kromek

Annual report and accounts for the year ended 30 April 2021

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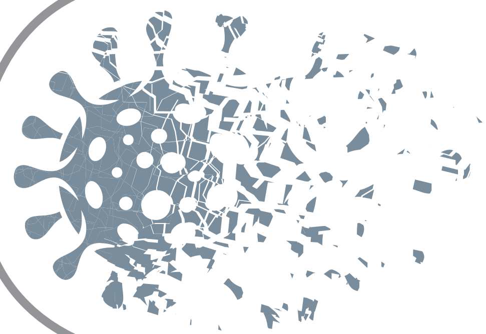

World’s First Fully Automated Airborne COVID-19 Detection System

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Introducing the World’s Smallest and Lightest Radioisotope Identification Device (RIID)

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Our Mission

“To be the preferred suplier of innovative detection technology solutions, which enhance the quality of information for our customers, and allow better desision-making”

Our Vision

“To enhance the quality of life through detection technology solutions”

Financial Headlines

Revenue	Adjusted EBITDA	Cash & Equivalents	Gross Margin
£10.4m	**£(1.7m)**	**£15.6m**	**48.4%**
2020: £13.1m	2020: £(0.4m)	30 April 2020: £9.4m	2020: 47.3%

Operational Highlights

"Resumption of orders and shipments across all segments in final two months of the first half, following the impact of COVID-19, with increased commercial activity in the second half, resulting in revenue for H2 2021 being 26% higher than H1 2021"

"Significant progress in fast-growing bio-security market"

1. Commenced field trials in schools, airports and other locations of an airborne COVID-19 detection system under £1.25m project funded by Innovate UK
2. Received a $600,000 order from an OEM customer for detectors to be used in niche SPECT applications
3. Expansion of global footprint for nuclear security products with sales commencing in 9 new countries and engagement of 9 new distributors
4. 24 new customers won in the civil nuclear segment and widening interest for drone-based radiation mapping system, including sales to the civil emergency services sector
5. Ramp up in delivery under medical imaging contract expected to be worth $58.1m as the customer began installing its scanner in multiple countries
6. Progressed development programme for ultra-low dose MBI technology and entered new area of improving outcomes from cancer surgery
7. Received first commercial order from security screening OEM customer with highest level of European liquid explosive detection certification for cabin baggage for its scanner
8. Awarded $5.2m contract extension and further $6m post period by "DARPA", (US DoD), to advance development of mobile wide-area bio-security system capable of detecting and identifying airborne pathogens
9. Launched next-generation D3 PRD and D5 RIID high-performance radiation detectors

   3 new patents were filed and 10 were granted during the year

Chairman’s Statement

Rakesh Sharma

Chairman

“It is a great honour to succeed Sir Peter Williams as Chairman. I thank him for his valuable contribution, which has enabled Kromek to truly transform during his tenure”

"We remain excited about the potential for our new market segment of Biological-Threat Detection"

I am pleased to present my maiden annual report for the 12-month period ended 30 April 2021. It is a great honour to succeed Sir Peter Williams as Chairman. I thank him for his valuable contribution, which has enabled Kromek to truly transform during his tenure. Since I joined as a Non-Executive Director halfway through the financial year, I have seen what an ambitious and dynamic company Kromek is, and one that is developing important products to help save lives and keep people safe.

The Group's key addressable markets continue to benefit from long-term growth drivers. In medical imaging, there remains a fundamental demand to improve screening for diseases such as cancer and cardiovascular illnesses as well as other conditions such as osteoporosis that require early diagnosis and intervention to improve patient outcomes. Similarly, in nuclear security, governments remain vigilant to the threat of terrorism and defence procurement spending is rising, which is leading to increased demand for Kromek's technology.

The COVID-19 pandemic started to have an impact on the last quarter of the previous financial year, which continued into the first four months of our financial year to 30 April 2021. The pandemic caused markets to shut down, which materially impacted our global customer base and supply chain. As I reflect on the way the business has responded to the situation, it is clear that the work undertaken over the recent years had put us in a good position to adapt to the challenges and emerge strongly as markets opened up and trading activity resumed.

Orders and shipments across all of the Group's segments resumed in the final two months of the first half of the year as normal business patterns began to return and projects that had been postponed from the previous year started to recommence. This momentum continued throughout the second half as the Group delivered on previously awarded contracts and won new orders.

Arnab Basu, our Chief Executive Officer, provides a detailed review in his report of our operational achievements for the year. He details the progress made in the Medical Imaging segment where Kromek's customers increasingly rolled out their next-generation products, based on our technology, such as our OEM customer that previously awarded a medical imaging contract expected to be worth $58.1m. The installation of the customer's medical imaging scanners, which is occurring in multiple countries, saw a ramp up in the second half of the year as planned.

Our Nuclear Detection segment received new orders from government customers for D3S-related technologies. During the year, we added new customers and continued to receive repeat orders from existing customers in this segment. We believe that US government agencies (DoD and DHS) and the UK security agencies continue to represent a significant radiation detection opportunity for Kromek, and we expect to expand our work with them.

We remain excited about the potential for our new market segment of Biological-Threat Detection. The Group received a significant contract extension in the first half of the year from DARPA to further develop the airborne pathogen detection system, and we were also awarded a contract from Innovate UK to develop and pilot a targeted COVID-19 detection system. Piloting of the airborne COVID-19 detection solution commenced during the last quarter of the year and is continuing at various potential user locations, including airports and schools, as planned.

In March 2021, we raised £13m via a placing with institutions as well as an open offer that was oversubscribed. These funds, in the short term, are being used to de-risk and commercialise bio-security/pathogen detectors and increase the rate of commercialisation as well as to expand sales and marketing for our nuclear detection and medical imaging activities.

Employees and Partners

As we look to the future, I would also like to express my gratitude to our customers, suppliers, partners and other stakeholders who have supported us throughout the year. On behalf of the Board, I would also like to thank the executive team and all of our staff for their efforts and commitment and our shareholders for their loyal and continuing support.

Kromek has the market opportunities, the technology and the products to continue the commercialisation journey positively. We have a good foundation and with long-term growth drivers remaining strong, we look forward to delivering significant shareholder value over the years to come.

"...it is clear that the work undertaken over the recent years had put us in a good position to adapt to the challenges and emerge strongly as markets opened up and trading activity resumed."

Chief Executive Officer's Review

Arnab Basu

Chief Executive Oficer

"Defence and security spending is on the rise around the world and Kromek's products meet a demand for technology-led solutions to some of the most pressing global security challenges"

"We continued to advance development programmes with a number of partners in the nuclear security and medical imaging markets and, in particular, significantly progressed the development of our biological-threat detection solution"

During a period of significant global uncertainty, Kromek emerged from the year to 30 April 2021 in a stronger position than when we entered. Whilst disruption across our markets at the beginning of the year, due to COVID-19, had a detrimental impact on full year revenue, the Board was pleased to note that from the end of the first half and through the second half, normal trading patterns increasingly resumed with progress being made with all of our business units delivering on previously awarded contracts and winning new orders and customers. As a result, and combined with the contribution from our bio-security development projects, revenue for the second half was 26% above H1 2021, with the strong momentum continuing post year end. In addition, and as discussed further in the Chief Financial Officer's Review, we successfully maintained tight cost control, took action to support cash flow and the balance sheet was significantly strengthened with a fundraise of £13m (net funds received after costs of £12.2m). Consequently, the Board believes that Kromek exited the year better positioned to capitalise on the significant opportunities across the business.

Medical Imaging

In recent years, leading OEMs in medical imaging have been increasingly adopting CZT detector platforms as the enabling technology for their product roadmaps. CZT detector platforms enable OEMs to significantly improve the quality of imaging, which leads to earlier and more reliable diagnosis of diseases such as cancer. Kromek's CZT detector solutions are increasingly being adopted for single photon emission computed tomography ("SPECT"), molecular breast imaging ("MBI") and bone mineral densitometry ("BMD") applications. These are key target areas for future growth as they address diseases particularly associated with an ageing population such as cancer, Parkinson's, cardiovascular illnesses and osteoporosis.

While the outbreak of COVID-19 necessitated a temporary redirection of resources in healthcare settings away from routine scans and elective surgeries, shipments of our detector modules for medical imaging began to resume from the final two months of the first half and business patterns started to normalise. This momentum was sustained through the second half as our customers increasingly rolled out their high-performance medical imaging products based on our technology. In particular, in the second half of the year we received an order, worth $600,000, from an existing OEM customer for the supply of detectors to be used in niche SPECT applications. We commenced delivery during the period and this will be completed by the end of this calendar year.

We continued to work with our significant OEM customer that in H2 2019 awarded Kromek a contract expected to be worth a minimum of $58.1m over an approximately seven-year period. The customer began installing its medical imaging scanners in multiple countries towards the end of the first half, with installation ramping up in the second half of the year. Delivery to this customer of our CZT detectors and associated advanced electronics has continued to increase post year end and we have full visibility over this contract for the remainder of the current financial year.

We progressed the development of an ultra-low dose MBI technology based on CZT-based SPECT detectors under our project with partners in the Newcastle-upon-Tyne Hospitals NHS Foundation Trust in the UK and an OEM partner. This technology can significantly improve the early detection of breast cancer in women with dense breast tissues, which is particularly prevalent among younger women. The project entered the prototype, build and validation stage following a successful proof-of-feasibility for the target reduction of dose and scan time.

This year we also entered a new area of medical application for our CZT-based detectors: improving patient outcomes from cancer surgery. In partnership with Adaptix Ltd and the University of Manchester, we are developing a new system that will distinguish between healthy and non-healthy tissue, enabling surgeons to confidently remove the minimum amount of healthy tissue and reducing the risks of multiple surgeries and of the cancer spreading. The system is being developed under a three-year programme with funding from Innovate UK.

Nuclear Detection

In nuclear detection, our nuclear security platforms – D3S and newly launched D5 – consist of a family of products designed to cater for the varying demands of homeland security and defence markets. In particular, our D3S platform is widely deployed as a networked solution to protect cities, buildings or critical infrastructure against the threat of use of 'nuclear dirty bombs' by terrorists. Defence and security spending is on the rise around the world and Kromek's products meet a demand for technology-led solutions to some of the most pressing global security challenges. In November 2020, for example, the UK Government announced a £329m spend programme on radiation and nuclear detectors over the next four years and an increase of £24.1bn in defence spending over the same period as part of the biggest programme of investment in British defence since the end of the Cold War. In the nuclear markets, our portfolio also includes a range of high-resolution detectors and measurement systems used for civil nuclear applications, primarily in nuclear power plants and research.

Nuclear Security

We expanded our commercial footprint with the D3S platform now having been sold in over 26 countries, and during the year 9 new distributors were appointed across 9 countries. In addition, we developed online platforms for product training and support activities for our nuclear detector products, which allowed us to support our customers globally at a time when travel was restricted.

Strategic Report *(Continued)*

Chief Executive Officer's Review *(Continued)*

During 2021, we signed contracts and received orders across the US, Europe and Asia for our nuclear security products, reflecting the global nature of demand. This included gaining a new government agency customer in the US for our D3S-ID product. We also received and delivered a repeat order from an existing US-based customer, worth $150,000, for the supply of specialised CZT detectors for a nuclear security application.

In Europe, we were awarded two contract extensions by a UK government-related company to provide network solutions of our D3S-related technologies. The contract extensions, worth a total of £460,000 and delivered during the year, are a further step towards providing a full wide-area system rollout for this customer to protect critical infrastructure and public spaces. We also supplied further products to the Irish Civil Defence Agency and received orders from the European Commission's Directorate-General for Migration and Home Affairs for our D3S Drone radiation detectors.

We were awarded a significant contract in Asia, worth a minimum of $960,000 over the approximate four-year term of the project, for both nuclear security and civil nuclear applications. The first phase is to customise our CZT detector platform for integration into a new radiation detection product that will be available in Asia. We will receive $260,000 for this development work, which is due to be completed by the end of this calendar year. We will then supply the customised platform under a three-year contract, worth a minimum of $700,000.

