way that is most likely to promote the success of the Company. This duty is for the benefit of its members as a whole, having regard to the likely consequences of decisions for the long-term. Further, the interests of the Company's employees, the need to foster relationships with other key stakeholders, the impact on the community and the environment. Additionally, maintaining a reputation for high standards of business conduct, and the need to act fairly as between members of the Company.

Key decisions made by the Board during 2019/20 were related primarily to the expansion of production capabilities in the UK and US and key and long-term global technology opportunities. The Board believes that the decision taken to expand production capabilities for the growth of CZT in 2018/19 and 2019/20 to service significant and expected product growth and commercialisation was in the best long-term interests of shareholders, taking into account the balance of financial and operational risk compared with the potential financial returns. Further, the Board believes that, following a review of the existing commercial relationships with key customers in Asia, the most prudent action was to impair assets on the balance sheet due to uncertainty created by COVID-19. Asia still represents a significant technology opportunity for the Group, however, it is currently uncertain of timescales to full market traction.

The top 10 investors in the Company equates to approximately 61% of the Company's shares. The Executive Directors communicate from time-to-time with these shareholders and have a good understanding of their interests. The Executive Directors and other members of the management team meet regularly with other shareholders, both institutional and private, to explain and discuss the Group's strategy and objectives and to understand the interests of smaller shareholders in the Company. The Board recognises its responsibility to act fairly between all shareholders of the Company.

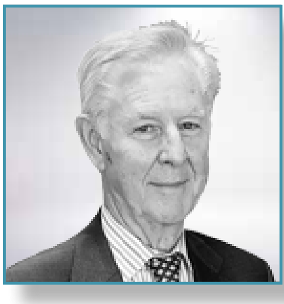
The Group employed an average of 139 staff during 2019/20. The management team interacts daily with all employees and operate dedicated HR functions at its key sites in the UK and US. Management has implemented employee policies and procedures that are appropriate for the size of the Group.

Apart from its shareholders and employees, the Group's main stakeholders are customers and suppliers. The Group has several contracts with customers that relate to longer term technology development and supply. The Group has engaged a dedicated Procurement and Legal function that operates with the Group's commercial, project and production teams and those of the Group's key customers and suppliers

As a relatively small organisation, the Group's impact on the community and the environment is modest but the Board endeavours to ensure that the business acts ethically and in an environmentally conscious manner. The Group endeavours to operate to practical levels on matters of corporate responsibility and recently elected to contract its energy supplies in the UK from clean energy sources.

**Dr Arnab Basu MBE**
Chief Executive Officer
6 October 2020

# Directors' Biographies



## Sir Peter Williams, Chairman

Sir Peter Williams, CBE, FREng, FRS, completed his degree and PhD at Cambridge University, and then taught at Imperial 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 was formerly Chairman of the National Physical Laboratory, VP and Treasurer of the Royal Society and Chairman of the Daiwa Anglo Japanese Foundation.

## Dr Arnab Basu, Chief Executive Officer

Dr Basu has a PhD in physics from Durham University, specialising in semiconducting sensor materials. He held senior management positions in his family business, serving over 250 major telecommunications and consumer electronics manufacturers, including Siemens and GEC. He also worked in commercial product development for Elmwood Sensors Ltd (Honeywell Group, UK). A prominent figure within the business community, Dr Basu was awarded EY '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

Mr Bulmer qualified as a Chartered Accountant in 1992 and as a Barrister in 2010. He trained with Grant Thornton and has also worked with KPMG and undertaken several senior management roles with blue-chip public companies, including Bass plc, AWG plc and Ibstock plc. He has also held a number of roles as Finance Director of privately owned groups in both the IT and oil and gas industries. Mr Bulmer has a wealth of experience in executing and managing business acquisitions plus significant aspects of the commercial and legal disciplines of corporate management and has undertaken several significant dispute resolutions and settlements.

## Mr Lawrence Kinet, Non-Executive Director

Mr Kinet has over 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. Mr Kinet 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 and 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.

## 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, Audit Committee Chair

Mr Wilks BSc, FCA, was formerly the Chief Financial Officer at Signum Technology, which he co-founded in 2012. Prior to this, he was Chief Financial Officer at Sondex plc where he successfully managed their listing on the Main Market of the London Stock Exchange in 2003 and made several post-IPO acquisitions. In 2007 Sondex was acquired by GE. After graduating from Durham University with a BSc in Applied Physics and Electronics, Mr Wilks joined Marconi Space Systems designing power systems for space craft and then he trained as a Chartered Accountant at Arthur Young (now EY). After qualifying as a Chartered Accountant in audit, he became a Manager in the Corporate Finance team. His intimate understanding of the physics and financial worlds adds valuable insight and expertise to the Board of Kromek

# 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 2020.

## 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. The Group realises revenue primarily on the sale of radiation equipment, development of radiation technology and for leading research into different potential applications of its detection technology.

## 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 2020, principal risks and uncertainties, research and development, financial KPIs and the outlook for future years, are set out in the Chairman's Statement, Chief Executive Officer's Review and the Chief Financial Officer's Review, on pages 2- 13.

## Future developments

The Group's development objectives for 2020/21 are disclosed in the Strategic Report on pages 4-26.

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, and the Group has significant operations and manufacturing facilities in both the US and UK, the Directors believe the Group is strategically well-placed to navigate whatever will be the outcome of the Brexit process. However, the Directors continually monitor the political environment and keep the potential impact of Brexit under review and other global economic events such as the existing relationship between the US and China. 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 2020.

## Results and dividends

The consolidated income statement is set out on page 48.

The Group's loss after taxation and exceptional items amounted to £16.5m (2018/19 restated: £0.6m).

The Directors do not recommend the payment of a dividend for the year ended 30 April 2020.

During the year ended 30 April 2020, the Group made political donations of £nil (2018/19: £nil) and charitable donations of £nil (2018/19: £nil).

## Directors

The Directors who served throughout the year and up to the date of signing this report (unless otherwise stated) were as follows:
Dr A Basu
Mr D Bulmer
Sir P Williams
Mr L Kinet
Mr J H Whittingham
Mr C Wilks

The emoluments and interests of the Directors in the shares of the Group are set out in the Remuneration Committee 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 in respect of the annual report and the financial statements**

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. Under 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 they 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.

## Employees

Kromek develops and manufactures products and systems that are designed to make the world a safer place. The Board and senior management value technological development in the Group's sector and actively support developments that lead to better scanning and detection systems. To this end, Kromek participates in technology transfer projects, and works with many universities and other places of learning worldwide. The Board, executive team and staff are active across a wide range of industry steering groups, organisations and other stakeholder organisations. All staff are encouraged to meet and participate in events and conferences that operate in their area of expertise. The Group's learning and development policy encourages employees to further their professional development. Operating a business that is fair and equitable for all is vital to the Group's success. Kromek's ethical values are outlined in its:

- Equal opportunity policy;
- Personal harassment policy;
- Family-friendly policy;
- Equality, inclusion and diversity policy; and
- Anti-bribery and corruption policy.

These policies are circulated to staff as part of the employee manual, and reminders are sent on a regular basis as the manual is updated and changed.

The Group has several routes in place to reinforce ethical behaviour, which, depending upon the situation, could be resolved in a regular one-to-one meeting, personal improvement plan or in more severe action, including immediate dismissal.

The Group's current number of staff at the date of this report is 132 and the percentage of this number that is female is 33%.

## 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.

## Substantial shareholders

As at 30 April 2020, 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 | 55,099,914 | 15.99 |
| Canaccord Genuity Wealth Management | 32,628,355 | 9.47 |
| Hargreaves Lansdown Asset Management | 22,459,102 | 6.52 |
| Polymer Holdings | 20,273,475 | 5.88 |
| Interactive Investor | 19,625,659 | 5.69 |
| Herald Investment Management | 17,747,059 | 5.15 |
| Killik Asset Management | 11,926,952 | 3.46 |
| Kromek Group Former Directors (UK) | 10,709,844 | 3.11 |

By order of the Board

**Dr Arnab Basu MBE**
Chief Executive Officer
6 October 2020

# Corporate Governance Report

The Directors recognise the importance of sound corporate governance and have chosen to apply the Quoted Companies Alliance Corporate Governance Code (the "QCA Code"). The QCA Code was developed by the QCA, in consultation with a number of significant institutional small company investors, as a corporate governance code applicable to companies with shares traded on AIM.

| Principle | Compliance |
|---|---|
| 1. Establish a strategy and business model which promote long-term value for shareholders | • Kromek is a leading supplier of radiation detection components and devices.<br>• The Group strategy is set out on pages 4 to 26 in the Strategic Report section of this Annual Report.<br>• The Board normally meets formally at least four times per year in person and four times per year telephonically. One of the Board's direct responsibilities is setting and monitoring strategy. |
| 2. Seek to understand and meet shareholder needs and expectations | • Investor roadshow meetings are held at least twice per year immediately following the full year and interim announcements.<br>• Shareholders are invited to the AGM held in Sedgefield where all Board members have the opportunity to interact with shareholders and are available to answer questions raised.<br>• Shareholder feedback is received from our Nomads and all shareholder feedback is discussed at Board meetings.<br>• For further information, see Section 172 statement on page 26 of this Annual Report. |
| 3. Take into account wider stakeholder and social responsibilities and their implications for long-term success | • In terms of employees, regular meetings are held with management tiers to discuss strategy, keep employees updated, seek feedback and promote employee engagement.<br>• The Group engages in continuous communication and engagement with customers in order to understand their needs and requirements.<br>• The procurement team maintains strong relationships with existing suppliers whilst promoting new partnerships with new suppliers.<br>• For further information, see Section 172 statement on page 26 of this Annual Report. |
| 4. Embedded effective risk management, considering both opportunities and threats throughout the organisation | • The Board has overall responsibility for risk management and is assisted by the Audit Committee in monitoring the principal risks and uncertainties facing the Group as well as the actions taken to mitigate those risks.<br>• The Group's significant risks are reviewed and assessed throughout the year.<br>• The significant risks are disclosed on pages 24 – 26 of the Strategic Report within this Annual Report. |
| 5. Maintain the Board as a well-functioning, balanced team led by the Chairman | • The Board is led by the Non-Executive Chairman, Sir Peter Williams.<br>• The members of the Board maintain the appropriate balance of experience, independence and knowledge of the Group.<br>• For further information, please see page 27 of this Annual Report. |
| 6. Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities | • Between the four Non-Executive Directors and the two Executive Directors, the Board has an effective balance of skills, experience and capabilities including finance, technology, law and knowledge of the medical sector.<br>• Biographies of each Director can be found on page 27 of this Annual Report. |
| 7. Evaluate Board performance based on clear and relevant objectives, seeking continuous improvements | • The Remuneration Committee evaluates Executive Director performance alongside remuneration and reward.<br>• With regards to financial performance, the Audit Committee meets with the Auditors to plan the year-end audit, followed up by a meeting to review the results of the audit. |
| 8. Promote a corporate culture that is based on ethical values and behaviours | • The Group's ethical values are outlined on page 29 of this Annual Report.<br>• All staff are encouraged to meet and participate in events and conferences that operate in their area of expertise. The Group's learning and development policy encourages employees to further their professional development. |
| 9. Maintain governance structures and processes and support good decision making by the Board | • As noted in principle 1, the Board normally meets formally at least four times per year in person and four times per year telephonically.<br>• The Audit Committee also meets two times per year and one of its key responsibilities is to review the effectiveness of the Group's internal control over financial reporting and consider key financial judgements made in the financial statements.<br>• The Group's financial results and internal controls are also audited by external Auditors to ensure they are consistent with the Audit Committee's understanding. |
| 10. Communicate how the Group is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders | • Communication with shareholders is explained in principle 2 above.<br>• The Group's website details RNS announcements and copies of the Annual and Interim reports. |

This information is available on the Group's website. Please visit www.kromek.com.

## The Board

The Board normally meets formally 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.

## Board meetings

The Board met five times in person during the year ended 30 April 2020, including one AGM. The following details the Board meetings during 2019/20 and the attendees:

| Date | Attendees |
|---|---|
| 26/06/2019 | Sir Peter Williams<br>Arnab Basu<br>Derek Bulmer<br>Lawrence Kinet<br>Jerel Whittingham<br>Christopher Wilks |
| 25/09/2019 | Sir Peter Williams<br>Arnab Basu<br>Derek Bulmer<br>Lawrence Kinet<br>Jerel Whittingham<br>Christopher Wilks |
| 26/10/2019<br>(AGM) | Sir Peter Williams<br>Arnab Basu<br>Derek Bulmer<br>Lawrence Kinet<br>Jerel Whittingham<br>Christopher Wilks |
| 10/12/2019 | Sir Peter Williams<br>Arnab Basu<br>Derek Bulmer<br>Lawrence Kinet<br>Jerel Whittingham<br>Christopher Wilks |
| 04/03/2020 | Sir Peter Williams<br>Arnab Basu<br>Derek Bulmer<br>Lawrence Kinet<br>Jerel Whittingham<br>Christopher Wilks |

## Board effectiveness

The Board has set out, in the contract for Non-Executive Directors, the time commitment required and asked for confirmation that the Director can devote enough time to meet the expectations of the Board.

The Board currently anticipates a minimum time commitment of one day per month and further days if required for the satisfactory fulfilment of Directors' duties. This includes attendance at five Board meetings per annum, including attendance at four in person, the AGM, any general meeting, one annual Board away day and at least one site visit per year. Also, Directors are expected to devote appropriate preparation time ahead of each meeting.

The Board requires the Directors to disclose any other significant time commitments and to obtain the agreement of the Chairman, or in the event that the Chairman has a conflict of interest in relation to such matter, obtain the agreement of one of the Company's independent Non-Executive Directors, before accepting additional commitments that might affect their time to devote to the role as a Non-Executive Director of the Company.

The Board is satisfied that, between the Directors, the executive team and senior management, the Group has an effective and appropriate balance of skills and experience. These include the areas of technology, business operation, finance, innovation, international trading and marketing. All Directors have extensive technical qualifications and experience relating to their area of operation.

The Board conducts half yearly reviews of the effectiveness of its performance as a unit and of the individual members, meeting with Board members to discuss their involvement with the Company to ensure that:

1. their contribution is relevant and effective;
2. that they are committed to Kromek and its values; and
3. where relevant, they have maintained their independence.

In order to measure the effectiveness of the Board against these three points, four areas of performance are considered:

1. Process and relationships
   - Effective in dispatching business in and between meetings.
   - Good internal board dynamics.
   - Good key relationships.
2. Coverage
   - Focuses on key issues and risks.
   - Initiative-taking, dealing with crises and identifying emerging issues.
3. Impact
   - Contributes to the Company's performance.
4. Sustainability
   - Aware of, and interested in, good practice.

The above forms a basis for discussion around performance in one-to-one discussions with Board members, CEO, CFO and Chairman to measure effectiveness. These occur after Board meetings and during other meetings with the senior team. The Board has not adopted any more mechanistic performance exercises, but this is always under consideration and may be adopted in the future.