During the year, we completed the delivery of a project with the US Defense Threat Reduction Agency, an agency of the US Department of Defense, to build out the technicality of our D3S platform to develop a next-generation, ruggedised small form factor device for use in the military field. By using advanced detector materials, the device will generate higher resolution detection and superior localisation and identification of radioactive material for use by the US military in combat environments. This resulted in the development of our D5 product range, which expands our portfolio to encompass devices specifically designed for more challenging use cases and harsh environments.

We launched two new nuclear security products this year: the D3 PRD and the D5 RIID, with orders received from government agencies in the US and UK for these products. The D3 PRD is an all-in-one, high-accuracy personal radiation detector ("PRD") for first responders, armed forces, border security and CBRNE experts. This product meets a growing market demand for a standalone gamma-only device, while offering market-leading dose accuracy, speed to alarm and an ultra-low false positive number. The D5 RIID, the world's smallest high-performance radioisotope identification device ("RIID"), is a ruggedised device, with ultra-low false alarm rate that is designed for military, homeland security and industrial use. The D5 RIID is the first device to be launched in our new D5 product range and we were honoured that it was a winner at the R&D 100 Awards, held by R&D Magazine. In addition, post period, we received our first major order for our D5 RIID, which was from our UK government-related customer.

Civil Nuclear

In the civil nuclear segment, the pipeline of enquiries and orders remained robust throughout the year. We won 24 new customers and continued to win repeat business from our existing customers. As noted above, we were awarded a significant contract in Asia, worth a minimum of $960,000, which is for both nuclear security and civil nuclear applications. Following a successful online product demonstration of our drone-based radiation mapping system, we have also seen widening interest for this product from a range of new sectors, including sales to a company operating in the civil emergency services sector.

Security Screening

In security screening, we provide OEM and government customers with components and systems for cabin and hold luggage scanning as well as industrial applications. In travel settings, our technologies enable our customers to meet the high-performance standards they require, and as demanded by regulatory bodies, to ensure passenger safety while increasing the convenience and efficiency of the security process.

There was a slowdown in security screening activity during the year as a result of the impact of the COVID-19 pandemic on the travel industry. However, we continued to make some progress in this segment. In particular, we received our first commercial order, and subsequent follow up orders, from an OEM customer whose next-generation scanner, based on Kromek technologies, achieved the highest level of European liquid explosive detection certification for cabin baggage. We also expanded our customer base, receiving orders for CZT modules to be designed into an advanced baggage screening system of a new US-based customer.

In our development work, we completed, post period, a two-year $1.6m development project funded by the US Department of Homeland Security for a CZT detector platform for threat resolution for hold baggage, hand baggage and cargo screening systems. We expect commercial adoption and integration of this platform in multiple commercial advanced baggage screening products.

In security screening for industrial applications, we secured a development agreement, worth up to $660k, with a US-based, sector-leading OEM with a global customer base. This contract was for the customisation of one of our CZT detector platforms for incorporation into the customer's systems for identifying contaminations during production processes. We completed the delivery of this programme post period, and we expect it to transition to a multi-year supply contract in due course. In addition, post period, we were awarded a $250,000 repeat order from a US-based customer that is a global leader in aerospace and defence technologies and which has incorporated our detectors into its system that is used for ammunition scanning.

Biological Threat Detection

The outbreak of COVID-19 has exposed the world to the severity of biological threats and their potential impact on public health and the global economy, demonstrating the need to rapidly evolve bio-security systems and associated technologies. We had already commenced development work on a biological-threat detection solution prior to the outbreak of the pandemic and significantly progressed our activities in this market during the year. This development has continued post period.

Since H2 2019, we have been working with the Defense Advanced Research Projects Agency ("DARPA"), an agency of the US Department of Defense, to develop a biological threat detection system that senses, analyses and identifies airborne pathogens under a programme that was established to combat bioterrorism. This activity was accelerated during the year and we were awarded a contract extension worth up to $5.2m.

Over the past two years, milestones achieved under this DARPA programme have included the development of a vehicle-mounted biological-threat identifier that can be deployed as a mobile wide-area bio-surveillance system. Post period, we received a $6m contract from DAPRA for the next phase of the programme that will seek to deliver a completely automated wide spectrum airborne pathogen detection system that is fully mobile and runs autonomously. This system is being designed to be networkable and provide wide-area monitoring capability in near real time.

With the onset of the pandemic, we also focused on the development of our technology for applications specifically related to COVID-19 detection. This included working under a programme funded by Innovate UK to customise our biological threat-detection solution to support end-use cases for COVID-19 detection and mitigation, and to then undergo piloting with those user groups. We engaged with potential customers for the system to develop deployment models and identify how it can best fit their needs ahead of customisation. In the second half of the year, we commenced piloting our system for the detection of airborne COVID-19 at an airport. Post period, the piloting has been expanded to include schools, a second airport, being Teesside International Airport, and other locations. We have also engaged in validation of the technology in third party laboratories and the results are very positive on both the detection levels, sensitivity and false alarm rates, making the technology performance comparable to existing RT PCR test protocols.

Manufacturing

Although the year was defined by the COVID-19 pandemic, Kromek took that situation as an opportunity and used the time when demand was lower than expected to substantially improve its CZT manufacturing capabilities. The CZT growth facility in the UK has developed a fully trained production group staffed by skilled production operators supported by key equipment technicians and experienced engineers. The US operations used 2021 to continue to install and improve the core CZT production process that ensures Kromek CZT is of the highest quality for Kromek products shipped to our customers. We continue to seek opportunities to enhance our product quality through our people and processes, and we are continuously challenging ourselves to find better ways to manufacture CZT and non-CZT products through a culture of continuous improvement where data speaks and an openness to challenge each other drives us forward. Both the UK and US manufacturing sites continue to be certified to ISO9001:2015 with both sites successfully completing annual audits with exemplary feedback from the audit process. In our fourth quarter to 30 April 2021, we have seen the demand for CZT based detectors recovering and growing ever since. The manufacturing facilities for CZT products are currently running at about 60% of installed capacity and growing through 2021. Several capacity expansion projects are ramping their resources to make ready additional capacity as CZT demand grows through calendar year 2021 and into 2022. These projects are focused on increased use of automated methods to improve throughput and processing quality. It is expected that these automation and process improvements will further improve products yields, lowering cost of manufacturing and improving margin.

R&D, Product and IP

Kromek is focused on developing the next generation of products for commercial application in our core markets. As noted, during the year we continued to advance development programmes with a number of partners in the nuclear security and medical imaging markets and, in particular, significantly progressed the development of our biological-threat detection solution. We also launched a number of new products in our D3S portfolio. In 2021, we applied for 3 new patents and had 10 patents granted across 9 patent families, bringing our total number of patents held to in excess of 250. 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.

Outlook

The momentum of the second half of 2021 has been sustained into 2022 with Kromek experiencing a positive start to the new year. In particular, we are seeing continued traction in the medical imaging segment as our customers increasingly roll out their products incorporating our technology. We are extremely encouraged by the results that we are receiving from the piloting of our biological-threat detection solution, which we expect to transition to the commercial phase in due course. We also believe that we are well-positioned to benefit from the increase in government defence and security spending globally, including in the UK.

As a result, Kromek is on track to deliver significant revenue growth for full year 2022 in line with market expectations, which would represent our highest ever full year revenue. We currently have visibility in excess of 75% of expected full year revenue based on the contracts already won and supported by a strong and increasing pipeline.

Consequently, and combined with the successful fundraising completed in the second half of 2021, the Board believes that we are well-placed to capitalise on the significant opportunities across our business and the Board continues to look to the future with increased confidence.

Chief Financial Officer's Review

Paul Farquhar

Chief Financial Officer

"In common with many businesses, 2021 was a challenging period, but we successfully navigated the year to exit stronger than when we entered"

I am very pleased to present my first Chief Financial Officer's report for the 12-month period ended 30 April 2021. I succeeded Derek Bulmer at the end of October 2020, and I would like to extend my thanks to him for his contribution to the Group over the last 10 years.

In common with many businesses, 2021 was a challenging period, but we successfully navigated the year to exit stronger than when we entered. The disruption caused by the COVID-19 pandemic, which took hold in Q4 of the 2020 year, significantly impacted the Group in the first few months of the year with first half revenue of £4.6m being 13% lower than the same period in the prior year. However, as noted in the Chief Executive Officer's Review, the Group saw normal trading patterns beginning to return in the latter part of the first half, which continued into the second half, with revenue being 26% higher in H2 2021 compared with H1 2021.

As a result of the disruption caused by COVID-19, revenue for the year was £10.4m (2020: £13.1m) and gross profit was £5.0m (2020: £6.2m). Due to the lower gross profit and a small increase in administration costs, adjusted EBITDA loss was £1.7m compared with a loss of £0.4m for the prior year. A reconciliation between adjusted EBITDA and results from operations is detailed in the table opposite.

In response to the pandemic, the Board took swift action early in the 2020 calendar year to protect the business through the activation of its business continuity plan. This included the reduction of costs and overheads, the conservation of cash through curtailing all non-essential spend as well as raising £1.4m of additional loan funds with HSBC in the UK and £1.4m of loans via the US Paycheck Protection Program loan scheme.

Revenue

The Group generated total revenue of £10.4m (2020: £13.1m). The split between product sales and revenue from R&D contracts is detailed in the table below. The significant increase in revenue from R&D contracts primarily reflects the Group's biological-threat detection activities.

Revenue Mix	**2021**		**2020**	
	£'000	**% share**	**£'000**	**% share**
Product	5,836	56%	**10,314**	79%
R&D	4,516	44%	**2,806**	21%
Total	**10,352**		**13,120**	

Revenue in the first four months of the year was disrupted as a result of the initial impact of COVID-19 and the resultant lockdown that significantly slowed economic activity, and particularly impacted the markets in which the Group operates. However, there was a resumption of orders and shipments across all segments in the final two months of the first half with business patterns starting to return to normal and increased commercial activity. Accordingly, the Group entered the second half of 2021 with an extensive commercial pipeline and achieved revenue of £5.8m for the six-month period, an increase of 26% over the first half revenue.

Gross Margin

Gross profit at £5.0m (2020: £6.2m) represented a margin of 48.4% (2020: 47.3%). The increase in gross margin is attributable to improvements in yields and efficiencies achieved through production ramp up. This is as a result of the investment in capital expenditure that was commissioned in the previous year.

Administration Costs

Administration costs and operating expenses increased by £0.3m to £10.9m (2020: £10.6m). This increase is substantially the net result of:

- £0.3m of depreciation largely relating to the capital expenditure on furnace and fabrication expansion;
- £0.2m of amortisation due to continued investment in the technology platform and product applications;
- a £0.7m adverse movement in foreign exchange (in 2020, there was a large foreign exchange gain due to the settlement surplus realised on the Group's US$ overdraft facility);
- a saving of £0.5m on travel and subsistence due to COVID-19 and the associated travel restrictions; and
- additional savings of £0.3m relating to facility and general office expenses.

Adjusted EBITDA* and Result from Operations

Due to the impact of COVID-19 on the operations of the Group and, consequently, the financial performance, adjusted EBITDA for 2021 was a loss of £1.7m compared with and a loss of £0.4m for the prior year as set out in the table below:

	2021 £'000	**2020 £'000**
Revenue	10,352	13,120
Gross profit margin	5,006	6,208
Gross margin (%)	48.4%	47.3%
Loss before Tax	(6,331)	(18,345)
EBITDA Adjustments:		
Non- COVID-19 Related Items:		
Net interest	546	544
Depreciation of PPE and Right-of-Use assets	1,685	1,185
Amortisation	2,359	2,142
Share-based payments	106	225
COVID-19 Related Items:		
Early settlement discount	**-**	**746**
Exceptional Item	**(52)**	**13,062**
Adjusted EBITDA*	**(1,687)**	**(441)**

Strategic Report *(Continued)*

Chief Financial Officer's Review *(Continued)*

**Adjusted EBITDA is defined as earnings before interest, taxation, depreciation, amortisation, exceptional items, early settlement discounts and share-based payments. In 2020, the impact of COVID-19 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 were in the normal course of events and were 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 no 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.*

The increase in adjusted EBITDA loss in 2021 compared with 2020 is substantially as a result of the lower gross profit due to the reduced revenue.