## Relations with stakeholders

### *Shareholders*

The Company communicates with shareholders through the Annual Report and Accounts, full-year and half-year announcements, regulatory announcements, the Annual General Meeting (AGM) and one-to-one meetings with existing and potential new shareholders. The Chairman aims to ensure that the Chairs of the Audit and Remuneration Committees are

# Corporate Governance Report *(Continued)*

available at the Annual General Meeting to answer questions. All regulatory announcements along with annual reports and notices of all general meetings over the last five years are available on the corporate website and are publicised through Kromek's social media channels and newsletters.

The Board receives regular updates on the views of shareholders through briefings and reports from Investor Relations, the CEO, CFO and the Company's brokers. The Company communicates with institutional investors frequently through briefings with management and, at a minimum, at the time of the publication of the half year and full year results.

### *Broader stakeholders*

Kromek develops and manufactures products and systems that are designed to make the world a safer place. To support this goal, Kromek participates in technology transfer projects, and works with many universities and other places of learning worldwide. The Board, executive team and staff are active across a wide range of industry steering groups, organisations and other stakeholder organisations.

As noted in the Directors' Report above, the Group's learning and development policy encourages employees to further their professional development. The Group also has a number of policies to ensure the operation of a business that is fair and equitable for all.

## Audit Committee

The Audit Committee is chaired by Christopher Wilks, an Independent Non-Executive Director. The other members are Sir Peter Williams, Lawrence Kinet and Jerel Whittingham, all Independent Non-Executive Directors. The committee meets at least two 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.

The Audit Committee meets two times per year and the following details the Audit Committee meetings and attendees during the year ended 30 April 2020:

| Date | Attendees |
|---|---|
| 25/06/2019 | Christopher Wilks (Chair)<br>Sir Peter Williams<br>Derek Bulmer<br>Lawrence Kinet<br>Jerel Whittingham |
| 10/12/2019 | Christopher Wilks (Chair)<br>Sir Peter Williams<br>Derek Bulmer<br>Lawrence Kinet<br>Jerel Whittingham |

## Remuneration Committee

The Remuneration Committee is chaired by Jerel Whittingham, an Independent Non-Executive Director. The other member is Lawrence Kinet, an Independent Non-Executive Director. 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 Remuneration Committee Report on pages 35 to 37.

## 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. 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 concern other than via the Executive Directors and senior leadership team.

## Going concern

As at 30 April 2020, the Group had net current assets of £12.3m (30 April 2019: £36.5m) and cash and cash equivalents of £9.4m (30 April 2019: £20.6m) 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 two years. As a result of COVID-19, a revised base case scenario was assessed along with a severe but plausible downside less likely scenario. In the revised base case scenario, with continued support from HSBC, the Group has adequate resources to operate for at least the next 12 months. In the severe but plausible downside, stress test scenario beyond the Board's estimate of revised base case, it is possible that the Group may breach one of the bank's five covenants during the 12 month going concern review period. It should be noted that the Board has specifically excluded any significant upsides from these scenarios or mitigating cost reductions, despite COVID-19 representing potential major opportunities for the Group in terms of its biological detection capabilities and license agreement to manufacture ventilators. 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 its present and foreseeable obligations for a period of at least 12 months from approval of these financial statements. Accordingly, they continue to adopt the going concern basis in preparing the Group financial statements. For further reference, please refer to the basis of preparation note (page 53).

# Audit Committee Report

On behalf of the Board, I am pleased to present the Audit Committee report for the year ended 30 April 2020.

The Audit Committee is responsible for ensuring that the financial performance of the Group is properly reported and reviewed. Its role includes monitoring the integrity of the financial statements, reviewing internal control and risk management systems, reviewing any changes to accounting policies, and reviewing and monitoring the extent of the non-audit services undertaken by external auditors outside the committee schedule to ensure there is full opportunity for discussion.

## Members of the Audit Committee

The Committee consists of four Independent Non-Executive Directors: me (as Chair), Sir Peter Williams, Lawrence Kinet and Jerel Whittingham.

The Board is satisfied that I, as Chairman of the Committee, have recent and relevant financial experience. I was formerly Chief Financial Officer at Signum Technology, which I co-founded in 2012. Prior to this, I was Chief Financial Officer at Sondex plc, where I successfully managed their listing on the Main Market of the London Stock Exchange in 2003 and made several post-IPO acquisitions. In 2007, Sondex was acquired by GE. After graduating from Durham University with a BSc in Applied Physics and Electronics, I initially joined Marconi Space Systems designing power systems for space craft, and then trained as a Chartered Accountant at Arthur Young (now EY).

## Duties

The main duties of the Audit Committee are set out in its Terms of Reference, which are available on the Company's website (www.kromek.com) and are available on request from the Company Secretary.

The main items of business considered by the Audit Committee during the year included:

- review of the financial statements and annual report;
- consideration of the external audit report and management representation letter;
- going concern review;
- review of the 2020 audit plan and audit engagement letter;
- review of suitability of the external auditors;
- review of the risk management and internal control systems;
- review and approval of the interim results;
- assessment of the need for an internal audit function; and
- meeting with the external auditor without management present.

## Role of the external auditor

The Audit Committee monitors the relationship with the external auditor, KPMG LLP, to ensure that auditor independence and objectivity are maintained. As part of its review, the Audit Committee monitors the provision of non-audit services by the external auditor. The breakdown of fees between audit and non-audit services is provided in note 6 of the Group's financial statements. The non-audit fees related to the interim review, as well as LTIP, compliance and tax advice for the Group.

The Audit Committee also assesses the auditor's independence and performance. The year ended 30 April 2020 represents the first year that Rebecca Pett, the KPMG LLP audit partner and Responsible Individual (RI), has signed the accounts. She has replaced David Mitchell as the RI in the year following staff rotation. The year ended 30 April 2020 represents the third year that KPMG LLP have acted as the external auditor of the Group.

## Audit process

The auditor prepares an audit plan for its review of the full year financial statements. The audit plan sets out the scope of the audit, areas to be targeted and audit timetable. This plan is reviewed and agreed in advance by the Audit Committee for discussion. No major areas of concern were highlighted by the auditor during the year; however, during the audit period, areas of significant risk, audit differences and other matters of audit relevance are regularly communicated. The auditor currently calculates materiality using the Group's normalised loss before tax. As the Group's loss before tax (before exceptional items) has increased to £5.3m during 2019/20 (2018/19: £1.3m), the materiality of the Group has consequently increased by 11% to £167k (2018/19: £150k). There were no unadjusted material differences reported by the auditor to the Audit Committee.

## Internal audit

At present the Group does not have an internal audit function, and the Audit Committee believes that management is able to derive assurance as to the adequacy and effectiveness of internal controls and risk management procedures without one.

## Risk management and internal controls

As described on pages 32 to 33 of the Corporate Governance Report, the Group has established a framework of risk management and internal control systems, policies, and procedures. The Audit Committee is responsible for reviewing the risk management and internal control framework and ensuring that it operates effectively. During the year, the Audit Committee reviewed the framework and is satisfied that the internal control systems in place are currently operating effectively.

## Whistleblowing

The Group has in place a whistleblowing policy that sets out the formal process by which any employee of the Group may, in confidence, raise concerns about possible improprieties in financial reporting or other matters.

**Christopher Wilks**
Audit Committee Chairman
6 October 2020

# Remuneration Committee 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 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 Remuneration Committee has given consideration to the requirements of the UK Corporate Governance Code.

## Remuneration policy

The remuneration of Executive Directors is determined by the Remuneration 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 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. 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 from May 2022 to 2024 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. 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 Remuneration 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 or share options.

## Directors' emoluments (Audited)

Emoluments of the Directors for the year ended 30 April 2020 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:

| Year Ended | 30 April 2020 £'000 | 30 April 2019 £'000 |
|---|---|---|
| **Director** | | |
| Arnab Basu | 10 | 10 |
| Derek Bulmer | 10 | 10 |

## Directors' shareholdings

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

| | 30 April 2020 | | 30 April 2019 | |
|---|---|---|---|---|
| | Number | % | Number | % |
| Arnab Basu | 2,972,000 | 0.9 | 2,952,000 | 0.9 |
| Derek Bulmer | 132,292 | 0.0 | 112,292 | 0.0 |
| Peter Williams | 200,000 | 0.1 | 150,000 | 0.0 |
| Lawrence Kinet | 300,000 | 0.1 | 300,000 | 0.1 |
| Jerel Whittingham | 364,890 | 0.1 | 364,890 | 0.1 |
| Christopher Wilks | 175,000 | 0.1 | 125,000 | 0.0 |

# Remuneration Committee Report *(Continued)*

## Directors' emoluments for the year ended 30 April 2020

The table below forms part of the audited financial statements:

| | Salary £'000 | Benefits £'000 | Bonus paid £'000 | Pension contributions £'000 | **Total emoluments 2019/20 £'000** | Total emoluments 2018/19 £'000 |
|---|---|---|---|---|---|---|
| **Non-executive Chairman** | | | | | | |
| Sir Peter Williams | 69 | - | - | - | **69** | 74 |
| **Executive** | | | | | | |
| Arnab Basu | 210 | 11 | - | 10 | **231** | 316 |
| Derek Bulmer | 172 | 4 | - | 10 | **186** | 219 |
| **Non-executive** | | | | | | |
| Lawrence Kinet | 36 | - | - | - | **36** | 38 |
| Jerel Whittingham | 39 | - | - | - | **39** | 41 |
| Christopher Wilks | 39 | - | - | 1 | **40** | 40 |
| Graeme Speirs* | - | - | - | - | **-** | 15 |
| **Total** | **565** | **15** | **-** | **21** | **601** | 743 |

**Graeme Speirs resigned from his position as a Non-Executive Director in the prior year ended 30 April 2019.*

## 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 October 2019, an incentive award scheme for Arnab Basu and Derek Bulmer, to offer them up to 443,038 and 358,650 shares respectively, at a price of 1p per share to vest based on specified performance criteria.

The Remuneration Committee agreed, in January 2019, an incentive award scheme for Arnab Basu and Derek Bulmer, to offer them up to 411,765 and 333,333 shares respectively, at a price of 1p per share to vest based on specified performance criteria.

The Remuneration Committee agreed, in December 2017, an incentive award scheme for Arnab Basu and Derek Bulmer, to offer them up to 438,202 and 307,865 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 Total Shareholder Return (TSR) condition, calculated as the average total return in comparison to a peer group. The Board received specialist advice from the Group's auditor throughout the year when the Group was not engaged in either the interim review or statutory audit process.

As at 30 April 2020, the shares issued in 2018, 2019 and 2020 remained unvested.

During 2017/18, 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. 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.

## Share price during the year

During the year to 30 April 2020, the highest share price was 27.00p (2018/19: 31.34p) and the lowest share price was 10.50p (2018/19: 21.22p). The market price of the shares at 30 April 2020 was 20.00p (30 April 2019: 25.50p).

## 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 2019 number | Awarded during the year | Exercised during the year | At 30 April 2020 number | Expiry date |
|---|---|---|---|---|---|---|---|
| Arnab Basu | 20 Nov 2011 | 20.0 | 1,000,000 | - | - | 1,000,000 | 20 Sept 2021 |
| Derek Bulmer | 13 Sept 2010 | 20.0 | 500,000 | - | - | 500,000 | 13 Sept 2020 |
| Derek Bulmer | 15 Oct 2012 | 20.0 | 125,000 | - | - | 125,000 | 15 Oct 2022 |
| Derek Bulmer | 31 May 2013 | 20.0 | 250,000 | - | - | 250,000 | 31 May 2023 |

*This page is left intentionally blank*

# Kromek Group plc

Annual report and accounts for the year ended 30 April 2020

Financial Statements

# 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 2020 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cash flows, company statement of financial position, company statement of changes in equity, company statement of cash flows, and the related notes, including the accounting policies in note 2.

**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 2020 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.

| **Overview** | |
|---|---|
| **Materiality:** Group financial statements as a whole | £167,000 (2019: £150,000)<br>5% (2019: 5%) of normalised Group loss before tax |
| **Coverage** | 100% (2019: 100%) of Group loss before tax |

| **Key audit matters** | | **vs 2019** |
|---|---|---|
| **Recurring risks** | Revenue recognition on contracts ongoing at year end | ▲ |
| | Recoverability of development costs | ◀▶ |
| | Parent company: investment and receivables recoverability | ◀▶ |
| | Going Concern | ▲ |
| **Event driven** | The impact of uncertainties due to the UK exiting the European Union | ◀▶ |
| | **New:** Recoverability of amounts receivable on contract assets ('AROC') | |
| | **New:** Recoverable amount of goodwill | |

**2 MATERIAL UNCERTAINTY RELATED TO GOING CONCERN**

| The risk | | Our response |
|---|---|---|
| **Going Concern**<br>We draw attention to note 2 to the financial statements which indicates that the Group is subject to a number of covenants in respect of its borrowings. Whilst the Group's base case forecasts do not indicate a breach of the covenants (due to obtaining a waiver from its lender) the severe but plausible downside scenario does indicate a breach of the covenants. The successful replacement of its revolving credit facilities, due to expire in April 2022, is also uncertain.<br>The continued availability of the Group's bank facilities and the successful replacement of the revolving credit facility in April 2022, along with the other matters explained in note 2,constitute a material uncertainty that may cast significant doubt on the Group and Company's ability to continue as a going concern.<br>Our opinion is not modified in respect of this matter. | **Disclosure quality**<br>There is little judgement involved in the directors' conclusion that risks and circumstances described in note 2 to the financial statements represent a material uncertainty over the ability of the Group and company to continue as a going concern for a period of at least a year from the date of approval of the financial statements.<br>However, clear and full disclosure of the facts and the directors' rationale for the use of the going concern basis of preparation, including that there is a related material uncertainty, is a key financial statement disclosure and so was the focus of our audit in this area. Auditing standards require that to be reported as a key audit matter. | Our procedures included:<br>**Historical comparisons:** We assessed the reasonableness of the cash flow forecasts by considering the historical accuracy of the previous forecasts.<br>**Sensitivity analysis:** We considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts, including revenue cash flows, taking account of reasonably plausible but severe downsides that could arise individually and collectively.<br>**Test of detail:** We tested the integrity of the cash flow models.<br>**Independent reperformance:** We recalculated the borrowing covenant calculations in each of management's forecasts.<br>**Inspection:** We inspected the signed covenant waiver agreement with the lender.<br>**Assessing transparency:** We assessed the completeness and accuracy of the matters covered in the going concern disclosure by reference to our audit findings from the above procedures and our understanding of the Group's business. |