Loss before tax was £6.3m compared with £18.3m for the prior year, which primarily reflects the impact of the exceptional £13.1m relating to receivables and AROC in 2020. Loss before tax for the year before any exceptional items was £6.4m (2020: £5.3m loss before exceptional items), with the increase largely due to the reduction in gross profit and additional administration costs (including distribution) of £0.3m, partially offset by other operating income of £0.4m.

During 2021, the Group recognised a loss of £2.0m (2020: £1.0m income) as other comprehensive loss that arose from foreign exchange rate differences on a net investment in a foreign operation as described in note 2 to the financial statements. Unlike the £0.1m loss 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 regime as it invests in developments of technology. The Group recorded an R&D credit of £1.0m for the year (2020: £0.9m credit) arising from the option of surrendering tax losses in the year that qualify for cash credit, rather than carrying forward the tax losses to set against future taxable profits. The Group's deferred tax provision for the year remained static at £nil (2020: £0.9m credit) due to the distribution of losses between the UK and US operations, and accordingly there was a total tax credit to the income statement for the Group of £1.0m (2020: £1.8m credit).

Earnings per Share ("EPS")

Due to the £1.9m increase in loss for the period, the EPS is recorded in the year on a basic and diluted basis as 1.5p loss per share (2020: 1.0p loss per share after excluding exceptional items).

R&D

The Group invested £5.5m in the year (2020: £5.3m) in technology and product developments that were capitalised on the balance sheet, reflecting the continuing investment in new products, applications and platforms for the future growth of the business. This expenditure was capitalised in accordance with IAS38 to the extent that it related to projects in the later stage (development phase) of the project life-cycle. In addition, the Group expensed £5.5m of R&D in the year (2020: £5.5m) to the extent that it related to projects at the research phase of the project life cycle.

During the year, the Group continued to advance its development roadmap in relation to the automated wide-area detection of biological and viral pathogens, involving portable DNA sequencing. It is the Board's belief that this technology platform, which enables the identification of COVID-19 and other biological pathogens, offers significant medium-term opportunities for the Group in this critical market. This view is endorsed by the US government with DARPA awarding Kromek a major contract extension amounting to $6m in May 2021 as part of the continuing development of this technology platform.

The other key areas of development continue to be the expansion of the D5 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, add to 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 (2020: £0.2m) with 3 new patents filed and 10 patents granted across 9 patent families.

Other Income

Other Income comprises grants of £0.1m (2020: £nil) received from the Coronavirus Job Retention Scheme (CJRS) provided by the UK Government in response to COVID-19's economic impact on businesses. In addition, the Group received funding of £0.3m (2020: £nil) from the Innovate UK COVID-19 Continuity Fund.

Capital Expenditure

Capital expenditure in the year amounted to £0.5m (2020: £7.0m), which primarily relates to modest capital expenditure across lab and computer equipment and manufacturing projects.

Financing Activities

During the year, the Group successfully announced a Firm Placing, Director's Subscription and Open Offer to raise £13.0m before expenses. The net proceeds of the transaction will be used to de-risk and commercialise bio-security/pathogen detectors and increase the rate of commercialisation, to expand sales and marketing for the Group's nuclear detection and medical imaging activities and to strengthen the balance sheet. This will provide the Group with flexibility to address and capitalise on current and emerging opportunities.

In addition to the fundraise completed in March 2021, during the year, the Group secured a £1.4m Term Loan with HSBC UK for investment in capital projects. We also secured £1.4m of US government funding issued through the Paycheck Protection Program (PPP) Loan scheme. Post year end, the Group applied for full forgiveness on the first round of PPP loans, equating to £0.8m, and the Group was successful in its application as disclosed in note 37.

Cash Balance

Cash and cash equivalents were £15.6m as of 30 April 2021 (30 April 2020: £9.4m). The £6.2m increase in cash during 2021 primarily reflects net proceeds raised from the issue of new equity shares of £12.2m partly offset by investment in product development and other intangibles, with capitalised development costs of £5.5m and IP additions of £0.1m.

Working capital increased by £0.8m as a result of a £0.2m decrease in inventories held on 30 April 2021 to £6.2m (30 April 2020: £6.3m), which is the commencement of an anticipated unwind of inventory that built up due to the disruption caused by COVID-19; a £1.6m decrease in trade and other receivables, reflecting the timing of receipts; and a £2.6m decrease in trade and other payables to £7.2m (2020: £9.8m) due to the timing of invoicing around the year end.

World's First Fully Automated Airborne COVID-19 Detection System

Pilot schemes were launched in potential customer sites to identify best-fit and future customisation

Pilot sites situated in international airports, schools and other public buildings

Provides the ability to act, react, and take better decisions in terms of public health and national security, helping life return to normality

The current COVID-19 pandemic highlighted that the UK is ill equipped to monitor and track the evolution of emergent pathogens, and that we fail to be proactive in the management of outbreaks.

Long before anyone had even heard the word 'COVID', Kromek had been working with the Defense Advanced Research Projects Agency ("DARPA"), an agency of the US Department of Defense, to develop a biological threat detection system that senses, analyses and identifies airborne pathogens under a programme established to combat bioterrorism.

The onset of the pandemic allowed us to focus on adapting our technology for applications specifically related to COVID-19 detection. This included work funded under a programme by Innovate UK.

During the year Kromek announced it had developed the world's first COVID-19 (including variants) detection system using a targeted assay to sample air and confirm if the disease is present.

The COVID-19 detection system is fully autonomous, unmanned, and combines best-in-class technologies for air sampling, biological testing, and data management.
Designed to be used indoors or outdoors, in static or mobile form factors, the system can be run continuously or as required and actively reports either the presence or absence of COVID-19 every 30 minutes.

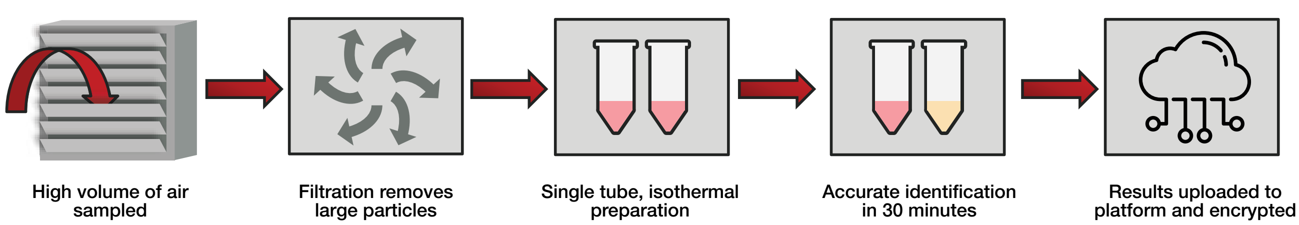
The speed and accuracy of reporting means you need no longer wait until someone is symptomatic in a group of people. Localised monitoring enables a detailed understanding of the spread of a disease, allows mitigating actions to be taken such as targeted testing and decontamination. These actions prevent the isolation of individuals, groups, businesses and public areas, thus ensuring minimum disruption to the economy and assures future preparedness.

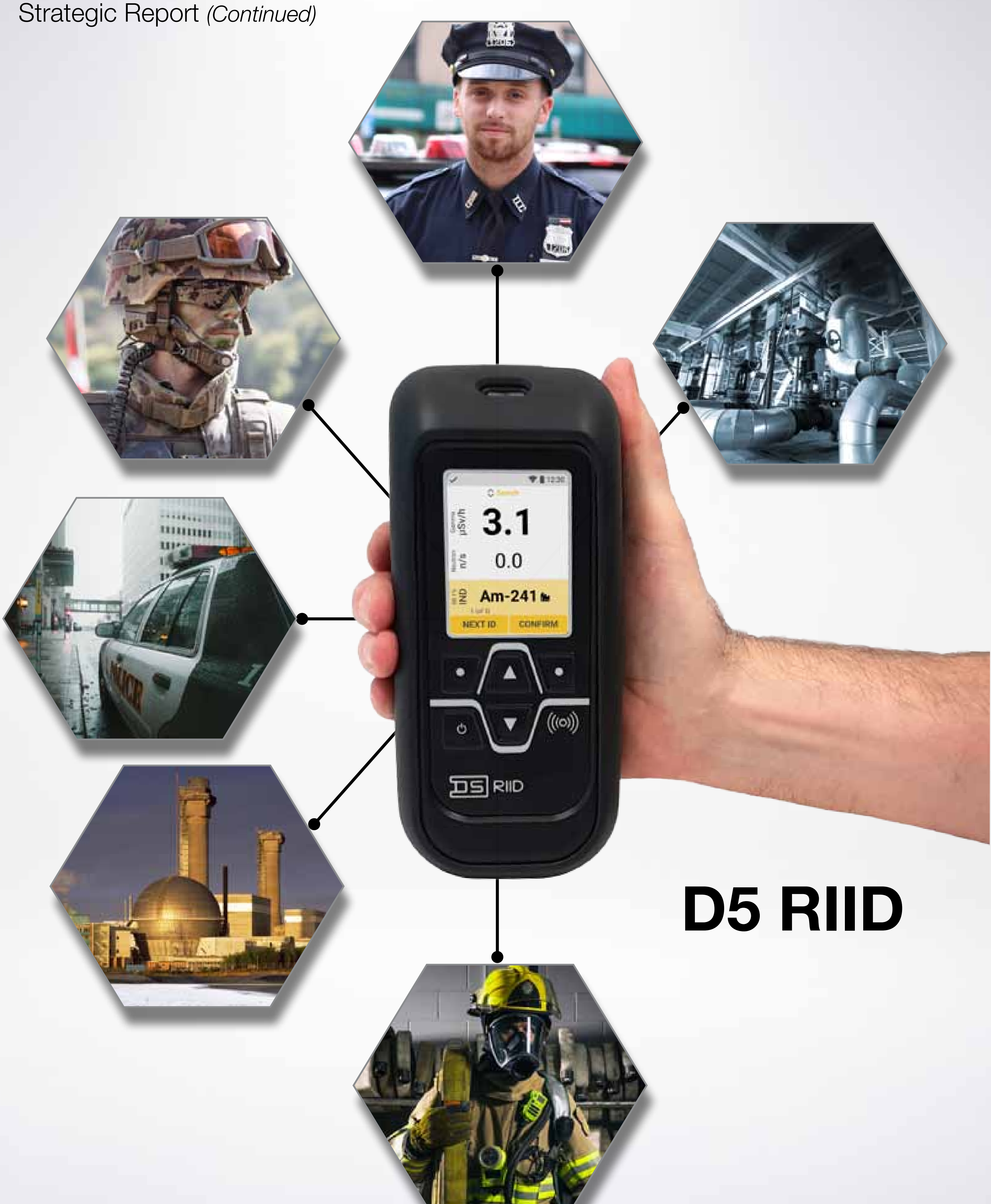
Of course, the most effective places for this equipment to be sited is in high traffic areas such as airports, schools, hospitals, and supermarkets. We have engaged with potential customers for the system to develop future deployment models and identify how it can best fit their needs ahead of further customisation.

Pilot schemes for the COVID-19 detection system have been launched at two international airports and have been expanded to include schools and other locations.

We have also engaged in validation of the technology in third party laboratories and the results are very positive for all major markers, including detection levels, sensitivity and false alarm rates, making the technology performance comparable to existing RT PCR test protocols.