# Independent Auditor’s Report *(Continued)*

### 3. OTHER KEY AUDIT MATTERS: INCLUDING 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. Going concern is a significant key audit matter and is described in section 2 of our report. In arriving at our audit opinion above, the other key audit matters were as follows:

| The risk | | Our response |
|---|---|---|
| **The impact of uncertainties due to the UK exiting the European Union**<br><br>*Refer to pages 24-26 (principal risks), page 34 (Audit Committee Report), pages 53-61 (accounting policy) and pages 63-86 (financial disclosures).* | **Extreme levels of uncertainty**<br><br>The UK left the European Union (EU) on 31 January 2020 and entered an implementation period which is due to operate until 31 December 2020. At that point current trade agreements with the European Union terminate. The UK is entering negotiations over future trading relationships with the EU and a number of other countries. Where new trade agreements are not in place World Trade Organisation (WTO) arrangements will be in force, meaning among other things import and export tariffs, quotas and border inspections, which may cause delivery delays. Different potential outcomes of these trade negotiations could have wide ranging impacts on the Group’s operations and the future economic environment in the UK and EU.<br><br>All audits assess and challenge the reasonableness of estimates, in particular as described in recoverability of development costs, valuation of goodwill and parent company: investment and receivables recoverability below, and related disclosures; and the appropriateness of the going concern basis of preparation of the financial statements (see previous page). All of these depend on assessments of the future economic environment and the Group’s future prospects and performance.<br><br>The uncertainty over the UK’s future trading relationships with the rest of the world and related economic effects give rise to extreme levels of uncertainty, with the full range of possible effects currently unknown. | We developed a standardised firm-wide approach to the consideration of the uncertainties arising from the UK’s departure from the EU in planning and performing our audits. Our procedures included:<br><br>**Our knowledge of the business:** We considered the directors’ assessment of risks arising from different outcomes to the trade negotiations for the Group’s business and financial resources compared with our own understanding of the risks. We considered the directors’ plans to take action to mitigate the risks.<br><br>**Sensitivity analysis:** When addressing recoverability of development costs, valuation of goodwill and parent company, investment and receivables recoverability and other areas that depend on forecasts, we compared the directors’ analysis to our assessment of the full range of reasonably possible scenarios resulting from these uncertainties and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty.<br><br>**Assessing transparency:** As well as assessing individual disclosures as part of our procedures on going concern, recoverability of development costs, parent company: investment and receivables recoverability and valuation of goodwill we considered all of the disclosures concerning uncertainties related to the UK’s future trading relationships together, including those in the strategic report, comparing the overall picture against our understanding of the risks. |

### 3. OTHER KEY AUDIT MATTERS: INCLUDING OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT (CONT.)

| | The risk | Our response |
|---|---|---|
| **Group: Contract revenue recognition**<br>(£0; 2019: £5,278,000)<br>*Refer to page 34 (Audit Committee Report), pages 53-61 (accounting policy) and pages 63-86 (financial disclosures).* | **Subjective estimate**<br>One of the Group's contracts with its customers involves the construction of complex technical equipment and provision of associated services over a period of more than one year and has been accounted for over time, with contract progress based on costs incurred over an estimate of forecast total costs.<br>No revenue has been recognised in respect of this contract in the current year as the contract has not progressed since the prior year end. In addition, a 100% expected credit loss provision has been recognised in relation the contract assets and receivables on this contract (see below).<br>The effect of these matters is that, as part of our risk assessment for audit planning purposes, we determined that revenue recognised has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. In conducting our final audit work, we reassessed the degree of estimation uncertainty to be less than that materiality. | Our procedures included:<br>— **Accounting analysis:** We inspected the signed contracts and correspondence with customers (including involving legal specialists) to assess whether the contracts had been appropriately accounted for in line with IFRS 15.<br>— **Independent reperformance:** We agreed costs to complete to detailed breakdowns and checked the mathematical accuracy to assess the calculation of costs to complete and whether revenue and margin had been appropriately recognised.<br>— **Assessing transparency:** We assessed the adequacy of the disclosures in relation to the accounting treatment of revenue recognised over time in the Annual Report. |
| **Group: Recoverability of amounts receivable on contract assets ('AROC')**<br>(£172,000; 2019: £12,362,000)<br>*Refer to page 34 (Audit Committee Report), pages 53-61 (accounting policy) and pages 75-76 (financial disclosures).* | **Subjective estimate**<br>Contract revenues recognised over time in relation to one contract resulted in a contract asset balance of £12.4m being recognised on the balance sheet at 30 April 2019 and 31 October 2019.<br>During the year management recognised a 100% impairment loss in relation to the above balance. This was based the assumption that the customer no longer had the intent or ability to pay and that there was no material residual value remaining in relation to the contract assets.<br>The effect of these matters is that, as part of our risk assessment, we determined that the amount of the AROC balance impaired has a high degree of estimation uncertainty with a potential range of outcomes greater than our materiality for the financial statements as a whole and possibly many times that amount. | Our procedures included:<br>— **Historical comparison:** We performed a review of payments received to date in respect of the contract and assessed the ongoing ability and intention to pay.<br>— **Our sector experience:** We challenged whether there was any residual value in the assets related to this contract, informed through corroborative inquiries with senior operational and technical personnel.<br>— **Inspection:** We inspected correspondence with the customer to determine any matters relevant to the recoverability of the contract asset balance.<br>— **Assessing transparency:** We assessed the adequacy of the disclosure related to the estimation uncertainty, judgments made and assumptions over the write down of the contract asset balance and assessed the presentation of this as an exceptional item. |

# Independent Auditor's Report *(Continued)*

**3. OTHER KEY AUDIT MATTERS: INCLUDING OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT (CONT.)**

| | The risk | Our response |
|---|---|---|
| **Group: Recoverability of development costs**<br><br>(£19,340,000; 2019: £15,331,000)<br><br>*Refer to page 34 (Audit Committee Report), pages 53-61 (accounting policy) and pages 70-72 (financial disclosures).* | **Subjective estimate**<br><br>The estimated recoverable amount is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows and assumptions made in relation to future market demand, production capacity and yield, gross margin and overhead rates.<br><br>The effect of these matters is that, as part of our risk assessment, we determined that the recoverable amount of capitalised development costs has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 14) disclose the sensitivity estimated by the Group. | Our procedures included:<br>— **Sensitivity analysis:** We performed sensitivity analysis on the assumptions, including growth rates and discount rates, included in the Group's valuations.<br>— **Historical comparisons:** We compared the historical 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.<br>— **Assessing transparency:** We evaluated the adequacy of the disclosures related to the estimation uncertainty, judgments made and assumptions over the recoverability of capitalised development costs, in particular checking that the sensitivity disclosures provided sufficient detail. |
| **Parent company: Investment and receivables recoverability**<br><br>(£64,284,000; 2019: £50,902,000)<br><br>*Refer to page 34 (Audit Committee Report), pages 53-61 (accounting policy) and pages 90-95 (financial disclosures).* | **Subjective estimate**<br><br>The carrying amount of the parent company's investments in subsidiaries and Group receivables balance are significant and at risk of irrecoverability due the Group continuing to be loss making. The estimated recoverable amount of these balances is subjective due to the inherent uncertainty in forecasting trading conditions and cash flows used in the budgets.<br><br>The effect of these matters is that, as part of our risk assessment, we determined that the recoverable amount of the cost of investment in subsidiaries and Group receivable balance has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. | Our procedures included:<br>— **Sensitivity analysis:** We performed sensitivity analysis on the assumptions, including growth rates and discount rates included in the Group's valuations.<br>— **Test of detail:** We compared the amount of the investment to the net assets of the subsidiaries.<br>— **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.<br>— **Assessing transparency:** We evaluated the adequacy of the disclosures related to the estimation uncertainty, judgments made and assumptions over the recoverability of the parent company investment and receivables balance. |

**3. OTHER KEY AUDIT MATTERS: INCLUDING OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT (CONT.)**

| | The risk | Our response |
|---|---|---|
| **Group: Recoverable amount of goodwill**<br><br>(£1,250,000; 2019: £1,250,000)<br><br>*Refer to page 34 (Audit Committee Report), pages 53-61 (accounting policy) and pages 70-72 (financial disclosures).* | **Subjective estimate**<br><br>Goodwill is a material balance in the Group financial statements and subject to annual impairment review in line with IAS 36.<br><br>The Group continues to be loss making and forecasting and valuation requires significant judgement and estimation. This complexity is exacerbated by the current level of economic uncertainty due to the Covid19 pandemic.<br><br>We consider the carrying value of goodwill (and intangible assets) and the risk over potential impairment to be a significant audit risk because of the inherent uncertainty involved in forecasting and discounting future cash flows, which are the basis of the assessment of recoverability.<br><br>The effect of these matters is that, as part of our risk assessment, we determined that the recoverable amount of goodwill (and intangible assets) has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. | Our procedures included:<br><br>— T**ests of detail:** We compared the cash flows used in the impairment model to the output of the Group's budgeting process and against the understanding we obtained about the business areas through our audit, and assessed if these cash flows were reasonable.<br><br>— **Historical comparison:** We assessed the historical accuracy of the forecasts used in the Group's impairment model by considering actual performance against prior year budgets. We also assessed the forecast revenue growth with reference to the most recent results for 2018 and 2019.<br><br>— **Benchmarking assumptions:** We used external data and our own internal valuation audit tools to evaluate the discount rates.<br><br>— **Sensitivity analysis:** We performed sensitivity analysis for the key inputs and assumptions.<br><br>— **Assessing transparency:** We evaluated the adequacy of the disclosures related to the estimation uncertainty, judgments made and assumptions over the recoverability of goodwill, in particular checking that the sensitivity disclosures provided sufficient detail. |

# Independent Auditor’s Report *(Continued)*

## 4. OUR APPLICATION OF MATERIALITY AND AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Materiality for the Group financial statements as a whole was set at £167,000 (2019: £150,000), determined with reference to a benchmark of Group normalised loss before tax, normalised by averaging over the last five years due to fluctuations in the business cycle, of £3,404,600, of which it represents 5% (2019: 5%).

Materiality for the parent company financial statements as a whole was set at £160,000 (2019: £150,000), determined with reference to a benchmark of company total assets, chosen to be lower than materiality for the Group as a whole, of which it represents 0.3% (2019: 0.2% of net assets).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £8,350, in addition to other identified misstatements that warranted reporting on qualitative grounds.

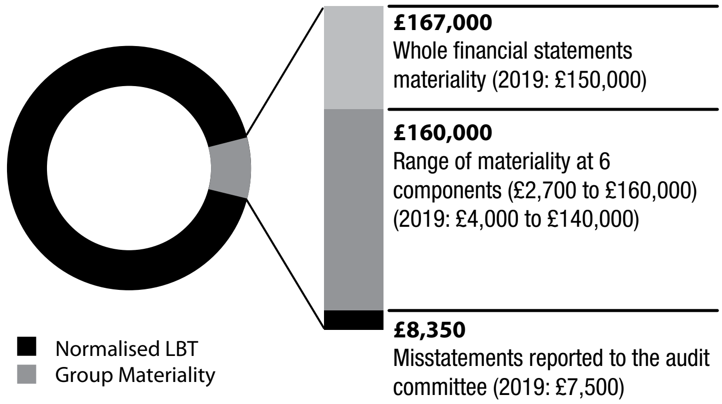
Of the Group’s 6 (2019: 6) reporting components, we subjected 4 (2019: 6) to full scope audits for Group purposes. We conducted reviews (including enquiry) of financial information at a further 2 (2019: nil) non-significant components to support our consolidation process of the Group’s accounts where individual components were not financially significant and did not contain significant risks or key audit matters.

The components within the scope of our work accounted for the percentages illustrated opposite.

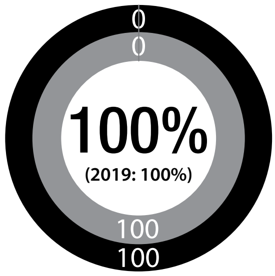
The work on all components, including the audit of the parent company, was performed by the Group team.

**Normalised Group Loss before Tax**
£3,404,600 (2019: £2,935,000)

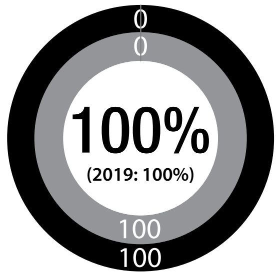
**Group Materiality**
£167,000 (2019: £150,000)



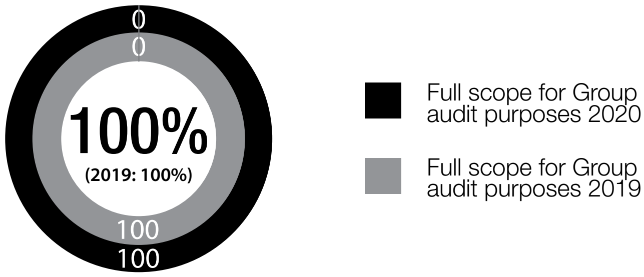

**Group revenue**




**Group loss before tax**




**Group total assets**



## 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.

**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 28-29, 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.

**Rebecca Pett**
(Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
6 October 2020

# Consolidated income statement

## For the year ended 30 April 2020

| | Note | 2020 £'000 | Restated* 2019 £'000 |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | 4 | **13,120** | 14,517 |
| Cost of sales | | **(6,912)** | (6,208) |
| **Gross profit** | | **6,208** | 8,309 |
| Other operating income | 4 | **-** | - |
| Distribution costs | | **(336)** | (184) |
| Administrative expenses | | **(10,611)** | (9,031) |
| **Operating loss (before exceptional items)** | | **(4,739)** | (906) |
| Exceptional impairment losses on trade receivables and amounts recoverable on contract | 8 | **(13,062)** | - |
| **Operating results (post exceptional items)** | | **(17,801)** | (906) |
| Finance income | 9 | **60** | 155 |
| Finance costs | 10 | **(604)** | (519) |
| **Loss before tax** | 5 | **(18,345)** | (1,270) |
| Tax | 11 | **1,805** | 637 |
| **Loss for the year from continuing operations** | | **(16,540)** | (633) |
| **Loss for the year from continuing operations (before exceptional items)** | | **(3,478)** | (633) |
| Loss per share | 13 | | |
| - basic (p) | | **(4.8)** | (0.2) |
| - diluted (p) | | **(4.8)** | (0.2) |

*see notes 2 and 21 in the accounts

# Consolidated statement of comprehensive income

## For the year ended 30 April 2020

| | 2020 £'000 | Restated* 2019 £'000 |
|---|---|---|
| **Loss for the year** | **(16,540)** | (633) |
| *Items that are or may be subsequently reclassified to profit or loss:* | | |
| Exchange differences on translation of foreign operations | **1,047** | 1,189 |
| **Total comprehensive (loss)/income for the year** | **(15,493)** | 556 |

* see note 2 in the accounts

# Consolidated statement of financial position

## As at 30 April 2020

| | Note | 2020 £'000 | Restated* 2019 £'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Goodwill | 14 | **1,275** | 1,275 |
| Other intangible assets | 15 | **21,878** | 18,165 |
| Investments – long-term cash deposits | | **-** | 1,250 |
| Property, plant and equipment | 16 | **12,551** | 6,252 |
| Right-of-use asset | 17 | **3,852** | 3,975 |
| | | **39,556** | 30,917 |
| **Current assets** | | | |
| Inventories | 19 | **6,416** | 3,227 |
| Trade and other receivables | 20 | **8,210** | 19,997 |
| Current tax assets | 20 | **1,031** | 987 |
| Cash and bank balances | | **9,444** | 20,616 |
| | | **25,101** | 44,827 |
| **Total assets** | | **64,657** | 75,744 |
| **Current liabilities** | | | |
| Trade and other payables | 22 | **(8,795)** | (4,884) |
| Borrowings | 25 | **(3,669)** | (3,133) |
| Lease obligation | 23 | **(324)** | (273) |
| | | **(12,788)** | (8,290) |
| **Net current assets** | | **12,313** | 36,537 |
| **Non-current liabilities** | | | |
| Deferred tax liability | 2, 21 | **-** | (868) |
| Deferred income | 22 | **(1,021)** | - |
| Lease obligation | 23 | **(3,844)** | (3,938) |
| Borrowings | 25 | **(1,937)** | (2,313) |
| | | **(6,802)** | (7,119) |
| **Total liabilities** | | **(19,590)** | (15,409) |
| **Net assets** | | **45,067** | 60,335 |
| **Equity** | | | |
| Share capital | 27 | **3,446** | 3,446 |
| Share premium account | 28 | **61,600** | 61,600 |
| Merger reserve | | **21,853** | 21,853 |
| Translation reserve | 29 | **1,981** | 934 |
| Accumulated losses | 30 | **(43,813)** | (27,498) |
| **Total equity** | | **45,067** | 60,335 |

*see notes 2 and 21 in the accounts

The financial statements of Kromek Group plc (registered number 08661469) were approved by the Board of Directors and authorised for issue on 6 October 2020. 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 2020

| | Share capital £'000 | Share premium account £'000 | Merger reserve £'000 | Translation reserve £'000 | Accumulated income/ (losses) £'000 | Total equity £'000 |
|---|---|---|---|---|---|---|
| **Balance at 1 May 2018 as previously reported** | **2,604** | **42,625** | **21,853** | **(269)** | **(26,557)** | **40,256** |
| Prior year adjustment (see notes 2 and 21) | - | - | - | 14 | (503) | (489) |
| **Balance at 1 May 2018 restated** | **2,604** | **42,625** | **21,853** | **(255)** | **(27,060)** | **39,767** |
| Restated loss for the year (see notes 2 and 21) | - | - | - | - | (633) | (633) |
| Restated exchange difference on translation of foreign operations (see notes 2 and 21) | - | - | - | 1,189 | - | 1,189 |
| **Total comprehensive income/(losses) for the year** | - | - | - | 1,189 | (633) | 556 |
| Issue of share capital net of expenses | 842 | 18,975 | - | - | - | 19,817 |
| Credit to equity for equity-settled share-based payments | - | - | - | - | 195 | 195 |
| **Balance at 30 April 2019 restated** | **3,446** | **61,600** | **21,853** | **934** | **(27,498)** | **60,335** |
| Loss for the year | - | - | - | - | (16,540) | (16,540) |
| Exchange difference on translation of foreign operations | - | - | - | 1,047 | - | 1,047 |
| **Total comprehensive income/(losses) for the year** | - | - | - | 1,047 | (16,540) | (15,493) |
| Issue of share capital net of expenses | - | - | | - | - | - |
| Credit to equity for equity-settled share-based payments | - | - | | - | 225 | 225 |
| **Balance at 30 April 2020** | **3,446** | **61,600** | **21,853** | **1,981** | **(43,813)** | **45,067** |

# Consolidated statement of cash flows

## For the year ended 30 April 2020

| | Note | 2020 £'000 | 2019 £'000 |
|---|---|---|---|
| **Net cash inflow/(used in) operating activities** | 31 | **179** | (4,777) |
| **Investing activities** | | | |
| Investment receipts from money market account | | **1,250** | - |
| Interest received | | **60** | 155 |
| Purchases of property, plant and equipment | | **(6,965)** | (3,644) |
| Purchases of patents and trademarks | | **(243)** | (210) |
| Capitalisation of development costs | | **(5,256)** | (2,731) |
| **Net cash used in investing activities** | | **(11,154)** | (6,430) |
| **Financing activities** | | | |
| Net proceeds on issue of shares | | **-** | 19,817 |
| New borrowings | | **2,100** | 2,557 |
| Payment of borrowings | | **(2,105)** | (111) |
| Payment of lease liability | | **(539)** | (486) |
| Interest paid | | **(365)** | (293) |
| **Net cash (used in)/generated from financing activities** | | **(909)** | 21,484 |
| **Net (decrease)/increase in cash and cash equivalents** | | **(11,884)** | 10,277 |
| **Cash and cash equivalents at beginning of year** | | **20,616** | 9,488 |
| Effect of foreign exchange rate changes | | **712** | 851 |
| **Cash and cash equivalents at end of year** | | **9,444** | 20,616 |

# Notes to the consolidated financial statements

For the year ended 30 April 2020

## 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 2.

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.

The Group adopted IFRS 15 'Revenue from contracts with customers' from 1 May 2018 and revenue is recognised in accordance with this standard. IFRS 16 'Leases' became mandatory for adoption on 1 January 2019 and was early adopted from 1 May 2018. IFRS 9 'Financial Instruments', which is mandatory for years commencing on or after 1 January 2018, was also adopted last financial year. For further analysis in relation to the adoption of these standards, refer to the 2018/19 annual report.

There were no other new standards or amendments or interpretations to existing standards that became effective during the year that were material to the Group.

## 2. SIGNIFICANT ACCOUNTING POLICIES

**Basis of preparation**

The Group's 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.

**Restatement**

Following a review, management revisited the historical treatment of deferred tax in relation to development costs capitalised in the US subsidiaries since reporting under IFRS. As a result of management's review, a prior year adjustment has been made to recognise a non-current deferred tax liability of £868k as at 30 April 2019 (30 April 2018: £503k).

The adjustment reduced the tax credit for the year ending 30 April 2019 by £350k to £637k (previously reported as £987k) and, consequentially, increased the loss for the year from continuing operations by £350k (previously reported as a loss of £283k). As a result, restatements were made as at 30 April 2018 and 30 April 2019 to adjust the translation reserve by £14k from a debit balance of £269k to £255k and £29k from £949k to £934k, respectively. The comprehensive losses for the year set out in the total comprehensive income on the consolidated statement of comprehensive income for the year ended 30 April 2019 were restated by a net amount of £379k to £556k (previously reported as £935k).

The impact was to reduce net assets and equity as at 30 April 2019 by £868k (1 May 2018 by £489k).

There was no impact to the statement of cash flows.

As the effect of the restatement is limited to deferred tax liabilities and equity and has no impact on the loss before tax, no third balance sheet has been presented.

This deferred tax liability accrued to 30 April 2019 has been fully eliminated during the year ending 30 April 2020 following an offset with a deferred tax asset arising in the Group's US operations relating to accumulated losses accrued in the year to 30 April 2020.

**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 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**

***Assessment***

The Directors have a reasonable expectation that the going concern basis of accounting remains appropriate and that the Group has adequate resources to continue in operation for the next 18 months based on its cash flow forecasts prepared.

The Group meets its day-to-day working capital requirements from cash receipts from sales as well as external borrowings comprising a Revolving Credit facility (RCF) and capex facility from HSBC (see note 26 for further details of these facilities) for which there are certain covenants attached (see pages 85-86 for a definition of the covenants and the measurement and testing requirements). During and as at the year ended 30 April 2020, the Group was not in breach of any of its covenants at any testing period. The RCF facility is subject to renewal in April 2022.

# Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2020

## 2. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

**Going concern (continued)**

As previously set out, COVID-19 has represented a significant challenge for the Group and, as a result, post year-end the Board has revised its forecasts for the next 18 months taking into account the impact of COVID-19. This has resulted in a 'revised base case budget'. Under this revised base case budget in the period to 30 April 2022, the Group was forecasting:

- to breach its original EBIT:Finance charge covenant on 30 April 2021, which is tested on an annual basis; and
- to breach its original net debt:EBITDA covenant on 31 October 2020, which is tested on a quarterly basis.

In response to these potential breaches the Board has negotiated a waiver in respect of the first covenant, which means the covenant will not be tested until April 2022, and a waiver in respect of the second covenant for the three periods ending 31 October 2020, 31 January 2021 and 30 April 2021.

As a result of obtaining these waivers, the revised base case forecast does not indicate any breaches of its covenants over the next 18 months.

The revised base case forecast indicates that the Group will continue to operate within the existing facilities, should they remain available, until the RCF renewal in April 2022.

***Stress Testing***

The Board has conducted a series of stress testing of future financial performance which model a range of future continued impacts following COVID-19. These stress tests typically focused on the level and timing of revenue and working capital requirement. In the Board's severe, but plausible downside scenario the following assumptions have been applied:

- 24% reduction in revenues when compared to the revised base case budget for year to 30 April 2021.
- A return to revenue levels consistent with the revenue for the year ended 30 April 2019 between April 2021 and April 2022.
- An increase to 120 day working capital window from payment of direct cost suppliers to receipt of customer cash.
- Delayed cash inflows for specific instances in addition to extension to working capital cycle increase. The impact being to delay £0.7m to June 2021 and delay £3.2m from late in the forecast period to outside of the April 2022 window.

This severe but plausible downside scenario indicates a breach of the net debt:EBITDA covenant from the compliance quarter ending 31 July 2021 as well as breaching its covenant in relation to Group credit balances on 31 October 2021. The effect of which could be that the facilities would become repayable on demand. In addition, in this severe but plausible downside scenario the Directors have identified additional controllable mitigations (notably reducing payroll costs and discretionary expenditure on tangible and intangible assets), the effect of which is that the Group could continue to operate within the existing facilities, should they remain available.

***Resilience/response to COVID-19***

The Board has taken quick and effective action to protect the Group's cash flow including:

- Conducted a 30% cost rationalisation across the US operating sites, representing annual savings of more than $1.4m.
- Secured £0.8m of Paycheck Protection Program Loans in the US.
- Negotiated a commercial agreement with an existing customer in the security screening market, to forward purchase product with up-front payment terms, effectively bringing forward $2m of cash 12 months early.
- Secured grant funding in respect of expansion projects in County Durham to the value of £0.7m.
- Secured a new Term Loan with HSBC in the UK worth £1.4m, available for spend on capital projects. This was negotiated at a competitive rate with that available under the UK CBILs programme.
- Positioned the Group to be able to manufacture ventilators that can potentially be used as an emergency device in any second wave of COVID-19 or similar pandemic.

***Material Uncertainty***

In the severe but plausible downside scenario described above, the Group would be required to renegotiate its net debt:EBITDA bank covenant within the 12-month going concern period and, whilst the Directors believe that they would have the ability to renegotiate or waive this covenant, there is no certainty that this would be the case. Accordingly, the continued availability of the Group's bank facilities through the forecast period and the successful replacement on expiry of the RCF in April 2022 represents a material uncertainty that may cast significant doubt on the ability of the Group and Company to continue as a going concern and, therefore, to continue realising their assets and discharging their liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

As noted, the Board has specifically excluded any significant upsides from the scenarios detailed above for the sole purposes of the parameters of this financial stress test. However, COVID-19 does represent significant opportunities for the Group. Kromek's biological detection capabilities have grown significantly over the last 24 months following successful extensions on contracts with US government agencies (DARPA) that build on the Group's existing SIGMA network offerings. The development of this unique and ground-breaking technology platform, which aims to identify airborne pathogens within 60 minutes, is in a standalone market. This technology has the potential to be significant in detecting, controlling, monitoring and mitigating the effects of future pandemics. Further, the Group has positioned itself under license agreements to manufacture ventilators that can be used as resources in future pandemics drawing on existing skills and capabilities of its workforce. These ventilators are currently going through a validation and homologation process in territories that the Group has contingent orders from.

# Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2020

## 2. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

**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.

**Contracts with customers**
The Group adopted IFRS 15 'Revenue from contracts with customers' from 1 May 2018 and revenue is recognised in accordance with this standard. Revenue represents income derived from contracts for the provision of goods and services by the Group to customers in exchange for consideration in the ordinary course of the Group's activities.

The Board disaggregates revenue by sales of goods or services, grants and contract customers. Sales of goods and services typically include the sale of product on a run rate or ad-hoc basis. Grants include technology development with parties such as Innovate UK as detailed above. Customer contracts represents agreements that the Group have entered into that typically span a period of more than 12 months.

***Performance obligations***
Upon approval by the parties to a contract, the contract is assessed to identify each promise to transfer either a distinct good or service or a series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer. Goods and services are distinct and accounted for as separate performance obligations in the contract if the customer can benefit from them either on their own or together with other resources that are readily available to the customer and they are separately identifiable in the contract.

***Transaction price***
At the start of the contract, the total transaction price is estimated as the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods and services to the customer, excluding sales taxes. Variable consideration, such as price escalation and early settlements, is included based on the expected value or most likely amount only to the extent that it is highly probable that there will not be a reversal in the amount of cumulative revenue recognised. The transaction price does not include estimates of consideration resulting from contract modifications, such as change orders, until they have been approved by the parties to the contract. The total transaction price is allocated to the performance obligations identified in the contract in proportion to their relative standalone selling prices. Given the bespoke nature of many of the Group's products and services, which are designed and/or manufactured under contract to the customer's individual specifications, there are sometimes no observable standalone selling prices. Instead, standalone selling prices are typically estimated based on expected costs plus contract margin consistent with the Group's pricing principles or based on market knowledge of selling prices relating to similar product.

# Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2020

## 2. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

***Revenue and profit recognition***

Revenue is recognised as performance obligations are satisfied as control of the goods and services is transferred to the customer.

For each performance obligation within a contract, the Group determines whether it is satisfied over time or at a point in time. The Group has determined that the performance obligations of the majority of its contracts are satisfied at a point in time. Performance obligations are satisfied over time if one of the following criteria is satisfied:

– the customer simultaneously receives and consumes the benefits provided by the Group's performance as it performs;

– the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or

– the Group's performance does not create an asset with an alternative use to the Group and it has an enforceable right to payment for performance completed to date.

For each performance obligation to be recognised over time, the Group recognises revenue using an input method, based on costs incurred in the period. Revenue and attributable margin are calculated by reference to reliable estimates of transaction price and total expected costs, after making suitable allowances for technical and other risks. Revenue and associated margin are therefore recognised progressively as costs are incurred, and as risks have been mitigated or retired. The Group has determined that this method faithfully depicts the Group's performance in transferring control of the goods and services to the customer.

If the over-time criteria for revenue recognition are not met, revenue is recognised at the point in time that control is transferred to the customer, which is usually when legal title passes to the customer and the business has the right to payment. Kromek's standard terms of delivery are Ex works sellers' site (incoterms@2010), unless otherwise stated.

The Group's contracts that satisfy the over-time criteria are typically product development contracts where the customer simultaneously receives and consumes the benefit provided by the Group's performance. In some specific arrangements, due to the highly specific nature of the contract deliverables tailored to the customer requirements and the breakthrough technology solutions that Kromek provides, the Group does not create an asset with an alternative use but retains an enforceable right to payment and recognises revenue over time on that basis.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised immediately as an expense.