- **Highly accurate**
- **Highly sensitive**
- **Ultra-low false positive rates**
- **Fully automatic**
- **Runs autonomously for 24/48 samples**
- **All-in-one, fully autonomous design**





D5 RIID

Introducing the World's Smallest and Lightest Radioisotope Identification Device (RIID)

The D5 RIID, one of two new nuclear security products launched this year, is the world's smallest high-performance radioisotope identification device ("RIID").

The D5 RIID forms a key part of the Kromek portable product portfolio for the Nuclear, Homeland Security and Military markets. The UK has announced spending of £329m over the next five years on nuclear detection, and portable products continue to be a key component of the overall capability strategy.

The D5 RIID has unparalleled performance in detecting and identifying isotopes at very low dose levels meaning that radioactivity will never be missed. The dose accuracy of the D5 RIID is ±10% and it can identify isotopes at dose rate levels lower than 0.01 μSv/h. Detection of distant sources is between 40 and 50 times better than the default global standard of performance criteria for these handheld instruments: ANSI N42.34. This means measurements can be carried out faster and safer for the user.

With RIIDs now widely used, portability is essential. The new D5 RIID weighs less than a third of the weight of comparable legacy instruments, and measuring less than 7 inches (173mm) in height, the D5 RIID is light and unobtrusive enough to be both belt and body worn and can be held and operated in one hand. Designed for high-hazard environments, it is easily usable by someone in full PPE.

As missions get longer, the endurance of portable RIIDs is critical. The D5 RIID's enhanced battery life – in excess of 24 hours – is achieved via a dual system: combining an internal rechargeable battery supplemented with a set of replaceable AA-sized batteries allowing for speedy in-field replacement. Either option can be used in isolation, or the two systems in unison, which removes the need for an external charging station.

Advances in software development mean that the D5 RIID can interface with, or be integrated into, existing systems, including smartphones, to enable a "reach-back" capability. High-resolution spectral results obtained in the field can be transmitted immediately to an offsite laboratory for secondary adjudication. It can also link to a network of hubs and sensors to give a real-time overview of a radiological threat. Critically, the connectivity and sensitivity of the D5 RIID allows the building of customised national or local systems using the same sensor.

Strategic Report *(Continued)*

Principal Risks, Section 172 Statement and KPIs'

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, in common with many businesses, continues to face significant economic and operational risks 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

As outlined in the 2020 Annual Report, the Board activated its business continuity plan in March 2020 in response to the COVID-19 pandemic. Management initiated a number of operational measures to ensure that the workforce and the business could continue to operate safely with additional hygiene measures for staff continuing to work in Kromek facilities, and encouraging staff to work from home where possible. In the first half of 2021, additional debt funding was secured, and costs were reduced where practicable, in response to the sudden economic slowdown caused by the pandemic. In addition, the Group raised £13m of equity capital, before expenses, in March 2021 from a Placing and Open Offer. The Placing was undertaken with new and existing institutional investors in the Group. Management continues to follow and implement government guidance in each jurisdiction in which the Group operates and continually reviews its business continuity plan and financial forecasts to ensure that the business can serve its customers efficiently and safely.

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 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 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. 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. Where this natural hedging strategy results in exposed foreign currency risk, management will consider hedging some or all of that risk through the utilisation of forward exchange contracts.

Strategic Report *(Continued)*

Principal Risks, Section 172 Statement and KPIs' *(Continued)*

Review of Principal Risks *(Continued)*

Risks associated with Brexit

Description

As a consequence of the UK's decision to leave the European Union at the end of 2020, there continues to be international uncertainty around the long-term 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 long-term outcomes of Brexit.

However, management continually monitors the political environment and keeps the 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 co constantly monitor the changing environment, latest government guidelines and industry best practice.

Risks associated with global electronic component shortages

Description

There is currently a global shortage of certain electronic components, and in particular semiconductors and micro-chips. This has been caused by a range of factors, including major factory fires in key component suppliers in Japan and Taiwan, and supply chain disruption due to factories being closed or operating at much lower capacity as a result of the COVID-19 pandemic. The supply side shortages have been exacerbated by a significant increase in demand for electronic components in nearly every industry including computing, automotive, smartphone, medical and IoT markets that need increasingly larger numbers of components for finished products. The constrained supply is unlikely to improve until the middle of the 2022 calendar year, and component prices have increased as a result of the excess demand in the market.

Mitigation

The Group has taken a range of mitigating actions in response to the global shortage of electronic components, including advance buying and widening the supply chain from which components are sourced, to secure future supply and thereby continuity of supply for the Group's customers.

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 Group. This duty is for the benefit of its members as a whole, having regard to the likely consequences of decisions for the long-term. This involves having consideration for the interests of the Group's employees, the need to foster relationships with other key stakeholders and the Group's impact on the local community and the environment. Additionally, the Directors must act in a way that maintains a reputation for high standards of business conduct, and takes into account the need to act fairly as between members of the Group.

In discharging its Section 172 duties, the Board has considered the factors set out above and the views of key stakeholders as described below.

Investors

The 10 largest investors in the Group hold, in aggregate, approximately 56% of the Group'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 Group. The Board recognises its responsibility to act fairly between all shareholders of the Group.

The Group 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 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 Group's brokers. The Group 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.

Employees

The Group employed an average of 139 staff during 2021. 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. As noted in the Directors' Report, 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.

Customers and suppliers

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.

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.

Environmental, Social and Governance (ESG)

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.

Kromek is committed to being a responsible corporate member of society and our priority both before and during the pandemic has been to protect our people, support our customers and stakeholders and continue to protect the environment around us. We believe that this approach supports the Group's long-term success.

The Group's ESG strategy embodies two main aims:

- To continue to make our business better and more sustainable, by minimising our environmental impact and ensuring meaningful diversity in the workforce and strong governance
- To make a difference beyond the direct operation of our business, through our reach and contribution to wider society

These aims are reflected in each of the following key areas for our business:

The environment. We will work both to reduce the Group's carbon footprint and work towards being a carbon neutral organisation. In April 2020, the Group elected to contract its energy supplies in the UK from clean energy sources.

Our employees. We will work with our employees to continue to provide an open and inclusive workplace, with a focus on well-being to ensure we have a great place to work.

Our customers. We will continue to innovate to provide our customers with products and services that use fewer resources.

Key Performance Indicators (KPIs)

The Group utilises a range of financial and non-financial performance indicators to measure performance of continuing operations against strategy. Of those performance indicators, the Group's principal KPIs are revenue, adjusted EBITDA and total cash balances, and management closely monitors current year actuals for these metrics against both budget and prior year figures. The Board believes that these metrics are valuable indicators of the Group's progressing business model.

Further comments regarding these metrics are set out in the Chairman's Statement and the Chief Executive Officer's and Chief Financial Officer's Reviews.

Dr Arnab Basu MBE
Chief Executive Officer
13 July 2021

Directors' Biographies

Mr Rakesh Sharma OBE, Chairman

Mr Sharma is a former FTSE 250 CEO with 20 years' experience in running international hi-tech engineering and manufacturing businesses. He was instrumental in the growth of Ultra Electronics Holdings plc, the LSE-listed group that specialises in providing engineering solutions for mission-critical systems in the defence, security, critical detection and control markets, latterly serving for six years as CEO. He also sits on the Board of LSE-listed PayPoint plc and supports a range of small businesses and entrepreneurs in a non-executive capacity. Mr Sharma was elected as a Fellow of the Royal Academy of Engineering in 2016 and was honoured in the 2017 Queen's Birthday Honours List with an OBE for services to defence capability. In 2018 he was given the Freedom of the City of London by redemption and became a Liveryman of the Worshipful Company of Coachmakers and Coach Harness Makers. He brings extensive expertise in the security and defence sector, a key market for Kromek.

Dr Arnab Basu MBE, DL, 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 in 2014.

Mr Paul Farquhar, Chief Financial Officer

Mr Farquhar is a Fellow of the Institute of Chartered Accountants in England and Wales. He has 30 years' experience as a finance director and chief financial officer, primarily for international businesses. He was previously President, Treasurer and Chief Financial Officer of Sevcon Inc, a NASDAQ-listed designer, manufacturer and supplier of microprocessor controls for electric and hybrid vehicles. In this position, Mr Farquhar established a global finance team in five countries with common financial reporting systems to meet the needs of a growing technology business and also oversaw the raising of equity and debt finance and M&A activity. He began his career as a chartered accountant, spending 10 years as an auditor at Jennings Johnson in Sunderland and at PricewaterhouseCoopers in Newcastle and Lisbon, Portugal.

Mr Albertus ("Berry") Beumer, Chief Operating Officer

Mr Beumer is a technology business executive with extensive experience of delivering revenue growth in analytical instrument, high-frequency communications equipment, and optoelectronic and semiconductor materials industries. He has held several senior roles while working both in Europe and the US with AkzoNobel and Allied Signal and was Division President and General Manager of Taconic's US, Europe, and Asia operations. Prior to joining Kromek, he was Vice President, Sales and Marketing at XOS, Inc., a Danaher Company. During his tenure at XOS, Inc., Mr Beumer was responsible for driving the strategic direction of their x-ray elemental technology business, positioning the company as a global leader in the area of application specific elemental analysis solutions for the petroleum and consumer products industries.

Mr Lawrence Kinet, Non-Executive Director

Mr Kinet has over 40 years' experience in leadership positions in the medical device and bio-pharmaceutical industry, 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 several 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. In addition to being a Non-Executive Director of Kromek, Mr. Kinet is the Chairman of Metrasens Ltd in Malvern, UK (a company in the healthcare and security fields) and is a board member of Reglagene Inc., a company in the field of cancer treatment.

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. Currently, he manages a portfolio of emerging and existing University spinouts and a small Seed Fund. He has also served as interim CEO or Executive Chairman of spinouts from Manchester and Cambridge Universities. He is a graduate of UCL, Cranfield and ULB.

Mr Christopher Wilks, Non-Executive Director, Audit Committee Chair

Mr Wilks is a Fellow of the Institute of Chartered Accountants in England and Wales. He is currently Chief Financial Officer at ECO Animal Health Group plc, a leader in the development, registration and marketing of pharmaceutical products for global animal health markets. He qualified with Ernst & Young and has over 25 years' experience as Chief Financial Officer in technology and science-based companies. For over 10 years, he was the Chief Financial officer of Sondex plc, which makes advanced instruments used in the Energy Industry. During Mr Wilks' tenure, Sondex grew from a small sole trader to a fully listed plc and was acquired by GE in 2007. Immediately prior to joining ECO Animal Health Group, Chris was the CFO at Signum Technology Limited, a PE-backed buy-out vehicle formed for the acquisition of a number of oilfield technology businesses. Signum was successfully sold during 2019. His intimate understanding of the physics and financial worlds adds valuable insight and expertise to 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 2021.

Principal activities

Kromek Group plc is a leading developer of radiation detectors based on cadmium zinc telluride (CZT) and associated technologies, 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, including an emerging capability in biological-threat detection.

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 2021, principal risks and uncertainties, research and development, financial KPIs and the outlook for future years, are set out in the Chairman's Statement and Chief Executive Officer's and Chief Financial Officer's Reviews on pages 2 - 11.

Future developments

The Group's development objectives for the year to 30 April 2022 are disclosed in the Strategic Report on pages 4 - 19.

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 2021.

Results and dividends

The consolidated income statement is set out on page 41.

The Group's loss after taxation amounted to £5.3m (2020: £16.5m loss after tax and exceptional items).

The Directors do not recommend the payment of a dividend for the year ended 30 April 2021 (2020: £nil).

During the year ended 30 April 2021, the Group made political donations of £nil (2020: £nil) and charitable donations of £nil (2020: £nil).

Directors

The Directors who served during the year and up to the date of signing this report (unless otherwise stated) were as follows:

Dr A Basu	
Mr R Sharma	(appointed 8 October 2020)
Mr D Bulmer	(resigned 31 October 2020)
Sir P Williams	(resigned 1 January 2021)
Mr P N Farquhar	(appointed 31 October 2020)
Mr A Beumer	(appointed as a Director on 16 December 2020)
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 on pages 29 - 31.