***Contract modifications***

The Group's contracts are sometimes amended for changes in customers' requirements and specifications. A contract modification exists when the parties to the contract approve a modification that either changes existing, or creates new, enforceable rights and obligations. The effect of a contract modification on the transaction price and the Group's measure of progress towards the satisfaction of the performance obligation to which it relates is recognised in one of the following ways:

(a) prospectively as an additional, separate contract;

(b) prospectively as a termination of the existing contract and creation of a new contract; or

(c) as part of the original contract using a cumulative catch up.

The majority of the Group's contract modifications are treated under either (a) (for example, the requirement for additional distinct goods or services) or (b) (for example, a change in the specification of the distinct goods or services for a partially completed contract), although the facts and circumstances of any contract modification are considered individually as the types of modifications will vary contract-by-contract and may result in different accounting outcomes.

***Costs to obtain a contract***

The Group expenses pre-contract bidding costs that are incurred regardless of whether a contract is awarded. The Group does not typically incur costs to obtain contracts that it would not have incurred had the contracts not been awarded.

***Costs to fulfil a contract***

Contract fulfilment costs in respect of over-time contracts are expensed as incurred. No such costs have been incurred in current or previous years. Contract fulfilment costs in respect of point-in-time contracts are accounted for under IAS 2 Inventories.

***Inventories***

Inventories include raw materials, work-in-progress and finished goods recognised in accordance with IAS 2 in respect of contracts with customers that have been determined to fulfil the criteria for point-in-time revenue recognition under IFRS 15. It also includes inventories for which the Group does not have a contract. This is often because fulfilment costs have been incurred in expectation of a contract award. The Group does not typically build inventory to stock. Inventories are stated at the lower of cost, including all relevant overhead and net realisable value.

***Contract receivables***

Contract receivables represent amounts for which the Group has an unconditional right to consideration in respect of unbilled revenue recognised at the balance sheet date and comprises costs incurred plus attributable margin.

The Group does not plan, anticipate or offer extended payment terms within its contractual arrangements unless express payment interest charges are applied and represent a value over and above that contracted or invoiced with the customer.

***Contract liabilities***

Contract liabilities represent the obligation to transfer goods or services to a customer for which consideration has been received, or consideration is due, from the customer.

# Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2020

## 2. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

**Leases**
IFRS 16 'Leases' became mandatory for adoption on 1 January 2019 and was early adopted by the Group from 1 May 2018. The Group recognises a Right of Use ("ROU") asset and a lease liability at the lease commencement date. The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The ROU asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the ROU or the end of the lease term. The estimated useful lives of the ROU assets are determined on the same basis as those of property and equipment. In addition, the ROU is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise fixed payments.

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

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

The Group has elected not to recognise ROU assets and lease liabilities for short-term leases of machinery that have a lease term of 12 months or less and leases of low value assets, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

**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 are normally recognised as income over the useful economic life of the capital expenditure to which they relate.

Government grants are recognised in the income statement so as to match them with the related expenses that they are intended to compensate. Grants that relate to capital expenditure are offset against related depreciation costs. Where grants are received in advance of the related expenses, they are initially recognised in the balance sheet and released to match the related expenditure. Non-monetary grants are recognised at fair value.

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

# Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2020

## 2. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

**Exceptional items**
Exceptional items are those items that, in the judgement of management, need to be disclosed separately by virtue of their nature, size or incidence. Exceptional items have been classified separately in order to draw them to the attention of the reader of the accounts and, in the opinion of the Board, to show more accurately the underlying results of the Group.

**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% |
| Lab equipment | 6% to 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;
- 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

# Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2020

## 2. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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 pre-tax discount rate of 14.86% (2019: 13.47%) 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. See note 14 for further detail.

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 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**

**(i) Recognition and initial measurement**
Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

# Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2020

## 2. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### Financial instruments (continued)

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at Fair Value Through Profit or Loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

**(ii) Classification and subsequent measurement**

**Financial assets**

***(a) Classification***

On initial recognition, a financial asset is classified as measured at: amortised cost; Fair Value through Other Comprehensive Income (FVOCI) – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL.

Investments in subsidiaries are carried at cost less impairment.

Cash and cash equivalents comprise cash balances and call deposits.

***(b) Subsequent measurement and gains and losses***

Financial assets at FVTPL – these assets (other than derivatives designated as hedging instruments) are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Financial assets at amortised cost – these assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

**Financial liabilities and equity**

Financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

(a) They include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and

(b) Where the instrument will or may be settled in the Group's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Group's own equity instruments or is a derivative that will be settled by the Group exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Group's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held for trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Where a financial instrument that contains both equity and financial liability components exists these components are separated and accounted for individually under the above policy.

**Intra-group financial instruments**

Where the Group enters into financial guarantee contracts to guarantee the indebtedness of other companies within its Group, the Group considers these to be insurance arrangements and accounts for them as such. In this respect, the Group treats the guarantee contract as a contingent liability until such time as it becomes probable that the Group will be required to make a payment under the guarantee.

# Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2020

## 2. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### Financial instruments (continued)

**(iii) Impairment**

The Group recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost, debt investments measured at FVOCI and contract assets (as defined in IFRS 15).

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

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECL. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- The financial asset is more than 90 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

Twelve-month ECLs are the portion of ECLs that result from default events that are possible within 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

**Measurement of ECLs**

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

**Credit-impaired financial assets**

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

**Write-offs**

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

### 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 34.

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.

# Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2020

## 3. 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 2, the Group expenditure on development activities is capitalised if it meets the criteria as per IAS 38. Management have exercised and applied judgement when determining whether the criteria of IAS 38 is satisfied in relation to development costs. As part of this judgement process, management establish the future Total Addressable Market relating to the product or process, evaluate the operational plans to complete the product or process and establish where the development is positioned on the Group's technology road map and asses the costs against IAS 38 criteria. This process involves input from the Group's Chief Technical Officer plus the operational, financial and commercial functions and is based upon detailed project cost analysis of both time and materials.

**Performance obligations arising from customer contracts**
As described in note 2, the Group recognises revenue as performance obligations are satisfied when control of the goods and services is transferred to the customer. Management have exercised and applied judgment in determining what the performance obligation is and whether they are satisfied over time or at a point in time. In applying this judgement, management consider the nature of the overall contract deliverable, legal form of the contract and economic resource required for the performance obligation to be satisfied. Management disaggregate the revenues by sales of goods and services, revenue from development grants (such as Innovate UK) and revenue from contract customers. Typically, revenue from the sales of goods and services are recognised at a point in time. Revenue from development grants and contract customers are recognised either over time or at a point in time depending on the characteristics of the specific contract when applying IFRS 15.

**Cash Generating Units**
Management have exercised judgement in determining the number of cash generating units (CGUs). As set out in note 14, management have determined that there are two CGUs – the US and UK. This is on the basis that management believes this is the lowest level cash inflows and asset base can be separated. Whilst cash inflows can be separate at a lower level, management do not believe that the asset base can be separated at a lower level. The identification of two CGUs is also the way management oversees and monitors the Group's performance.

***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**
The key source of estimation uncertainty relates to the estimation of the asset's recoverable amount, which involves assumptions in relation to future uncertainties including discount rates and growth rates. For further details, see note 14.

As disclosed in note 15, 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.

**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. The Group has assumed 100% of the R&D tax credit is recoverable. If only 95% of the claim were to be accepted by HMRC, this would have the effect of reducing the tax receivable and corresponding tax credit by £52k to £979k.

**iv) Recoverability of receivables and amounts recoverable on contract**
Management judge the recoverability at the balance sheet date and provide where appropriate. The provision for impairment represents management's best estimate of losses incurred in the portfolio at the balance sheet date, assessed on customer risk scoring and commercial discussions. Further, management estimate the recoverability of any AROC balances relating to customer contracts. This estimate includes an assessment of the probability of receipt, exposure to credit loss and the value of any potential recovery. Management base this estimate using the most recent and reliable information that can be reasonably obtained at any

# Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2020

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

point of review. A material change in the facts and circumstances could lead to a reversal of impairment proportional to the expected cash inflows supported by this information.

**v) Impairment reviews**

Management conduct annual impairment reviews of the Group's non-current assets on the consolidated statement of financial position. This includes goodwill annually, development costs where IAS 36 requires it and other assets as the appropriate standards prescribe. Any impairment review is conducted using the Group's future growth targets regarding its key markets of nuclear detection, medical imaging and security screening. The current carrying value of this class of assets is £40m as set out on the Group's consolidated statement of financial position. Sensitivities are applied to the growth assumptions to consider any potential long-term impact of current economic conditions, such as COVID-19. Any provision is made where the recoverable amount is less than the current carrying value of the asset. Further details as to the estimation uncertainty and the key assumptions are set out in note 14.

## 4. OPERATING SEGMENTS

**Products and services from which reportable segments derive their revenues**

For management purposes, the Group is organised into two geographical business units from which the Group currently operates (US and UK) and it is on these operating segments that the Group is providing disclosure. Both business units operate in the three key markets of the Group (nuclear detection, medical imaging and security screening). However, typically, the US 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 revenue from the Group's customers by destination is as follows:

| | **2020 £'000** | 2019 £'000 |
|---|---|---|
| United Kingdom | **2,541** | 2,267 |
| North America | **7,606** | 4,869 |
| Asia | **893** | 5,452 |
| Europe | **2,075** | 1,905 |
| Australasia | **5** | 24 |
| Total revenue | **13,120** | 14,517 |

Total revenue from contracts with customers was £12,835k (2019: £13,497k).

The Group has aggregated its market sectors into two reporting segments being the operational business units in the UK and US. The UK operations consists of Kromek Group Plc and Kromek Limited. The US operations consists of Kromek Inc, eV Products Inc, and Nova R&D Inc. The Board currently consider this to be the most appropriate aggregation due to the main markets that are typically addressed by the UK and US and necessary skillsets and expertise.

# Notes to the consolidated financial statements *(continued)*

## For the year ended 30 April 2020

### 4. OPERATING SEGMENTS *(CONTINUED)*

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

**Year ended 30 April 2020**

| | UK Operations £'000 | US Operations £'000 | Total for Group £'000 |
|---|---|---|---|
| **Revenue from sales** | | | |
| Revenue by segment: | | | |
| -Sale of goods and services | 8,312 | 7,205 | **15,517** |
| -Revenue from grants | 285 | - | **285** |
| -Revenue from contract customers | 811 | 342 | **1,153** |
| Total sales by segment | 9,408 | 7,547 | **16,955** |
| Removal of inter-segment sales | (2,600) | (1,235) | **(3,835)** |
| **Total external sales** | 6,808 | 6,312 | **13,120** |
| **Segment result – operating (loss)/profit before exceptional items** | (1,906) | (2,833) | **(4,739)** |
| Interest received | 60 | - | **60** |
| Interest expense | (326) | (278) | **(604)** |
| Exceptional items | - | (13,062) | **(13,062)** |
| **(Loss)/profit before tax** | (2,172) | (16,173) | **(18,345)** |
| Tax credit | 904 | 901 | **1,805** |
| **(Loss)/profit for the year** | (1,268) | (15,272) | **(16,540)** |
| ***Reconciliation to adjusted EBITDA:*** | | | |
| **Net interest** | 266 | 278 | **544** |
| **Other operating income** | - | - | **-** |
| **Tax** | (904) | (901) | **(1,805)** |
| **Depreciation of PPE right-of-use asset** | 545 | 640 | **1,185** |
| **Amortisation** | 1,148 | 994 | **2,142** |
| **Share-based payment charge** | 225 | - | **225** |
| **One-off customer financing discount** | - | 746 | **746** |
| **Exceptional items** | - | 13,062 | **13,062** |
| **Adjusted EBITDA** | 12 | (453) | **(441)** |
| **Other segment information** | | | |
| Property, plant and equipment additions | 5,888 | 1,077 | **6,965** |
| Right-of-use assets | 1,136 | 3,429 | **4,565** |
| Depreciation of PPE and right-of-use asset | 545 | 640 | **1,185** |
| Release of capital grant | (33) | - | **(33)** |
| Intangible asset additions | 3,973 | 1,526 | **5,499** |
| Amortisation of intangible assets | 1,148 | 994 | **2,142** |
| **Statement of financial position** | | | |
| Total assets | 40,997 | 23,660 | **64,657** |
| Total liabilities | (13,925) | (5,665) | **(19,590)** |

# Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2020

## 4. OPERATING SEGMENTS *(CONTINUED)*

**Year ended 30 April 2019 as restated (see note 2)**

| | UK Operations £'000 | US Operations £'000 | Total for Group £'000 |
|---|---|---|---|
| **Revenue from sales** | | | |
| Revenue by segment: | | | |
| -Sale of goods and services | 6,718 | 4,694 | **11,412** |
| -Revenue from grants | 1,020 | - | **1,020** |
| -Revenue from contract customers | 82 | 4,534 | **4,616** |
| Total sales by segment | 7,820 | 9,228 | **17,048** |
| Removal of inter-segment sales | (1,251) | (1,280) | **(2,531)** |
| **Total external sales** | 6,569 | 7,948 | **14,517** |
| **Segment result – operating (loss)/profit** | (1,652) | 746 | **(906)** |
| Interest received | 155 | - | **155** |
| Interest expense | (197) | (322) | **(519)** |
| **Loss before tax** | (1,694) | 424 | **(1,270)** |
| Tax credit | 1,020 | (383) | **637** |
| **(Loss)/profit for the year** | (674) | 41 | **(633)** |
| ***Reconciliation to adjusted EBITDA:*** | | | |
| **Net interest** | 42 | 322 | **364** |
| **Other operating income** | - | - | **-** |
| **Tax** | (1,020) | 383 | **(637)** |
| **Depreciation of PPE and right-of-use asset** | 432 | 447 | **879** |
| **Amortisation** | 1,085 | 721 | **1,806** |
| **Non-recurring other income** | - | - | **-** |
| **Share-based payment charge** | 184 | 11 | **195** |
| **Adjusted EBITDA** | 49 | 1,925 | **1,974** |
| **Other segment information** | | | |
| Property, plant and equipment additions | 569 | 3,075 | **3,644** |
| Right-of-use asset | 1,051 | 3,257 | **4,308** |
| Depreciation of PPE and right-of-use asset | 432 | 447 | **879** |
| Intangible asset additions | 1,309 | 1,632 | **2,941** |
| Amortisation of intangible assets | 1,085 | 721 | **1,806** |
| **Statement of financial position** | | | |
| Total assets | 41,370 | 34,374 | **75,744** |
| Total liabilities | (7,097) | (8,312) | **(15,409)** |

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 2. 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 2020

## 4. OPERATING SEGMENTS *(CONTINUED)*

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

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Product revenue | **10,314** | 12,060 |
| Research and development revenue | **2,806** | 2,457 |
| Consolidated revenue | **13,120** | 14,517 |

**Information about major customers**
Included in revenues arising from US operations are revenues of approximately £2,234k (2019: £4,092k) that arose from the Group's largest customer. Included in revenues arising from UK operations are revenues of approximately £1,542k (2019: £1,066k) that arose from a major customer.