Details of significant events since the balance sheet date are contained in note 17 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 152 and the percentage of this number that is female is 32%.

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 2021 and 30 June 2021 (the latter being the latest date for which this information was available prior to approving this report), shareholders holding more than 3% of the share capital of Kromek Group plc were:

	At 30 April 2021		At 30 June 2021	
Name of shareholder	Number of shares	% of voting rights	Number of shares	% of voting rights
Hargreaves Lansdown Asset Management	50,381,420	11.67%	52,071,340	12.06%
Interactive Investor	42,653,287	9.88%	50,634,872	11.73%
Canaccord Genuity Wealth Management	35,671,234	8.26%	35,671,234	8.26%
Polymer Holdings (UK)	21,940,142	5.08%	21,940,142	5.08%
Herald Investment Management	21,080,059	4.88%	21,080,059	4.88%
Halifax Share Dealing	19,608,897	4.54%	20,471,436	4.74%
AJ Bell Securities	13,497,634	3.13%	14,112,701	3.27%
Jarvis Investment Management	13,348,892	3.09%	11,488,421	<3.00%
Barclays Wealth	12,275,699	<3.00%	13,296,690	3.08%

By order of the Board

Dr Arnab Basu MBE
Chief Executive Officer
13 July 2021

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. • The Group strategy is set out in the Strategic Report section on pages 4 to 19 of this Annual Report. • 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. • Under normal circumstances, 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. • Shareholder feedback is received from our Nomad and all shareholder feedback is discussed at Board meetings. • For further information, see Section 172 statement on page 18 of this Annual Report.
3. Consider 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. • The Group engages in continuous communication and engagement with customers in order to understand their needs and requirements. • The procurement team maintains strong relationships with existing suppliers whilst promoting new partnerships with new suppliers. • For further information, see Section 172 statement on page 18 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. • The Group's significant risks are reviewed and assessed throughout the year. • The significant risks are disclosed on pages 16 – 18 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, Mr Rakesh Sharma. • The members of the Board maintain the appropriate balance of experience, independence and knowledge of the Group. • For further information, please see pages 20 - 21 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 three Executive Directors, the Board has an effective balance of skills, experience and capabilities including finance, technology, law and knowledge of the medical sector. • Biographies of each Director can be found on pages 20 - 21 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. • 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 23 of this Annual Report. • 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. • 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. • 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. • 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 seven times during the year ended 30 April 2021, including one AGM. Due to the restrictions caused by the COVID-19 pandemic, meetings were largely held telephonically or by videoconference. The following details the Board meetings during 2021, and the attendees:

Date	Attendees
10/07/2020	Sir Peter Williams Arnab Basu Derek Bulmer Lawrence Kinet Jerel Whittingham Christopher Wilks
06/10/2020	Sir Peter Williams Arnab Basu Derek Bulmer Lawrence Kinet Jerel Whittingham Christopher Wilks
16/10/2020	Sir Peter Williams Rakesh Sharma Arnab Basu Derek Bulmer Lawrence Kinet Jerel Whittingham Christopher Wilks
17/11/2020	Sir Peter Williams Rakesh Sharma Arnab Basu Derek Bulmer Lawrence Kinet Jerel Whittingham Christopher Wilks
08/12/2020	Sir Peter Williams Rakesh Sharma Arnab Basu Derek Bulmer Lawrence Kinet Jerel Whittingham Christopher Wilks
19/01/2021	Rakesh Sharma Arnab Basu Paul Farquhar Lawrence Kinet Jerel Whittingham Christopher Wilks Berry Beumer
30/03/2021	Rakesh Sharma Arnab Basu Paul Farquhar Lawrence Kinet Jerel Whittingham Christopher Wilks Berry Beumer

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 Group'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 Group.

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 Chairman conducts half yearly reviews of the effectiveness of the Board's performance as a unit and of the individual members, meeting with Board members to discuss their involvement with the Group 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 Group'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.

Corporate Governance Report *(Continued)*

Relations with stakeholders

The Group considers its key stakeholders to be its shareholders, employees and customers and suppliers. How the Group engages with these, and broader, stakeholders is described in the Strategic Report on pages 18 - 19.

Audit Committee

The Audit Committee is chaired by Christopher Wilks, an Independent Non-Executive Director. The other members are Rakesh Sharma, Lawrence Kinet and Jerel Whittingham, each of whom are Independent Non-Executive Directors. During the year, Peter Williams stepped down from the committee when he resigned from the board on 1 January 2021; he was replaced by Rakesh Sharma who was appointed to the committee at the meeting held on 12 January 2021. 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. There is also meeting time provided outside the committee schedule to ensure there is full opportunity for discussion.

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 following details the Audit Committee meetings and attendees during the year ended 30 April 2021:

Date	Attendees
26/08/2020	Christopher Wilks Peter Williams Lawrence Kinet Jerel Whittingham Derek Bulmer
12/01/2021	Christopher Wilks Rakesh Sharma Lawrence Kinet Jerel Whittingham Paul Farquhar

Remuneration Committee

The Remuneration Committee is chaired by Jerel Whittingham, an Independent Non-Executive Director. The other members are Christopher Wilks and Lawrence Kinet, Independent Non-Executive Directors. 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. In addition, in all matters of significant remuneration change, the Remuneration Committee consults with the wider Board. Further details of the Group's policies on remuneration and service contracts are given in the Remuneration Committee Report on pages 29 to 31.

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.

A 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 and 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 2021, the Group had net current assets of £17.5m (30 April 2020: £12.3m) and cash and cash equivalents of £15.6m (30 April 2020: £9.4m) 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. 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 twelve 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 on page 46.

Audit Committee Report

On behalf of the Board, I am pleased to present the Audit Committee report for the year ended 30 April 2021.

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. There is also meeting time provided 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), Lawrence Kinet, Jerel Whittingham and Rakesh Sharma.

The Board is satisfied that I, as Chairman of the Committee, have recent and relevant financial experience. I am currently Chief Financial Officer at ECO Animal Health Group plc and 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 Group'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;
- overseeing the process in early 2021 of selecting and assessing the suitability of the external auditors following the decision to change the Group's external audit firm;
- review of the 2021 audit plan and audit engagement letter;
- assessment of the auditor's independence and performance;
- 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, Haysmacintyre 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 in the two years ended 30 April 2021 is provided in note 7 of the Group's financial statements. There were no non-audit services provided by the current external auditor to the Group during the 2021 year.

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 calculates materiality for the purposes of their audit using an average of the Group's last three years normalised loss before tax and exceptional items. The materiality of the Group for the 2021 audit was £193k (2020: £167k). 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 and the Board are 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 page 26 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. No matters were reported through this mechanism during the year.

Christopher Wilks
Audit Committee Chairman
13 July 2021

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.

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 40%–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.

A value creation share plan ("VC") introduced following a 2018 review of remuneration was terminated with the agreement of the participants on 29 April 2021, and all share options previously issued under the plan were cancelled.

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.

Service contracts

Arnab Basu (CEO), Paul Farquhar (CFO) and Berry Beumer (COO) have service contracts with notice periods (to the Company) of nine, six and three 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. Due to the economic uncertainty caused by the COVID-19 pandemic, the Non-Executive Directors surrendered their salaries for the 4-month period May to August 2020, during the year ended 30 April 2021.

Directors' emoluments (Audited)

Emoluments of the Directors for the year ended 30 April 2021 are shown below.

Pension contributions

During the year, the Group made pension contributions to personal pension schemes (i.e. defined contribution schemes) for the following executive directors. Neither benefits in kind nor bonuses are pensionable.

Details of contributions payable by the Group are:

Year Ended	**30 April 2021 £'000**	**30 April 2020 £'000**
Director		
Arnab Basu	15	10
Derek Bulmer[1]	6	10
Paul Farquhar[2]	5	-
Berry Beumer[3]	5	5

[1] *Derek Bulmer resigned on 31 October 2020*
[2] *Paul Farquhar was appointed a Director on 31 October 2020*
[3] *Berry Beumer was appointed a Director on 16 December 2020 (having previously been a senior manager at Kromek) and of the above contributions payable by the Group in the year ended 30 April 2021, £2,000 was paid by the Group for the period from his appointment as a Director to 30 April 2021*

Remuneration Committee Report *(Continued)*

Directors' shareholdings

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

	30 April 2021		30 April 2020	
	Number	**%**	**Number**	**%**
Arnab Basu	2,988,750	0.7	2,972,000	0.9
Rakesh Sharma[1]	311,704	0.1	-	-
Sir Peter Williams[2]	300,000	0.0	200,000	0.1
Paul Farquhar[3]	66,500	0.0	-	-
Derek Bulmer[4]	132,292	0.0	132,292	0.0
Berry Beumer	80,000	0.0	-	-
Lawrence Kinet	350,000	0.1	300,000	0.1
Jerel Whittingham	364,890	0.1	364,890	0.1
Christopher Wilks	177,941	0.0	175,000	0.1

[1] Rakesh Sharma was appointed as a Director on 8 October 2020
[2] Sir Peter Williams resigned as a Director on 1 January 2021
[3] Includes shares owned by family
[4] Derek Bulmer resigned as a Director on 31 October 2020

After 10 years as Chief Financial Officer of the Group, Mr Bulmer advised the Board in the third quarter of 2021 of his wish to resign in order to pursue alternative opportunities. The Group entered into a settlement agreement with Mr Bulmer on 28 October 2020, and he left the Company at the conclusion of the Annual General Meeting on 31 October 2020. The terms of the agreement provided for the following:

- in lieu of notice, a sum equivalent to 12 months remuneration, defined as basic salary, pension contributions and car allowance, was paid to Mr Bulmer totalling £192,250;
- no bonus element was paid in respective of the 2020 year;
- all rights to existing LTIPs and Value Shares were surrendered;
- existing options over 875,000 shares at 20 pence were surrendered;
- new options over 875,000 shares at 20 pence were put in its place with revised exercise dates;
- in recognition of Mr Bulmer's contribution to the Group's development over more than a decade, further options over 1,125,000 shares were granted ex gratia, priced at 12 pence per share, being the average of the middle market price over 30 days prior to and 30 days following the announcement of the Group's results for 2020; and
- in recognition of the challenge in finalising the annual audit at the height of the COVID-19 pandemic, additional options over 300,000 shares were granted on the same terms as the 1,125,000 share options described above.

Directors' emoluments for the year ended 30 April 2021

The table below forms part of the audited financial statements:

	Salary £'000	Benefits £'000	Bonus paid £'000	Pension contributions £'000	**Total emoluments 2020/21 £'000**	Total emoluments 2019/20 £'000
Non-executive Chairman						
Sir Peter Williams[1]	25	-	-	-	**25**	69
Rakesh Sharma[2]	45	-	-	-	**45**	-
Executive						
Arnab Basu	210	6	-	15	**231**	231
Paul Farquhar[3]	85	4	-	5	**94**	-
Derek Bulmer[4]	87	4	-	6	**97**	186
Berry Beumer[5]	64	-		2	**66**	-
Non-executive						
Lawrence Kinet	26	-	-	-	**26**	36
Jerel Whittingham	28	-	-	-	**28**	39
Christopher Wilks	28	-	-	-	**28**	40
Total	**598**	**14**	**-**	**28**	**640**	601

[1] Sir Peter Williams resigned as a Director on 1 January 2021
[2] Rakesh Sharma was appointed as a Director on 8 October 2020 and assumed the role of Chairman on 1 January 2021
[3] Paul Farquhar was appointed a Director on 31 October 2020; his salary was £155,000 p.a. in 2021
[4] Derek Bulmer resigned as a Director on 31 October 2020; his salary was £174,250 p.a. in 2021
[5] Berry Beumer was appointed as a Director on 16 December 2020, having previously been a senior manager at Kromek

In common with many other companies, the Remuneration Committee gave additional consideration this year to the exceptional circumstances and challenges of the COVID-19 pandemic for the business and for the executive directors, when reviewing remuneration matters.

As Berry Beumer joined the Board during 2021, all aspects of his emoluments came under the direct purview of the Remuneration Committee from the date of his appointment to the Board.

None of the executive or non-executive directors exercised any share options in the year ended 30 April 2021 (2020: nil).

Executive Directors' share incentive scheme (LTIP)

Share incentive scheme for executive directors

The Remuneration Committee agreed, in April 2021, an incentive award scheme for Arnab Basu and Berry Beumer, to offer them up to 1,000,000 and 751,007 shares respectively, at a price of 21p per share, to vest based on specified performance criteria.

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 share incentives noted above are measured by a Total Shareholder Return condition, calculated as the average total return in comparison to a peer group. The incentive awards offered to Mr Bulmer in January and October 2019 lapsed on 31 October 2020 when Mr Bulmer's employment with the Company ended.

As at 30 April 2021, other than the shares offered to Mr Bulmer in 2019 and 2020, the LTIP incentive option shares issued in fiscal years 2019, 2020 and 2021, remained unvested.

As noted above, the VC share plan introduced in the year ended 30 April 2018 was terminated during the year ended 30 April 2021, and all previous awards were cancelled.

Share price during the year

During the year to 30 April 2021, the highest share price was 23.47p (2020: 27.00p) and the lowest share price was 10.07p (2020: 10.50p). The market price of the Group's shares at 30 April 2021 was 15.15p (30 April 2020: 19.39p).

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

Whilst the issue of equity incentives for executive directors is primarily focused on the LTIP scheme as detailed on the previous page, the Group does make occasional and targeted use of market price options for executive directors outside the LTIP.

The following table shows the movement in the total share options that have been granted to executive directors outside the LTIP; these options are not linked to any specified performance criteria:

Director	Date of grant	Exercise price P	At 1 May 2020 Number	Awarded during the year - Number	Cancelled during the year - Number	Exercised during the year - Number	At 30 April 2020 Number	Expiry date
Arnab Basu	20 November 2011	20.0	1,000,000	-	-	-	1,000,000	20 November 2021
Arnab Basu	14 December 2020	12.0	-	1,250,000	-	-	1,250,000	14 December 2030
Arnab Basu	29 April 2021	1.0	-	110,000	-	-	110,000	29 April 2031
Paul Farquhar	15 October 2020	12.0	-	1,000,000	-	-	1,000,000	15 October 2030
Berry Beumer[1]	1 January 2016	27.0	180,000	-	-	-	180,000	1 January 2026
Berry Beumer[1]	14 December 2020	12.0	-	1,250,000	-	-	1,250,000	14 December 2030
Berry Beumer	29 April 2021	1.0	-	150,000	-	-	150,000	29 April 2031
Derek Bulmer[2]	13 September 2010	20.0	500,000	-	500,000	-	-	-
Derek Bulmer[2]	15 October 2012	20.0	125,000	-	125,000	-	-	-
Derek Bulmer[2]	31 May 2013	20.0	250,000	-	250,000	-	-	-
Derek Bulmer[2]	28 October 2020	20.0	-	875,000	-	-	875,000	28 October 2025
Derek Bulmer[2]	28 October 2020	12.0	-	1,425,000	-	-	1,425,000	28 October 2025

[1] *Awarded to Mr Beumer prior to him being appointed as a Director*
[2] *Mr Bulmer resigned as a Director on 31 October 2020*

Jerel Whittingham
Remuneration Committee Chairman
13 July 2021

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kromek

Annual report and accounts for the year ended 30 April 2021

Financial Statements

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

Opinion

We have audited the financial statements of Kromek Group PLC (the ‘Parent Company’) and its subsidiaries (the ‘Group’) for the year ended 30 April 2021 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Statement of Financial Position, the Consolidated and Parent Company Statements of Cash Flows, the Consolidated and Parent Company Statements of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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 2021 and of the group’s loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

Our audit procedures to evaluate the director’s assessment of the Group’s and the Parent’s ability to continue to adopt the going concern basis of accounting included, but were not limited to:

- Undertaking an initial assessment at the planning stage of the audit to identify events or conditions that may cast significant doubt on the Group and the Parent’s ability to continue as a going concern;
- Evaluating the methodology used by the directors to assess the Group and the Parent’s ability to continue as a going concern;
- Reviewing the director’s going concern assessment and evaluating the key assumptions used and judgements applied;
- Reviewing the liquidity headroom and applying a number of sensitivities to the base forecast and plausible worst case forecast, prepared by management, to provide comfort over there being sufficient headroom to adopt the going concern basis of accounting;
- Reviewing and recalculating banking covenant requirements during the year and for the period of the forecasts;
- Reviewing the appropriateness of the director’s disclosures in the financial statements.

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

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified. These matters included 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.

Key Audit Matter Description	How the matter was addressed in the audit
Presumed risk in revenue recognition	
Included in the Group Statement of Comprehensive Income is revenue of £10.35m. Revenue is derived from contracts with customers as well as the sale of goods and services. See revenue and profit recognition accounting policy note and note 3 critical accounting estimates and judgements, performance obligations arising from customer contracts for further details regarding revenue recognition. There is a risk that revenue has not been recognised in line with IFRS 15 during the year, for revenue recognised at a point in time as well as for contracts where revenue is recognised over time.	Our audit work has constituted a review of all revenue in relation to contracts with customers and revenue derived from government grants, and a critical assessment of managements' revenue recognition policies for these revenues streams, against the recognition criteria detailed in IFRS 15. For all contracts which were considered to be recognised at a point in time, our review concluded that revenue has been recorded in line with the stipulations of IFRS 15, and recognised using the input method with reference to milestones detailed in the contract. For all contracts which were considered to be recognised over time, we assessed the input method used and considered this to be in line with the stipulations of IFRS 15 regarding revenue recognised from contracts over time. We performed tests of contract revenue on a substantive basis, ensuring that revenue recorded during the year was in line with our expectations based on the information available, such as contracts, invoices and proof of milestones being achieved. For product sales, we performed a test in total of all sales in the year. For all revenue streams, we performed testing of revenue around the year end to ensure that revenue was recorded in the correct period. We also conducted a review of a sample of case notes to review management's assessment of the debtor and for any indications of potential impairment. Our work performed on revenue highlighted no material errors, or departures from IFRS 15, the applicable accounting standard.

Independent Auditor's Report *(Continued)*

Key Audit Matter Description	How the matter was addressed in the audit
Recoverability of development costs and application of IAS 38 Intangible assets	
Included in the Group Statement of Financial Position are capitalised development costs of £22.1m. The estimated recoverable amount of capitalised developments costs is highly material on a group level. There is a risk that these are materially overstated and that an impairment should be recognised in addition to any amortisation charged in the year. The impairment review of these balances 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. The effect of this is that the recoverable amount of capitalised development costs has a high degree of estimation uncertainty and a potential range of reasonable outcomes greater than materiality for the financial statements. Therefore, there is a risk that they require impairment. There is a further risk that additions in the year are not correctly capitalised on the basis that they do not fulfil the development criteria as they constitute research phase expenditure.	Our audit work focused on assessing the forecasts presented by management to support the valuation of the capitalised development costs. This included but was not limited to: - Agreeing future revenues included in the forecast to committed contracts; - Agreeing pipeline sales to supporting documentation to support the inclusion of non-committed revenue; - An assessment of the appropriateness of the discount factor used in the preparation of the forecasts; - Comparisons between actuals and historical forecasts in assessing the reasonableness forecasts used to support the year end balances; - Assessments of the sensitivity analysis presented by management to detail the headroom for each category of intangible asset; - Performance of our own sensitivity analysis to assess the level of headroom regarding the capitalised intangible assets; - A review of the disclosures made in the financial statements which reference the impairment review that has taken place, and the key assumptions made as part of this assessment; - A review of the sensitivity analysis disclosure in the financial statements in line with the forecasting provided by management as part of their impairment review. For the recognition of all intangible additions in the year, we obtained and assessed in line with the stipulations of IAS 38 intangible assets, managements inclusion of capitalised development costs to ensure that these met the definition criteria of development costs and were not incorrectly capitalised research costs. Our audit work did not identify any material issues or incorrect additions to capitalised development costs in the year.

<table>
<tr><th>Key Audit Matter Description</th><th>How the matter was addressed in the audit</th></tr>
<tr><td>Recoverability of goodwill</td><td></td></tr>
<tr><td>Included in the Group Statement of Financial Position is goodwill of £1.25m.

On the basis that the Group and the subsidiaries of the group are loss making there is a risk that the goodwill recognised in the Statement of Financial Position should be impaired.

The impairment review of this balance is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows and assumptions made in relation to the CGU to which goodwill has been allocated, due to these containing estimates of future market demand, production capacity and yield, gross margin and overhead rates.

The effect of this is that the recoverable amount of Goodwill has a high degree of estimation uncertainty and a potential range of reasonable outcomes greater than materiality for the financial statements. Therefore, there is a risk that they require impairment.</td><td>Our audit work consisted of an assessment of the judgements that management have made in determining the CGU to which goodwill has been allocated to ensure that this is reasonable.

We have then obtained and assessed forecasts of the relevant CGU to ensure that managements' assessment that there is no impairment required is appropriate. This consisted of, but was not limited to:
- Agreeing future revenues included in the forecast to committed contracts;
- Agreeing pipeline sales to supporting documentation to support the inclusion of non-committed revenue;
- An assessment of the appropriateness of the discount factor used in the preparation of the forecasts;
- Comparisons between actuals and historical forecasts in assessing the reasonableness forecasts used to support the year end balances;
- Assessments of managements' sensitivity analysis;
- Performance of our own sensitivity analysis to assess the level of headroom regarding the goodwill applied to the US CGU;
- A review of the disclosures made in the financial statements (note 15) in relation to goodwill to ensure that the key inputs in determining this asset showed no sign of impairment, and that the key assumptions and forecasting methods applied by management were detailed appropriately;
- A review of the sensitivity analysis disclosure in the financial statements in line with the forecasting provided by management as part of their impairment review.

Our audit work did not identify any material issues with regards to the assessment made that no impairment of goodwill was required.</td></tr>
</table>

Independent Auditor's Report *(Continued)*

Key Audit Matter Description	How the matter was addressed in the audit
Valuation of investments in subsidiaries and intercompany receivables	
Included in the Parent Company's Statement of Financial Position, are investments in subsidiaries of £5.5m and intercompany receivables of £64.7m. Given the subsidiaries of the parent and the group as a whole is loss making, there is a risk that the investment and intercompany receivable should be impaired. The impairment review of these balances is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows and the assumptions made in relation to the forecasted performance of the subsidiaries to which the investment balance relates, and from whom the receivable is due. The effect of this is that the recoverable amount of investment in subsidiaries and intercompany receivables has a high degree of estimation uncertainty and a potential range of reasonable outcomes greater than materiality for the financial statements. Therefore, there is a risk that they require impairment.	We obtained and assessed forecasts of the subsidiaries in the group to which these balances relate to ensure that managements' assessment that there is no impairment required is appropriate. This consisted of, but was not limited to: - Agreeing future revenues included in the forecast to committed contracts; - Agreeing pipeline sales to supporting documentation to support the inclusion of non-committed revenue; - An assessment of the appropriateness of the discount factor used in the preparation of the forecasts; - Comparisons between actuals and historical forecasts in assessing the reasonableness forecasts used to support the year end balances; - Assessments of managements' sensitivity analysis; - Performance of our own sensitivity analysis to assess the level of headroom regarding the balance of investments and intercompany receivables. Our audit work did not identify any material issues with regards to the assessment made that no impairment of investments or intercompany receivables is required.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, in evaluating the effect of misstatements and in forming an option. For the purpose of determining whether the financial statements are free from material misstatement, we define materiality as the magnitude of a misstatement or an omission from the financial statements, or related disclosures, that would make it probable that the judgement of a reasonable person, relying on the information would have been changed or influenced by the misstatement or omission. We also determine a level of performance materiality, which we used to determine the extent of testing need, to reduce to an appropriately low level the risk that the aggregate of uncorrected and undetected misstatement exceeds materiality for the financial statements as a whole.