## 5. LOSS BEFORE TAX FOR THE YEAR

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

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Net foreign exchange losses/(gains) | **(653)** | 82 |
| Research and development costs recognised as an expense | **5,457** | 5,432 |
| Depreciation of property, plant and equipment | **1,185** | 879 |
| Release of capital grant | **(33)** | - |
| Amortisation of internally-generated intangible assets | **2,142** | 1,806 |
| Cost of inventories recognised as expense | **4,654** | 4,152 |
| Exceptional items - impairment of trade receivables and AROC (see note 8) | **13,062** | - |
| Early settlement costs | **746** | - |
| Staff costs (see note 7) | **8,776** | 7,696 |

## 6. AUDITOR'S REMUNERATION

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

| | 2020 £'000 | 2019 £'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 | **110** | 62 |
| ***Total audit fees*** | **110** | 62 |
| - Interim assurance | **12** | 10 |
| - Taxation and other services | **70** | 24 |
| ***Total non-audit fees*** | **82** | 34 |
| ***Total*** | **192** | 96 |

# Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2020

## 7. STAFF COSTS

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

| | **2020 Number** | 2019 Number |
|---|---|---|
| Directors (executive) | **2** | 2 |
| Research and development, production | **116** | 95 |
| Sales and marketing | **8** | 7 |
| Administration | **13** | 12 |
| | **139** | 116 |

Their aggregate remuneration comprised:

| | **2020 £'000** | Restated 2019 £'000 |
|---|---|---|
| Wages and salaries | **7,432** | 6,602 |
| Social security costs | **754** | 570 |
| Pension scheme contributions | **365** | 329 |
| Share-based payments | **225** | 195 |
| | **8,776** | 7,696 |

The current period classification of certain wage and salary expenses has been revised and comparatives have been represented on a consistent basis. There is no impact to the statement of profit and loss as all of the reclassifications occur within the administrative expense line item on the income statement.

The total Directors' emoluments (including non-executive directors) was £580k (2019: £728k). The aggregate value of contributions paid to money purchase pension schemes was £21k (2019: £21k) in respect of three directors (2019: three directors). For a breakdown of remuneration by director, refer to the Directors' emoluments table on page 36. There has been no exercise of share options by the Directors in the period and therefore no gain recognised in the year (2019: nil).

The highest paid director received emoluments of £221k (2019: £306k) and amounts paid to money purchase pension schemes was £10k (2019: £10k).

Key management compensation:

| | **2020 £'000** | 2019 £'000 |
|---|---|---|
| Wages and salaries and other short-term benefits | **980** | 1,127 |
| Social security costs | **130** | 136 |
| Pension scheme contributions | **28** | 27 |
| Share-based payment expense | **185** | 184 |
| | **1,323** | 1,474 |

Key management comprise the Executive Directors and senior operational staff.

# Notes to the consolidated financial statements *(continued)*

## For the year ended 30 April 2020

### 8. EXCEPTIONAL ITEMS

Exceptional items, booked to operating costs, comprised the following:

| | **2020 £'000** | 2019 £'000 |
|---|---|---|
| Impairment of trade receivables and AROC | **13,062** | - |
| Total exceptional items | **13,062** | - |

The immediate and ongoing impact of the COVID-19 pandemic has created significant economic uncertainty on a global scale. The expected credit losses are reviewed annually, or when there is a significant change in external factors potentially impacting credit risk, such as COVID-19, and are updated where management's expectations of credit losses change.

Management group and measure the expected credit losses of trade receivables based on operational market and geographical region. As illustrated in note 4, the Group operates across a number of geographical areas.

This impairment relates to two separate contracts with specific customers within this geographical area who were identified as having a significantly elevated credit risk. The assessment carried out by management suggested delays in delivery due to travel restriction and subsequent doubt over expected future cash flow, increasing the likelihood of credit default by these specific debtors in the next 12 months due. This charge of £13,062k has therefore been presented as an exceptional item arising as a result of COVID-19 in accordance with the Group's accounting policy, as it is considered to be one-off in nature, size and incidence. It represents a full write down of invoiced debtors and AROC. The amounts have been fully written down as management have concluded that any collateral is not considered to be material.

From a tax perspective, this impairment has increased the taxable losses in the period, however no deferred tax asset has been recognised as it is not yet certain that there will be future taxable profits available.

Asia still represents a significant technology opportunity for the Group, however, the Group is currently uncertain of timescales to full market traction. Any subsequent reversal of the amount recognised in future years would also be recognised as an exceptional item.

### 9. FINANCE INCOME

| | **2020 £'000** | 2019 £'000 |
|---|---|---|
| Bank deposits | **60** | 155 |
| Total finance income | **60** | 155 |

### 10. FINANCE COSTS

| | **2020 £'000** | 2019 £'000 |
|---|---|---|
| Interest on bank overdrafts, loans and borrowings | **365** | 293 |
| Interest expense for lease arrangements | **239** | 226 |
| Total interest expense | **604** | 519 |

# Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2020

## 11. TAX

| Recognised in the income statement | 2020 £'000 | Restated* 2019 £'000 |
|---|---|---|
| Current tax credit: | | |
| UK corporation tax on losses in the year | **1,030** | 642 |
| Adjustment in respect of previous periods | **(129)** | (5) |
| Foreign taxes paid | **-** | - |
| Total current tax | **901** | 637 |
| Deferred tax: | | |
| Origination and reversal of timing differences | **904** | - |
| Adjustment in respect of previous periods | **-** | - |
| Total deferred tax | **904** | - |
| Total tax credit in income statement | **1,805** | 637 |

* see note 2

A UK corporation rate of 19% (effective 1 April 2020) was substantively enacted on 17 March 2020, reversing the previously enacted reduction in the rate from 19% to 17%. This will increase the Company's future current tax charge accordingly. The deferred tax asset at 30 April 2020 has been calculated at 19% (2019: 17%).

**Reconciliation of tax credit**
The charge for the year can be reconciled to the profit in the income statement as follows:

| | 2020 £'000 | Restated* 2019 £'000 |
|---|---|---|
| Loss before tax | **18,345** | 1,270 |
| Tax at the UK corporation tax rate of 19% (2019: 19.0%) | **3,486** | 241 |
| (Non-taxable income)/expenses not deductible | **(3,754)** | (223) |
| Effect of R&D | **553** | 771 |
| Rate differences effect of R&D | **(255)** | - |
| Share scheme deduction under Part 12 CTA 2009 | **1** | 9 |
| Unrecognised movement on deferred tax | **239** | (96) |
| Adjustment in respect of previous periods | **(129)** | (5) |
| Effects of overseas tax rates | **1,664** | (60) |
| Total tax credit for the year | **1,805** | 637 |

* see note 2

Further details of deferred tax are given in note 21. There are no tax items charged to other comprehensive income.

The effect of R&D is the tax impact of capitalised development costs being deducted in the year in which they are incurred.

Adjustment in respect of previous periods relate to additional R&D tax credits the Group receives following final submission.

The rate of corporation tax for the year is 19% (2019: 19%). A UK corporation rate of 19% (effective 1 April 2020) was substantively enacted on 17 March 2020, reversing the previously enacted reduction in the rate from 19% to 17%. Accordingly, deferred tax has been provided in line with the rates at which temporary differences are expected to reverse.

The other tax jurisdiction that the Group currently operates in is the US. Any deferred tax arising from the US operations is calculated at 28.89% which represents the federal plus state tax rate.

# Notes to the consolidated financial statements *(continued)*

## For the year ended 30 April 2020

### 12. DIVIDENDS

The Directors do not recommend the payment of a dividend (2019: £nil).

### 13. LOSSES PER SHARE

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

**Losses**

| | **2020 £'000** | Restated* 2019 £'000 |
|---|---|---|
| Losses for the purposes of basic and diluted losses per share being net losses attributable to owners of the Group | **(16,540)** | (633) |

| **Number of shares** | **2020 Number** | 2019 Number |
|---|---|---|
| Weighted average number of ordinary shares for the purposes of basic losses per share | **344,644,492** | 275,073,400 |
| Effect of dilutive potential ordinary shares: | | |
| Share options | **1,084,826** | 2,581,104 |
| Weighted average number of ordinary shares for the purposes of diluted losses per share | **345,729,318** | 277,654,504 |

| | **2020** | 2019 |
|---|---|---|
| Basic (p) | **(4.8)** | (0.2) |
| Diluted (p) | **(4.8)** | (0.2) |

* see note 2

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.

### 14. IMPAIRMENT OF INTANGIBLE ASSETS INCLUDING GOODWILL

| | **£'000** |
|---|---|
| **Cost** | |
| At 1 May 2019 | 1,275 |
| At 30 April 2020 | 1,275 |
| **Accumulated impairment losses** | |
| At 1 May 2019 | - |
| At 30 April 2020 | - |
| **Carrying amount** | |
| **At 30 April 2020** | **1,275** |
| At 30 April 2019 | 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:

# Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2020

## 14. IMPAIRMENT OF INTANGIBLE ASSETS INCLUDING GOODWILL *(CONTINUED)*

| CGU | Goodwill £'000 | Intangibles £'000 |
|---|---|---|
| US | **1,275** | **10,242** |
| UK | **-** | **11,636** |
| **Total** | **1,275** | **21,878** |

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 4 within the segmental analysis of the US operations.

***Impairment tests***
The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired, by comparing the carrying value of the goodwill to its value in use on a discounted cash flow basis.

The Group tests intangible assets with finite lives for impairment if an indicator exists. The Board considers the potential impact of COVID-19 on the future prospects of the business to be an indicator of impairment and has carried out an impairment test by comparing the carrying value of each CGU to its value in use on a discounted cash flow basis.

In undertaking the impairment test, management considered both internal and external sources of information. The impairment testing did not identify any impairments in either CGU.

***Forecast cash flows***
Management has prepared cash flow forecasts for 10 years plus a perpetuity. This exceeds the five years as set out in the standard but has been used on the basis that the entity is in the early stage of its maturity and will not have reached steady state after five years. Management have visibility over contracts in place and in the pipeline that enable it to forecast accurately for 10 years and the cash flows are based on the useful economic life of the 'know how', which is considered to be the essential asset.

**US**
The key assumptions to the value in use calculations are set out below:

- ***Growth rate.*** The 2020 model does not include any revenue growth in years 1 and 2 (see below for comparatives). The cumulative aggregate growth rate 'CAGR' of revenue in the 10-year model is 28%. This growth rate comprises both capacity increases as a result of increases in raw material to finished product efficiencies and price increases, factoring in existing contracts and those in the pipeline and is reflective of historical growth rates as well as the Company's share of the overall markets the US CGU operates in. No growth is assumed after 10 years.
- ***Discount rates***. Management have derived a pre-tax discount rate of 14.86% using the latest market assumptions for the risk-free rate, the equity premium and the net cost of debt, which are all based on publicly available sources, as well as adjustments for forecasting risk for which management considered the historical growth of the entity as well as the visibility of cash flows from a contracted perspective, which are all based on publicly available sources. The discount rate is lower than that used in 2019. The key drivers of this change are the changes in market assumptions for US corporate bond yields and risk-free rates.

**UK**

- ***Growth rate.*** The model does not include any growth in years 1 and 2 (see below for comparatives). The CAGR in the 10-year model is 18%. This growth rate comprises both capacity increases as a result of increases in raw material to finished product efficiencies and price increases, factoring in existing contracts and those in the pipeline and is reflective of historical growth rates as well as and the Company's share of the overall markets the UK CGU operates in. No growth is assumed after 10 years.
- ***Discount rates.*** Management have derived a pre-tax discount rate of 13.14% using the latest market assumptions for the risk-free rate, the equity premium and the net cost of debt, which are all based on publicly available sources, as well as adjustments for forecasting risk for which management considered the historical growth of the entity as well as the visibility of cash flows from a contracted perspective. The discount rate is lower than that used in 2019. The key drivers of this change are the changes in market assumptions for UK corporate bond yields and risk-free rates.

# Notes to the consolidated financial statements *(continued)*

## For the year ended 30 April 2020

### 14. IMPAIRMENT OF INTANGIBLE ASSETS INCLUDING GOODWILL *(CONTINUED)*

***Sensitivities***

The headrooms in the base case models are £17,613k (US CGU) and £25,519k (UK CGU). The table below sets out the impact of the following reasonable changes in assumption on the headroom of each CGU:

| | US Reduction in Headroom £'000 | UK Reduction in Headroom £'000 |
|---|---|---|
| Discount Rate +2% | (9,136) | (10,669) |
| CAGR falls to 23% (US) and 15% (UK) | (20,775) | (22,514) |
| Combination of Discount Rate +2% and CAGR decreases above | (29,560) | (28,485) |

**2019**

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 cash generating unit (CGU). This is reported in note 4 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 11.97% (2018: 12.37%).

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 2019 (2018: £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 2019. 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 2019 or 2018.

# Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2020

## 15. OTHER INTANGIBLE ASSETS

| | Development costs £'000 | Patents, trademarks & other intangibles £'000 | Total £'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 May 2019 | 19,085 | 7,202 | **26,287** |
| Additions | 5,256 | 243 | **5,499** |
| Exchange differences | 346 | 144 | **490** |
| **At 30 April 2020** | **24,687** | **7,589** | **32,276** |
| **Amortisation** | | | |
| At 1 May 2019 | 3,754 | 4,368 | **8,122** |
| Charge for the year | 1,549 | 593 | **2,142** |
| Exchange differences | 44 | 90 | **134** |
| **At 30 April 2020** | **5,347** | **5,051** | **10,398** |
| **Carrying amount** | | | |
| **At 30 April 2020** | **19,340** | **2,538** | **21,878** |
| At 30 April 2019 | 15,331 | 2,834 | 18,165 |

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 2020 was £705k (2019: £952k), 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.

Further details on impairment testing are set out in note 14.

# Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2020

## 16. PROPERTY, PLANT AND EQUIPMENT

| | Lab Equipment £'000 | Assets Under Construction £'000 | Computer Equipment £'000 | Plant and Machinery £'000 | Fixtures and Fittings £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **Cost or valuation** | | | | | | |
| At 1 May 2019 | - | 494 | 1,131 | 10,651 | 427 | 12,703 |
| Additions | 20 | 5,606 | 144 | 1,181 | 14 | 6,965 |
| Transfer between classes | - | (6,100) | 15 | 5,985 | 100 | - |
| Exchange differences | - | - | 16 | 224 | 11 | 251 |
| **At 30 April 2020** | 20 | **-** | **1,306** | **18,041** | **552** | **19,919** |
| **Accumulated depreciation and impairment** | | | | | | |
| At 1 May 2019 | - | - | 825 | 5,435 | 191 | 6,451 |
| Charge for the year | - | - | 124 | 648 | 45 | 817 |
| Exchange differences | - | - | 8 | 90 | 2 | 100 |
| **At 30 April 2020** | - | **-** | **957** | **6,173** | **238** | **7,368** |
| **Carrying amount** | | | | | | |
| **At 30 April 2020** | **20** | **-** | **349** | **11,868** | **314** | **12,551** |
| At 30 April 2019 | - | 494 | 306 | 5,216 | 236 | 6,252 |

## 17. RIGHT-OF-USE ASSET

The Group early adopted IFRS 16 and from 1 May 2018 recognised right-of-use assets for leases previously classified as operating leases applying IAS 17. Details of the Group's right-of-use assets and their carrying amount are as follows:

| | 2020 £'000 |
|---|---|
| **Cost** | |
| Opening right-of-use asset on 1 May 2019 | 4,308 |
| New leases in the year | 134 |
| Effect of movements in exchange rates | 123 |
| **Cost at 30 April 2020** | **4,565** |
| **Depreciation** | |
| Depreciation charged to right-of-use asset on 1 May 2019 | 333 |
| Charge for the year | 368 |
| Exchange differences | 12 |
| **Depreciation at 30 April 2020** | **713** |
| **Carrying amount** | |
| **At 30 April 2020** | **3,852** |
| At 30 April 2019 | 3,975 |

# Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2020

## 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

| | **2020 £'000** | 2019 £'000 |
|---|---|---|
| Raw materials | **3,202** | 1,394 |
| Work-in-progress | **3,015** | 1,656 |
| Finished goods | **199** | 177 |
| | **6,416** | 3,227 |

The cost of inventories recognised as an expense during the year in respect of continuing operations was £4,654k (2019: £4,152k).