The materiality for the Group financial statements as a whole was set at £193,000. This was determined with reference to 5% of the average normalised loss for the past 5 years. This was selected as an appropriate measure of materiality on the basis that this is one of the main KPI's for the Group.

On the basis of our risk assessment and review of the Group's control environment, performance materiality was set at 75% of materiality, being £145,000.

The reporting threshold to the Audit and Risk Committee was set as 5% of materiality, being £9,650. If in our opinion differences below this level warranted reporting on qualitative grounds, these would also be reported.

The materiality for the Parent Company financial statements was set at £145,000. This was determined with reference to 0.2% of gross assets, based on the company being a holding entity with no trading activity outside of the group. This was caped at 0.2% of gross assets to ensure that the Parent entity materiality did not exceed component materiality, which was set at 75% of Group materiality.

On the basis of our risk assessment and review of the Parent Company's control environment, performance materiality was set at 75% of materiality, being £105,750.

The reporting threshold to the Audit and Risk Committee was set as 5% of materiality, being £7,250. If in our opinion in differences below this level warranted reporting on qualitative grounds, these would also be reported.

An overview of the scope of our audit

Our audit scope included all components of the Group which are all registered companies in the United Kingdom, as well as those which are registered companies in the United States of America. For all companies that are resident in the United Kingdom (3 out of the 6 entities that make up the group), we have performed full scope statutory audits.

For the entities in the United States of America that are not subject to an audit in their own right, we have performed audit procedures on each entity to varying degrees of detail, with the work performed on the most significant component being equivalent to that of a full scope statutory audit performed to component materiality. For the 2 non-significant components, analytical reviews and enquiries of management were performed to gain comfort over the inclusion of financial information within the Group financial statements.

Component materiality has been based on 75% of overall Group materiality, and has been considered to be appropriate as this materiality is based on a trading measure.

For statutory audits of the trading subsidiaries of the group situated in the UK, we have performed our audit using a turnover based materiality, using 1.5% of turnover.

We communicated with both the directors and the audit committee our planned audit work via our audit planning report and our audit planning call.

We communicated audit progress with the directors through interim progress meetings. We have communicated all significant areas of our audit work with the audit committee and directors at the completion call with the audit committee, and through the issue of our audit findings report for review at this meeting.

Other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

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

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

Independent Auditor's Report *(Continued)*

- 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on pages 22 - 23, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the 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 the directors 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 for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006, income tax, payroll tax and sales tax.

– Inspecting correspondence with regulators and tax authorities;
– Discussions with management including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
– Evaluating management's controls designed to prevent and detect irregularities;
– Discussions with management regarding any adverse AIM complaints, as well as discussing this with the Company's NOMAD;
– Identifying and testing journals, in particular journal entries posted with unusual account combinations, postings by unusual users or with unusual descriptions; and
– Challenging assumptions and judgements made by management in their critical accounting estimates.

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

Use of our report

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

Jon Dawson
(Senior Statutory Auditor)
For and on behalf of Haysmacintyre LLP
Statutory Auditors

10 Queen Street Place
London
EC4R 1AG13

13 July 2021

Consolidated income statement

For the year ended 30 April 2021

	Note	2021 £'000	2020 £'000
Continuing operations			
Revenue	4	**10,352**	13,120
Cost of sales		**(5,346)**	(6,912)
Gross profit		**5,006**	6,208
Other operating income	5	**379**	-
Distribution costs		**(287)**	(336)
Administrative expenses		**(10,935)**	(10,611)
Operating loss (before exceptional items)		**(5,837)**	(4,739)
Exceptional impairment reversal/(losses) on trade receivables and amounts recoverable on contract	9	**52**	(13,062)
Operating results (post exceptional items)		**(5,785)**	(17,801)
Finance income	10	**2**	60
Finance costs	11	**(548)**	(604)
Loss before tax	6	**(6,331)**	(18,345)
Tax	12	**978**	1,805
Loss for the year from continuing operations		**(5,353)**	(16,540)
Loss for the year from continuing operations (before exceptional items)		**(5,405)**	(3,478)
Loss per share	14		
- basic (p)		**(1.5)**	(4.8)
- diluted (p)		**(1.5)**	(4.8)

Consolidated statement of comprehensive income

For the year ended 30 April 2021

	2021 £'000	2020 £'000
Loss for the year	**(5,353)**	(16,540)
Items that are or may be subsequently reclassified to profit or loss:		
Exchange differences on translation of foreign operations	**(1,981)**	1,047
Total comprehensive loss for the year	**(7,334)**	(15,493)

Consolidated statement of financial position

As at 30 April 2021

	Note	2021 £'000	2020 £'000
Non-current assets			
Goodwill	15	**1,275**	1,275
Other intangible assets	16	**24,144**	21,878
Property, plant and equipment	17	**11,200**	12,551
Right-of-use asset	18	**4,076**	3,852
		40,695	39,556
Current assets			
Inventories	20	**6,202**	6,416
Trade and other receivables	21	**6,644**	8,210
Current tax assets	21	**1,015**	1,031
Cash and bank balances		**15,602**	9,444
		29,463	25,101
Total assets		**70,158**	64,657
Current liabilities			
Trade and other payables	23	**(6,174)**	(8,795)
Borrowings	25	**(5,387)**	(3,669)
Lease obligation	24	**(399)**	(324)
		(11,960)	(12,788)
Net current assets		**17,503**	12,313
Non-current liabilities			
Deferred income	23	**(1,071)**	(1,021)
Lease obligation	24	**(4,256)**	(3,844)
Borrowings	25	**(2,816)**	(1,937)
		(8,143)	(6,802)
Total liabilities		**(20,103)**	(19,590)
Net assets		**50,055**	45,067
Equity			
Share capital	27	**4,319**	3,446
Share premium account	28	**72,943**	61,600
Merger reserve		**21,853**	21,853
Translation reserve	29	**-**	1,981
Accumulated losses	30	**(49,060)**	(43,813)
Total equity		**50,055**	45,067

The financial statements of Kromek Group plc (registered number 08661469) were approved by the Board of Directors and authorised for issue on 13 July 2021. 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 2021

	Share capital £'000	Share premium account £'000	Merger reserve £'000	Translation reserve £'000	Accumulated income/ (losses) £'000	Total equity £'000
Balance at 1 May 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 for the year	-	-	-	1,047	(16,540)	(15,494)
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**
Loss for the year	-	-	-	-	(5,353)	(5,353)
Exchange difference on translation of foreign operations	-	-	-	(1,981)	-	(1,981)
Total comprehensive income for the year	-	-	-	(1,981)	(5,353)	(7,334)
Issue of share capital	873	-	-	-	-	873
Premium on shares issued less expenses	-	11,343	-	-	-	11,343
Credit to equity for equity-settled share-based payments	-	-	-	-	106	106
Balance at 30 April 2021	**4,319**	**72,943**	**21,853**	**-**	**(49,060)**	**50,055**

Consolidated statement of cash flows

For the year ended 30 April 2021

	Note	2021 £'000	2020 £'000
Net cash (used in)/generated from operating activities	31	**(1,309)**	179
Investing activities			
Investment receipts from money market account		**-**	1,250
Interest received		**2**	60
Purchases of property, plant and equipment		**(454)**	(6,965)
Purchases of patents and trademarks		**(156)**	(243)
Capitalisation of development costs		**(5,463)**	(5,256)
Net cash used in investing activities		**(6,071)**	(11,154)
Financing activities			
Net proceeds on issue of shares		**12,216**	-
New borrowings		**3,215**	2,100
Payment of borrowings		**(595)**	(2,105)
Payment of lease liability		**(395)**	(539)
Interest paid		**(309)**	(365)
Net cash generated from/(used in) financing activities		**14,132**	(909)
Net increase/(decrease) in cash and cash equivalents		**6,752**	(11,884)
Cash and cash equivalents at beginning of year		**9,444**	20,616
Effect of foreign exchange rate changes		**(594)**	712
Cash and cash equivalents at end of year		**15,602**	9,444

Notes to the consolidated financial statements

For the year ended 30 April 2021

1. GENERAL INFORMATION

Kromek Group plc is a company incorporated and domiciled in the United Kingdom under the Companies Act 2006. 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.

New standards that have been adopted in the annual financial statements for the year ended 30 April 2021, but have not had a significant effect on the Group are:

- IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Amendment – Definition of Material)
- IFRS 3 Business Combinations (Amendment – Definition of Business)
- Revised Conceptual Framework for Financial Reporting

The Board are currently evaluating the impact of the adoption of all other standards, amendments and interpretations but do not expect them to have a material impact on the Group operation or results.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation
The Group's financial statements have been prepared in accordance with IFRS and International Financial Reporting Interpretations Committee ("IFRIC").

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.

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
In determining the basis for preparing the consolidated financial statements, management are required to consider whether the Group can continue in operational existence for the foreseeable future, being a period of not less than twelve months from the date of the approval of the consolidated financial statements. Management prepare detailed cash flow forecasts that are reviewed by the Board on a regular basis. The forecasts include assumptions regarding the opportunity funnel from both existing and new customers, growth plans, risks and mitigating actions. In particular, operating cash flow is highly sensitive to revenue mix and the positive contribution of continuing growth in the markets the Group operates within. In reaching their going concern conclusion, the Directors have considered that the Group had cash and cash equivalents of £15.6m (30 April 2020: £9.4m), including £4.9m (30 April 2020: £4.9m) draw down on the Group's Revolving Credit Facility and therefore sufficient working capital to continue operations. The Group's forecasts and projections, taking account of sensitivities including a severe but plausible downside less likely scenario, support the conclusion that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future, a period of not less than twelve months from the date of this report. The Group, therefore, continues to adopt the going concern basis in preparing the consolidated financial statements.

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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 recognises revenue in line with IFRS 15 'Revenue from contracts with customers'. 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 has 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.

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 2020), 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

Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2021

2. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Revenue and profit recognition **(continued)**
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 the year under review or in 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. Also included are 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.

During the year, the Group adopted the policy of valuing its recyclable material. In accordance with the standard, this is valued at the lower of cost and net realisable value, less the cost to bring the material back into use.

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.

Leases
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.

2. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Leases (continued)
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 pounds 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 concluded that the inter-company loans held by Kromek Limited substantially form part of the net investment in Kromek USA (Kromek Inc, eV Products, Inc. and Nova R&D, Inc.), 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 pounds 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.

The Group has received Government grants in relation to the Coronavirus Job Retention Scheme (CJRS) provided by the UK Government in response to COVID-19's impact on business. The Group has elected to account for these grants as other operating income, rather than to off-set the Government grants within administrative expenses; accordingly, the gross impact is disclosed on the face of the Statement of Comprehensive Income. Total Government grants included as other operating income total £379k (2020: £nil).

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

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 two defined contribution pension schemes for UK employees, one of which is an auto-enrolment workplace pension scheme established following the UK Pensions Act 2008. The employees of the Group's subsidiaries in the US are members of a state-managed retirement benefit scheme operated by the US government.

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. For these schemes, the assets are held separately from those of the Group in independently administered funds. Payments made to US 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.

Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2021

2. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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 the 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 at the date of the statement of financial position.

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 date of the statement of financial position. 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
Property, plant and equipment is 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 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 to which the development expenditure relates. 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Internally-generated intangible assets – research and development expenditure (continued)
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 9.47% (2020: 14.86%) 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 15 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. During the year, the Group adopted a policy of valuing recyclable material. 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. This is reviewed by operational finance at least every 6 months. 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.

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.

Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2021

2. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial assets (continued)

a) Classification (continued)

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.