The write-down of inventories to net realisable value amounted to £616k (2019: £751k). The reversal of write-downs amounted to £150k (2019: nil). 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.

## 20. AMOUNTS RECOVERABLE ON CONTRACTS AND TRADE AND OTHER RECEIVABLES

| | **2020 £'000** | 2019 £'000 |
|---|---|---|
| **Contracts in progress at the balance sheet date:** | | |
| Amounts due from contract customers included in trade and other receivables | **12,195** | 12,362 |
| ECL impairment | **(12,023)** | - |
| | **172** | 12,362 |
| Contract costs incurred plus recognised profits less recognised losses to date | **12,730** | 12,929 |
| Less: progress billings | **(535)** | (567) |
| Less: ECL impairment | **(12,023)** | - |
| | **172** | 12,362 |

**Trade and Other Receivables**

| | **2020 £'000** | 2019 £'000 |
|---|---|---|
| Amount receivable for the sale of goods | **6,076** | 5,592 |
| Amounts recoverable on contracts (see note 20) | **172** | 12,362 |
| Other receivables | **662** | 848 |
| Prepayments and accrued income | **1,300** | 1,195 |
| Current tax assets | **1,031** | 987 |
| | **9,241** | 20,984 |

**Amount receivable for the sale of goods**
Trade receivables disclosed above are classified as financial assets at amortised cost.

The average credit period taken on sales of goods is 54 days. The Group initially recognises an impairment allowance 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.

# Notes to the consolidated financial statements *(continued)*

## For the year ended 30 April 2020

### 20. AMOUNTS RECOVERABLE ON CONTRACTS AND TRADE AND OTHER RECEIVABLES *(CONTINUED)*

**Amount receivable for the sale of goods (continued)**

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

| | **2020 £'000** | 2019 £'000 |
|---|---|---|
| 31-60 days | **222** | 113 |
| 61-90 days | **38** | 113 |
| 91-120 days | **4** | - |
| 121+ days | **1,915** | 893 |
| Total | **2,179** | 1,119 |

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.

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

| | **2020 £'000** | 2019 £'000 |
|---|---|---|
| 31-60 days | **-** | - |
| 61-90 days | **-** | - |
| 91-120 days | **-** | - |
| 121+ days | **1,323** | 116 |
| Total | **1,323** | 116 |

At 30 April 2020, trade receivables are shown net of an impairment allowance of £1,323k (2019: £116k) arising from the ordinary course of business, as follows:

| | **2020 £'000** | 2019 £'000 |
|---|---|---|
| Balance at 1 May 2019 | **116** | 303 |
| Provided during the year | **1,204** | - |
| (Released) during the year | **-** | (193) |
| Impact of foreign exchange | **3** | 6 |
| Balance at 30 April 2020 | **1,323** | 116 |

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 2020

## 21. 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.

| | Restated fair value revaluation of acquired intangibles £'000 | Restated accelerated capital allowances £'000 | Restated short-term timing differences £'000 | Restated tax losses £'000 | Restated total £'000 |
|---|---|---|---|---|---|
| At 1 May 2019 | 339 | 1,069 | (154) | (1,254) | - |
| Prior year adjustment (note 2) | 121 | 2,446 | (168) | (1,531) | 868 |
| Restated at 1 May 2019 | 460 | 3,515 | (322) | (2,785) | 868 |
| (Credit)/charge to profit or loss | (71) | 1,441 | (194) | (2,044) | (868) |
| **At 30 April 2020** | **389** | **4,956** | **(516)** | **(4,829)** | **-** |

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:

| | **2020 £'000** | Restated* 2019 £'000 |
|---|---|---|
| Deferred tax liabilities | **4,829** | 3,974 |
| Deferred tax assets | **(4,829)** | (3,106) |
| | **-** | 868 |

*see note 2

At the statement of financial position date, the Group has unused tax losses of £27,614k (2019: £20,632k) available for offset against future profits. A deferred tax asset has been recognised in respect of £4,484k (2019: £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 £23,130k (2019: £13,869k) as it is not yet considered sufficiently certain 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.

## 22. TRADE AND OTHER PAYABLES

| **Payable within one year:** | **2020 £'000** | 2019 £'000 |
|---|---|---|
| Trade payables and accruals | **8,632** | 4,871 |
| Deferred income | **163** | 13 |
| | **8,795** | 4,884 |

| **Payable in more than one year:** | **2020 £'000** | 2019 £'000 |
|---|---|---|
| Deferred income | **1,021** | - |
| Deferred tax liability (note 2) | **-** | 868 |
| | **1,021** | 868 |

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 40 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.

# Notes to the consolidated financial statements *(continued)*

## For the year ended 30 April 2020

### 22. TRADE AND OTHER PAYABLES *(CONTINUED)*

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.

### 23. LEASE OBLIGATION

The Group has measured lease liabilities at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. Details of the Group's liability in respect of right-of-use assets and their carrying amount are as follows:

| | **2020 £'000** |
|---|---|
| Opening lease liability at 1 May 2019 | 4,211 |
| New leases entered into during the year | 134 |
| Finance costs | 240 |
| Payments made during the year | (539) |
| Impact of foreign exchange | 122 |
| **At 30 April 2020** | 4,168 |
| Presented as: | |
| Lease liability payable within 1 year | 324 |
| Lease liability payable in more than 1 year | 3,844 |
| **At 30 April 2020** | 4,168 |

Rental charges associated with other low value leased assets that fall within the expedient threshold have been expensed to the profit and loss accounts (£15k).

### 24. PROVISIONS FOR LIABILITIES

| | **2020 £'000** | 2019 £'000 |
|---|---|---|
| At 1 May | - | 424 |
| Charged to profit or loss | - | - |
| Fully utilised | - | (424) |
| Impact of foreign exchange | - | - |
| At 30 April | - | - |

During the prior year, the Company was given notice on one of its sites. The site's dilapidations 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. The Group had no future obligations as at 30 April 2019 relating to the old site as full and comprehensive corrective dilapidations were undertaken so the provision has been utilised in full.

# Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2020

## 25. BORROWINGS

| | **2020 £'000** | 2019 £'000 |
|---|---|---|
| **Secured borrowing at amortised cost** | | |
| Revolving credit facility and capex facility | **4,900** | 3,000 |
| Other borrowings | **706** | 2,446 |
| | **5,606** | 5,446 |
| **Total borrowings** | | |
| Amount due for settlement within 12 months | **3,669** | 3,133 |
| Amount due for settlement after 12 months | **1,937** | 2,313 |

During the prior year, the Group successfully renewed its revolving credit facility, which also incorporates a Capex facility. Previously a 24-month facility, this facility is now a 36 months deal with a plus 1, plus 1 option with regards to years 4 to 5. In addition to the extension of the renewal period, the quantum of the facility has increased from £3.0m to £5.0m. In October 2019, an additional £2.0m was drawn down to help facilitate capital expenditure purposes. This is repaid on a quarterly basis in an amount equal to 1/20th of the drawn Capex loan. Once repaid, the Group was able to draw down the repaid amount against the original RCF. This facility is secured by a debenture and a composite guarantee across the Group. The terms of the RCF 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.

Other borrowings comprise a loan with the landlord in the US.

In the prior year, the Group secured a £2.3m loan with the landlord of the new Zelienople premises in relation to additional leasehold improvements. A proportion of this loan was repaid early during the year and the balance was rescheduled over a shorter time period. This loan is repaid in equal instalments on a monthly basis and attracts interest at 7.50% per annum. Following partial repayment in the year, this facility no longer requires a standby letter of credit.

As seen on the face of the Statement of Financial Position, the investment of £1.25m into a money market account at 30 April 2019 is zero at 30 April 2020.

At 30 April 2020, the total loan with the landlord was £0.7m (2019: £2.4m). Of this, £0.1m is due within 12 months (2019: £0.1m) and £0.6m (2019: £2.3m) is due after 12 months.

The RCF borrowing is 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:

| | **2020 %** | 2019 % |
|---|---|---|
| Revolving credit facility | 3.30 | 3.10 |
| Other borrowing facilities | 5.20 | 5.30 |

## 26. DERIVATIVES FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

At 30 April 2020 and 30 April 2019, the Group had no derivatives in place.

# Notes to the consolidated financial statements *(continued)*

## For the year ended 30 April 2020

### 27. SHARE CAPITAL

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| **Allotted, called up and fully paid:** | | |
| 344,635,089 (2019: 260,435,618) Ordinary shares of £0.01 each | **3,446** | 2,604 |
| 12,000 (2019: 84,199,741) Ordinary shares issued at £0.01 each | **-** | 842 |
| Total 344,647,089 (2019: 344,635,089) Ordinary shares of £0.01 each | **3,446** | 3,446 |

During the year, 12,000 shares (2019: 191,000) were allotted under EMI share option schemes.

### 28. SHARE PREMIUM ACCOUNT

| | £'000 |
|---|---|
| Balance at 1 May 2019 | 61,600 |
| Premium arising on issue of equity shares | - |
| Expenses arising on issue of equity shares | - |
| Balance at 30 April 2020 | **61,600** |

### 29. TRANSLATION RESERVE

| | £'000 |
|---|---|
| Balance at 1 May 2019 (as restated*) | 934 |
| Exchange differences on translating the net assets of foreign operations | 1,047 |
| Balance at 30 April 2020 | **1,981** |

*see note 2

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 2019 (as restated*) | (27,498) |
| Net loss for the year | (16,540) |
| Effect of share-based payment credit | 225 |
| Balance at 30 April 2020 | **(43,813)** |

*see note 2

# Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2020

## 31. NOTES TO THE CASH FLOW STATEMENT

| | 2020 £'000 | Restated* 2019 £'000 |
|---|---|---|
| Loss for the year | **(16,540)** | (633) |
| Adjustments for: | | |
| Finance income | **(60)** | (155) |
| Finance costs | **604** | 519 |
| Income tax credit | **(1,805)** | (637) |
| Depreciation of property, plant and equipment and ROU | **1,185** | 879 |
| Amortisation of intangible assets | **2,142** | 1,806 |
| Share-based payment expense | **225** | 195 |
| Operating cash flows before movements in working capital | **(14,249)** | 1,974 |
| (Increase) in inventories | **(3,189)** | (213) |
| Decrease/(increase) in receivables | **11,787** | (8,663) |
| Increase in payables | **4,932** | 1,384 |
| Increase/(decrease) in provisions | **-** | (424) |
| Cash used in operations | **(719)** | (5,942) |
| Income taxes received | **898** | 1,165 |
| Net cash used in operating activities | **179** | (4,777) |

*see note 2

**Cash and cash equivalents**

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Cash and bank balances | **9,444** | 20,616 |

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 2020

## 32. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

| | Borrowings £'000 | Lease liability £'000 |
|---|---|---|
| Balance at 1 May 2019 | **5,446** | 4,211 |
| Cash flows; | | |
| - Repayments | **(2,105)** | (539) |
| - Additions | **2,100** | - |
| Non-cash | | |
| - Additions | **-** | 134 |
| - Effect of moving exchange rates | **93** | 122 |
| - Interest applied | **72** | 240 |
| Balance at 30 April 2020 | **5,606** | 4,168 |

## 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 ten 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:

| | Number of share options | 2020 Weighted average exercise price (£) | Number of share options | 2019 Weighted average exercise price (£) |
|---|---|---|---|---|
| Outstanding at beginning of the year | **10,028,470** | **0.17** | 9,851,070 | 0.17 |
| Granted during the year | **2,295,200** | **0.21** | 882,600 | 0.20 |
| Exercised during the year | **(12,000)** | **0.015** | (191,000) | 0.015 |
| Forfeited during the year | **(919,000)** | **0.22** | (514,200) | 0.28 |
| Outstanding at the end of the year | **11,392,670** | **0.15** | 10,028,470 | 0.17 |
| Exercisable at the end of the year | **9,299,470** | **0.17** | 8,875,570 | 0.17 |

The weighted average share price at the date of exercise for share options exercised during the year was £0.015 (2019: £0.015). The options outstanding at 30 April 2020 had a weighted average exercise price of £0.15 (2019: £0.17) and a weighted average remaining contractual life of four years (2019: four years). The range of exercise prices for outstanding share options at 30 April 2020 was 1.5p to 79p (2019: 1.5p to 79p). In 2020, the aggregate of the estimated fair values of the options granted is £40k (2019: £46k). The inputs into the Black-Scholes model are as follows:

| | 2020 | 2019 |
|---|---|---|
| Weighted average share price | **22p** | 26p |
| Weighted average exercise price | **22p** | 20p |
| Expected volatility | **29.85%** | 29.30% |
| Expected life | **6 years** | 6 years |
| Risk-free rate | **0.74** | 0.57 |
| Expected dividend yields | **0%** | 0% |

# Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2020

## 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 October 2019, 1,298,330 (2019: 1,443,829) 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 £124k (2019: £183k). The amounts recognised as a share-based payment expense for the year ended 30 April 2020 was £61k (2019: £12k).

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:

| | **2020** | 2019 |
|---|---|---|
| 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 £225k (2019: £195k) 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, the contributions payable by the Group are reduced by the amount of forfeited contributions.

The employees of the Group's subsidiaries in the US are members of a state-managed retirement benefit scheme operated by the US government. 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 £365k (2019: £329k) represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes. As at 30 April 2020, contributions of £50k (2019: £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 2019 and 2020.

The capital structure of the Group consists of net debt, which includes the borrowings disclosed in note 26 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 27 to 30.

# Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2020

## 35. FINANCIAL INSTRUMENTS (*CONTINUED*)

**Capital risk (continued)**
The Group is not subject to any externally imposed capital requirements.

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 £4.9m (2019: £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:

| | **2020 £'000** | 2019 £'000 |
|---|---|---|
| £ sterling | **8,285** | 24,229 |
| US$ (sterling equivalent) | **612** | (4,156) |
| € (sterling equivalent) | **547** | 543 |

Had the foreign exchange rate between sterling, US$ and € changed by 3% (2019: 4%), this would affect the loss for the year and net assets of the Group by £493k (2019: £1,483k including the prior year adjustment). 3% (2019: 4%) is considered a reasonable assessment of foreign exchange movement as this has been the movement noted between 2019 and 2020 (2018 and 2019).

**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 20.

Amounts recoverable on contract arise following revenue recognised over time in line with IFRS 15. The balance of £172k at 30 April 2020 will convert into invoiced revenues following product dispatch to the customer. The Group retain physical possession of the inventory, which passes to the customer on payment of invoice. Under these contracts, the Group retains the right to be compensated at a minimum for the full value of the contract in the event of early termination.

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.

As a result of COVID-19, the Group has adopted the simplified approach when measuring the trade receivable expected credit losses. To measure the expected credit losses, trade and other receivables have been grouped based on market and geographical region. The expected loss rates are reviewed annually, or when there is a significant change in external factors potentially impacting credit risk, and are updated where management's expectations of credit losses change. Management have increased the expected loss rates for trade and other receivables by £13,062k, which has been summarised further in note 8.

# Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2020

## 35. FINANCIAL INSTRUMENTS (*CONTINUED*)

### 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. Further, the Group has a US dollar overdraft facility with a right to offset, which allows US dollars to be drawn at any time provided that the Group maintain sufficient credit balances on other currency accounts to facilitate an offset. Following the offset, the Group has to be in a minimum net credit position of £100 at any time. It is management's intent to offset this overdraft with other credit balances. The purpose of this offset account is to allow the Group operational flexibility in meeting its multicurrency liabilities and to be able to utilise credit from its multicurrency customers. The Group has sufficient cash reserves to facilitate this right of offset.

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.

| | 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 2019** | 3.1 | - | - | 3,000 | - | - | **3,000** |
| **Other Borrowing Facilities at 30 April 2019** | 5.3 | 11 | 33 | 89 | 527 | 1,786 | **2,446** |
| **Lease obligations at 30 April 2019** | 5.0 | 21 | 65 | 187 | 1,183 | 2,755 | **4,211** |
| | | **32** | **98** | **3,276** | **1,710** | **4,541** | **9,657** |
| **Revolving Credit and Capex Facility at 30 April 2020** | 3.3 | - | - | 3,500 | 1,400 | - | **4,900** |
| **Other Borrowing Facilities at 30 April 2020** | 5.2 | 14 | 28 | 127 | 537 | - | **706** |
| **Lease obligations at 30 April 2020** | 5.4 | 26 | 53 | 245 | 1,206 | 2,638 | **4,168** |
| | | **40** | **81** | **3,872** | **3,143** | **2,638** | **9,774** |

### 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 2.

### Financial covenants

The total RCF the Group has with HSBC has three covenants:

- A maximum cap on the net debt / EBITDA ratio. This is tested on a quarterly basis ending 31 January, 30 April, 31 July and 31 October. Following the renegotiation of this covenant with HSBC, it will first be tested for the quarter ending 31 July 2021 having secured a covenant holiday in the quarters ending 31 October 2020, 31 January 2021 and 30 April 2021;
- a maximum cap on the EBIT / finance charges ratio. This is tested on an annual basis ending 30 April. Following the renegotiation of this covenant with HSBC, it will first be tested for the 12 months ending 30 April 2022 having secured a covenant holiday for the year ending 30 April 2021; and
- a minimum tangible net worth of the Group's balance sheet. The tangible net worth is defined as shareholders' funds less intangible assets plus non-redeemable preference shares. This is tested on a quarterly basis on 31 October 2020, 31 January 2021 and 30 April 2021.

# Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2020

## 35. FINANCIAL INSTRUMENTS (*CONTINUED*)

**Financial covenants (continued)**

There is also a further covenant specifically relating to the working capital element of the RCF the Group has with HSBC as follows:

- the working capital element of the RCF is not to exceed a maximum cap of the combined total of Group inventories and trade receivables less than 90 days old. This is tested on a quarterly basis ending 31 January, 30 April, 31 July and 31 October.

**Categories of financial instruments**

| | **2020 £'000** | 2019 £'000 |
|---|---|---|
| **Financial assets** | | |
| Investment in money market accounts | **-** | 1,250 |
| Cash and bank balances | **9,444** | 20,616 |
| Loans and receivables | **6,969** | 18,802 |
| **Financial liabilities** | | |
| Amortised cost | **(18,957)** | (14,513) |

**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 2020.

## 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.

**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.

## 37. EVENTS AFTER THE BALANCE SHEET DATE

As a result of COVID-19, the Group's US operations successfully secured £0.8m of Paycheck Protection Program Loans in the US.

Other than the renegotiation of the Group's banking covenants as disclosed in note 2, there have been no further events after the reporting date that require disclosure in line with IAS10 events after the reporting period.

# Company statement of financial position

## As at 30 April 2020

| | Note | 2020 £'000 | 2019 £'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investment in subsidiaries | 3 | **4,000** | 4,000 |
| Amounts due from subsidiary company | | **60,284** | 46,902 |
| Investment in money market account | | **-** | 1,250 |
| | | **64,284** | 52,152 |
| **Current assets** | | | |
| Trade and other receivables | 5 | **196** | 157 |
| Cash and cash equivalents | | **6,020** | 16,943 |
| | | **6,216** | 17,100 |
| **Total assets** | | **70,500** | 69,252 |
| **Current liabilities** | | | |
| Trade and other payables | 6 | **(342)** | (349) |
| Borrowings | 7 | **(3,500)** | (3,000) |
| | | **(3,842)** | (3,349) |
| **Net current assets** | | **2,374** | 13,751 |
| **Non-current liabilities** | | | |
| Borrowings | 7 | **(1,400)** | - |
| | | **(1,400)** | - |
| **Total liabilities** | | **(5,242)** | (3,349) |
| **Net assets** | | **65,258** | 65,903 |
| **Equity** | | | |
| Share capital | 11 | **3,446** | 3,446 |
| Share premium account | 12 | **61,600** | 61,600 |
| Merger reserve | | **3,221** | 3,221 |
| Accumulated losses | 13 | **(3,009)** | (2,364) |
| **Total Equity** | | **65,258** | 65,903 |

The loss for the year was £645k (2019: loss £679k).

The financial statements of Kromek Group plc (registered number 08661469) were approved by the Board of Directors and authorised for issue on 6 October 2020. 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 2020

| | 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 2018** | **2,604** | **42,625** | **3,221** | **(1,685)** | **46,765** |
| Loss for the year and total comprehensive losses for the year | - | - | - | (679) | (679) |
| Issue of share capital net of expenses | 842 | 18,975 | - | - | 19,817 |
| **Balance at 30 April 2019** | **3,446** | **61,600** | **3,221** | **(2,364)** | **65,903** |
| Loss for the year and total comprehensive loss for the year | - | - | - | (645) | (645) |
| Issue of share capital net of expenses | - | - | - | - | - |
| **Balance at 30 April 2020** | **3,446** | **61,600** | **3,221** | **(3,009)** | **65,258** |

# Company statement of cash flows

## For the year ended 30 April 2020

| | Note | 2020 £'000 | 2019 £'000 |
|---|---|---|---|
| **Net cash used in operating activities** | 10 | **(630)** | (650) |
| **Investing activities** | | | |
| Investment receipts from money market account | | **1,250** | - |
| Interest received | | **11** | - |
| Net cash generated from investing activities | | **1,261** | - |
| **Financing activities** | | | |
| Borrowings received | | **2,100** | - |
| Borrowings repaid | | **(200)** | - |
| Net proceeds from issue of share capital | | **-** | 19,817 |
| Loans made to Group companies | | **(13,382)** | (3,934) |
| Net interest paid | | **(72)** | (68) |
| **Net cash from financing activities** | | **(11,554)** | 15,815 |
| **Net (decrease)/increase in cash and cash equivalents** | | **(10,923)** | 15,165 |
| **Cash and cash equivalents at beginning of year** | | **16,943** | 1,778 |
| **Cash and cash equivalents at end of year** | | **6,020** | 16,943 |

# Notes to the Company financial statements

## For the year ended 30 April 2020

### 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 2 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.

### 2. AUDITOR'S REMUNERATION

The auditor's remuneration for audit and other services is disclosed in note 6 to the consolidated financial statements.

### 3. SUBSIDIARIES

Details of the Company's direct and indirect subsidiaries as at 30 April 2020 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) | 143 Zehner School Road, Zelienople, PA 16063, 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) | 143 Zehner School Road, Zelienople, PA 16063, 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 2019 | 4,000 |
| At 30 April 2020 | **4,000** |

The economic impact of COVID-19 has created uncertainty in the markets in which the Company's investments operate, which is considered to be an indicator of impairment. Management have considered this, in conjunction with the full impairment review that has been undertaken on the Group's cash-generating units of which the Company's investments form part. The results of this review are disclosed in note 14 within the consolidated financial statements, including a sensitivity analysis. In this review no impairment has been identified with regard to the Company's investments in subsidiaries.

At 30 April 2020 the Company was owed £60,284k from its immediate subsidiary company, Kromek Limited. This has been classified as a receivable due in more than one year on the face of the balance sheet as this most accurately reflects the likely repayment timeframe of the balance outstanding. This assessment and amount is based on the future discounted cash flows of Kromek Limited. The loan is unsecured and interest free. At 30 April 2019 the balance was £46,092k.

Amounts owed by Group undertakings have been assessed in line with IFRS 9 and an assessment is made of the expected credit loss. No expected credit loss was identified based on the future cash inflows of receivables.

# Notes to the Company financial statements *(continued)*

For the year ended 30 April 2020

## 4. STAFF COSTS

| The average monthly number of employees (excluding non-executive directors) was: | **2020 Number** | 2019 Number |
|---|---|---|
| Research and development, production | **2** | 2 |
| Sales and marketing | **1** | 1 |
| Administration | **4** | 3 |
| | **7** | 6 |

| Their aggregate remuneration comprised: | **2020 £'000** | 2019 £'000 |
|---|---|---|
| Wages and salaries | **565** | 400 |
| Social security costs | **71** | 50 |
| Pension scheme contributions | **23** | 22 |
| | **659** | 472 |

## 5. TRADE AND OTHER RECEIVABLES

| | **2020 £'000** | 2019 £'000 |
|---|---|---|
| Prepayments | **196** | 157 |
| | **196** | 157 |

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

## 6. TRADE AND OTHER PAYABLES

| | **2020 £'000** | 2019 £'000 |
|---|---|---|
| Trade payables and accruals | **283** | 326 |
| Social security and other taxation | **59** | 23 |
| | **342** | 349 |

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 2020

### 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

| | **2020 £'000** | 2019 £'000 |
|---|---|---|
| Loss for the year | **(645)** | (679) |
| Adjustments for: | | |
| Finance costs | **61** | 68 |
| Operating cash flows before movements in working capital | **(584)** | (611) |
| Increase in receivables | **(39)** | (117) |
| (Decrease)/Increase in payables | **(7)** | 78 |
| Net cash used in operating activities | **(630)** | (650) |

### 11. SHARE CAPITAL

| | **2020 £'000** | 2019 £'000 |
|---|---|---|
| **Allotted, called up and fully paid:** | | |
| 344,635,089 (2019: 260,435,618) Ordinary shares of £0.01 each | **3,446** | 2,604 |
| 12,000 (2019: 84,199,741) Ordinary shares issued at £0.01 each | **-** | 842 |
| Total 344,647,089 (2019: 344,635,089) Ordinary shares of £0.01 each | **3,446** | 3,446 |

# Notes to the Company financial statements *(continued)*

For the year ended 30 April 2020

## 12. SHARE PREMIUM ACCOUNT

| | 2020 £'000 |
|---|---|
| Balance at 1 May 2019 | 61,600 |
| Premium arising on issue of equity shares | - |
| Expenses arising on issue of equity shares | - |
| **Balance at 30 April 2020** | **61,600** |

## 13. ACCUMULATED LOSSES

| | £'000 |
|---|---|
| Balance at 1 May 2019 | (2,364) |
| Net loss for the year | (645) |
| **Balance at 30 April 2020** | **(3,009)** |

## 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 27 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.

# Notes to the Company financial statements *(continued)*

For the year ended 30 April 2020

### 14. FINANCIAL INSTRUMENTS *(CONTINUED)*

**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.

| | 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 2019** | 3.1 | - | - | 3,000 | - | - | 3,000 |
| **Revolving Credit Facility and Capex Facility at 30 April 2020** | **3.1** | **-** | **-** | **3,500** | **1,400** | **-** | **4,900** |

**Financial covenants**

The total RCF the Company has with HSBC has three covenants:

- A maximum cap on the net debt / EBITDA ratio. This is tested on a quarterly basis ending 31 January, 30 April, 31 July and 31 October. Following the renegotiation of this covenant with HSBC, it will first be tested for the quarter ending 31 July 2021 having secured a covenant holiday in the quarters ending 31 October 2020, 31 January 2021 and 30 April 2021;
- a maximum cap on the EBIT / finance charges ratio. This is tested on an annual basis ending 30 April. Following the renegotiation of this covenant with HSBC, it will first be tested for the 12 months ending 30 April 2022 having secured a covenant holiday for the year ending 30 April 2021; and
- a minimum tangible net worth of the Group's balance sheet. The tangible net worth is defined as shareholders' funds less intangible assets plus non-redeemable preference shares. This is tested on a quarterly basis on 31 October 2020, 31 January 2021 and 30 April 2021.

There is also a further covenant specifically relating to the working capital element of the RCF the Company has with HSBC as follows:

- the working capital element of the RCF is not to exceed a maximum cap of the combined total of Group inventories and trade receivables less than 90 days old. This is tested on a quarterly basis ending 31 January, 30 April, 31 July and 31 October.

# Notes to the Company financial statements *(continued)*

For the year ended 30 April 2020

**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**

Other than the renegotiation of the Group's banking covenants as disclosed in note 2, 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**

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

Mr J H Whittingham

Mr C Wilks

## COMPANY SECRETARY

Mr D Bulmer

## REGISTERED OFFICE

NETPark

Thomas Wright Way

Sedgefield

TS21 3FD

## NOMINATED ADVISER AND BROKER

Cenkos Securities plc

6.7.8. Tokenhouse Yard

London

EC2R 7AS

## REGISTRAR

Link Asset Services

34 Beckenham Road

Beckenham

BR3 4TU

## PUBLIC RELATIONS ADVISER

Luther Pendragon

48 Gracechurch Street

London

EC3V 0EJ

## BANKERS

HSBC Bank plc

1 Saddler Street

Durham

DH1 3NR

## AUDITOR

KPMG LLP

Statutory Auditor

15 Canada Square

London

E14 5GL

## LEGAL ADVISER

Eversheds Sutherland

Bridgewater Place

Water Lane

Leeds

LS11 5DR

kromek®
detect image identify

**Kromek Group plc**

NETPark, Thomas Wright Way,
Sedgefield, County Durham, TS21 3FD, UK