(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 may have increased if it is more than 60 days past due. This is assessed on a case-by-case basis, taking into consideration the commercial relationship and historical pattern of payments.

The Group considers a financial asset to be at risk of 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

2. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial assets (continued)

(iii) Impairment (continued)

- The financial asset is more than 120 days past due, subject to management discretion and commercial relationships.

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. In accordance with IFRS 2, from a single entity perspective, Kromek Group plc recognises an increase in investment and corresponding increase in equity to represent the settlement. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 33.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group’s estimate of equity instruments that will eventually vest. The vesting date is determined based on the date an employee is granted options, usually three years from date of grant. At each statement of financial position date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions and taking into account the average time in employment across the year. 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 term deposits repayable between one and twelve months from balance sheet date, less overdrafts repayable on demand.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group’s accounting policies, which are described in note 2, 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, 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 obligations are and whether they are satisfied over time or at a point in time. In applying this judgement, management considers the nature of the overall contract deliverable, legal form of the contract and economic resources required for the performance obligation to be satisfied.

Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2021

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

Performance obligations arising from customer contracts (continued)
Management disaggregate 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 is 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 IFRS15.

Cash Generating Units
Management have exercised judgement in determining the number of cash generating units (CGUs). As set out in note 15, management have determined that there are two CGUs – the US and UK. This is on the basis that management believe this is the lowest level that cash inflows and the 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 15.

As disclosed in note 16, development costs are capitalised in accordance with the accounting policy noted above. These capitalised assets are amortised over the period during which the Group is expected to benefit.

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 estimate the tax credit on a prudent basis and then obtain additional professional input from the Company's 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 £51k to £964k.

iv) Recoverability of receivables and amounts recoverable on contract ("AROC")
Management judges the recoverability at the balance sheet date and makes a provision for impairment where appropriate. The resultant provision for impairment represents management's best estimate of losses incurred in the portfolio at the balance sheet date, assessed on the 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 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 conducts 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 £41m 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 the impact caused by the COVID-19 pandemic. 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 15.

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 these operating segments for which the Group is providing disclosure. Both business units serve the three principal key markets in which the Group operates (nuclear detection, medical imaging and security screening). However, typically, the US business unit focuses principally on medical imaging and the UK focuses on nuclear detection and security screening. However, this arrangement is flexible and can vary based on the geographical location of the Group's customer. In addition to the three principal key markets described above, the Group's UK operations are developing a biological-threat detection technology, which the Board believes will be a key market for the Group in the near future.

The chief operating decision maker is the Board of Directors, which assesses the performance of the operating 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 two business segments. The first segment relates to 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. The second segment relates to the development of a technology platform, as described above, which aims to identify airborne pathogens.

Analysis by geographical area

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

	2021 £'000	2020 £'000
United Kingdom	**1,627**	2,541
North America	**5,693**	7,606
Asia	**610**	893
Europe	**2,387**	2,075
Australasia	**3**	5
Africa	**32**	-
Total revenue	**10,352**	13,120

Total revenue from the sale of goods and services and from contracts with customers was £9,878k (2020: £12,835k).

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

Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2021

4. OPERATING SEGMENTS *(CONTINUED)*

Analysis by geographical area (continued)
A geographical analysis of the Group's revenue by origin is as follows:

Year ended 30 April 2021	**UK Operations £'000**	**US Operations £'000**	**Total for Group £'000**
Revenue from sales			
Revenue by segment:			
-Sale of goods and services	5,346	5,395	**10,741**
-Revenue from grants	474	-	**474**
-Revenue from contract customers	3,346	894	**4,240**
Total sales by segment	9,166	6,289	**15,455**
Removal of inter-segment sales	(3,526)	(1,577)	**(5,103)**
Total external sales	5,640	4,712	**10,352**
Segment result – operating (loss)/profit before exceptional items	(1,594)	(4,243)	**(5,837)**
Interest received	2	-	**2**
Interest expense	(324)	(224)	**(548)**
Exceptional items	-	52	**52**
Loss before tax	(1,916)	(4,415)	**(6,331)**
Tax credit	989	(11)	**978**
Loss for the year	(927)	(4,426)	**(5,353)**
Reconciliation to adjusted EBITDA:			
Net interest	322	224	**546**
Tax	(989)	11	**(978)**
Depreciation of PPE and right-of-use asset	997	688	**1,685**
Amortisation	1,370	989	**2,359**
Share-based payment charge	106	-	**106**
Reversal of exceptional	-	(52)	**(52)**
Adjusted EBITDA	879	(2,566)	**(1,687)**
Other segment information			
Property, plant and equipment additions	354	100	**454**
Right-of-use assets	2,048	3,131	**5,179**
Depreciation of PPE and right-of-use asset	997	688	**1,685**
Release of capital grant	(44)	-	**(44)**
Intangible asset additions	4,576	1,043	**5,619**
Amortisation of intangible assets	1,370	989	**2,359**
Statement of financial position			
Total assets	47,466	22,692	**70,158**
Total liabilities	(13,638)	(6,465)	**(20,103)**

4. OPERATING SEGMENTS *(CONTINUED)*

Analysis by geographical area (continued)

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**
Tax	(904)	(901)	**(1,805)**
Depreciation of PPE and 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)**

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 reported 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 2021

4. OPERATING SEGMENTS *(CONTINUED)*

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

	2021 £'000	2020 £'000
Product revenue	**5,836**	10,314
Research and development revenue	**4,516**	2,806
Consolidated revenue	**10,352**	13,120

Information about major customers
Included in revenues arising from US operations are revenues of approximately £1,934k (2020: £2,234k) that arose from the Group's largest commercial customer. Included in revenues arising from UK operations are revenues of approximately £2,784k (2020: £1,542k) that arose from a major Governmental organisation customer.

5. OTHER OPERATING INCOME

During the year, the Group received Government grants for the first time, which were provided by the UK Government in response to COVID-19. Further analysis of other operating income is set out below:

	2021 £'000	2020 £'000
Coronavirus Job Retention Scheme	**129**	-
Other government grants	**250**	-
Total other operating income	**379**	-

6. LOSS BEFORE TAX FOR THE YEAR

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

	2021 £'000	2020 £'000
Net foreign exchange losses/(gains)	**80**	(653)
Research and development costs recognised as an expense*	**5,483**	5,457
Depreciation of property, plant and equipment	**1,685**	1,185
Release of capital grant	**(44)**	(33)
Amortisation of internally-generated intangible assets	**2,359**	2,142
Cost of inventories recognised as expense	**3,899**	4,654
Exceptional items – (reversal)/impairment of trade receivables and AROC (see note 9)	**(52)**	13,062
Early settlement costs	**-**	746
Staff costs (see note 8)	**8,806**	8,791

* Of the total research and development cost recognised as an expense in the period, £3,196k (2020: £4,053k) is included within cost of sales and £2,287k (2020: £1,404k) within administrative expenses.

7. AUDITOR'S REMUNERATION

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

	2021 £'000	2020 £'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	**99**	110
Total audit fees	**99**	110
- Interim assurance	**-**	12
- Taxation and other services	**-**	70
Total non-audit fees	**-**	82
Total	**99**	192

8. STAFF COSTS

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

	2021 Number	2020 Number
Directors (executive)	**2**	2
Research and development, production	**118**	116
Sales and marketing	**8**	8
Administration	**12**	13
	139	139

Their aggregate remuneration comprised:

	2021 £'000	2020 £'000
Wages and salaries	**7,618**	7,437
Social security costs	**682**	754
Pension scheme contributions	**400**	375
Share-based payments	**106**	225
	8,806	8,791

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 £612k (2020: £580k). The aggregate value of contributions paid to money purchase pension schemes was £28k (2020: £21k) in respect of four directors (2020: three directors). For a breakdown of remuneration by director, refer to the Directors' emoluments table on page 30. There has been no exercise of share options by the Directors in the period and therefore no gain recognised in the year (2020: nil).

The highest paid director received emoluments of £216k (2020: £221k) and amounts paid to money purchase pension schemes was £15k (2020: £10k).

After 10 years as Chief Financial Officer of the Group, Mr Bulmer advised the Board in the third quarter of 2021 of his wish to resign in order to pursue alternative opportunities. The Group entered into a settlement agreement with Mr Bulmer on 28 October 2020, and he left the Company at the conclusion of the Annual General Meeting on 31 October 2020. In lieu of notice, a sum equivalent to 12 months remuneration, defined as basic salary, pension contributions and car allowance was paid to Mr Bulmer totalling £192,250. For further information, please refer to page 30.

Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2021

8. STAFF COSTS *(CONTINUED)*

Key management compensation:

	2021 £'000	2020 £'000
Wages and salaries and other short-term benefits	**888**	980
Social security costs	**125**	130
Pension scheme contributions	**29**	28
Share-based payment expense	**106**	185
	1,148	1,323

Key management comprise the Executive Directors and senior operational staff.

9. EXCEPTIONAL ITEMS

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

	2021 £'000	2020 £'000
(Reversal)/impairment of trade receivables and AROC	**(52)**	13,062
Total exceptional items	**(52)**	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.

The Group has reversed £52k in 2021 in relation to items impaired in the prior year. The 2020 impairment related to two separate contracts with specific customers in Asia 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 was presented in the prior year as an exceptional item arising as a result of COVID-19 in accordance with the Group's accounting policy, as it was considered to be one-off in nature, size and incidence. It represented 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. No adjustment or reversal to the impairment calculated in 2020, specific to one of the contracts, has been included in 2021 on the basis that the recoverability of this receivable remains uncertain.

From a tax perspective, this impairment has increased the taxable losses in the prior year 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.

10. FINANCE INCOME

	2021 £'000	2020 £'000
Bank deposits	**2**	60
Total finance income	**2**	60

11. FINANCE COSTS

	2021 £'000	2020 £'000
Interest on bank overdrafts, loans and borrowings	**309**	365
Interest expense for lease arrangements	**248**	239
Total interest expense	**548**	604

12. Tax

Recognised in the income statement

	2021 £'000	2020 £'000
Current tax credit:		
UK corporation tax on losses in the year	**1,014**	1,030
Adjustment in respect of previous periods	**(25)**	(129)
Foreign taxes paid	**(11)**	-
Total current tax	**978**	901
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	**978**	1,805

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 2021 has been calculated at 19% (2020: 19%). The corporate tax rate will increase from increase to 25% from 19% with effect from April 2023.

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

	2021 £'000	2020 £'000
Loss before tax	**(6,331)**	(18,345)
Tax at the UK corporation tax rate of 19% (2020: 19.0%)	**1,203**	3,486
Non-taxable income/expenses not deductible	**614**	(3,754)
Effect of R&D	**451**	553
Rate differences effect of R&D	**-**	(255)
Share scheme deduction under Part 12 CTA 2009	**5**	1
Unrecognised movement on deferred tax	**(1,648)**	239
Adjustment in respect of previous periods	**(26)**	(129)
Effects of overseas tax rates	**379**	1,664
Total tax credit for the year	**978**	1,805

Further details of deferred tax are given in note 22. 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.

Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2021

12. Tax *(CONTINUED)*

Reconciliation of tax credit (continued)

The rate of corporation tax for the year is 19% (2020: 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 27.85% which represents the federal plus state tax rate.

13. DIVIDENDS

The Directors do not recommend the payment of a dividend (2020: £nil).

14. LOSSES PER SHARE

As the Group is loss making, dilution has the effect of reducing the loss per share. The calculation of the basic and diluted earnings per share is based on the following data:

Losses

	2021 £'000	2020 £'000
Losses for the purposes of basic and diluted losses per share being net losses attributable to owners of the Group	**(5,353)**	(16,540)

Number of shares	**2021 Number**	2020 Number
Weighted average number of ordinary shares for the purposes of basic losses per share	**358,912,092**	344,644,492
Effect of dilutive potential ordinary shares:		
Share options	**372,638**	1,084,826
Weighted average number of ordinary shares for the purposes of diluted losses per share	**359,284,730**	345,729,318

	2021	2020
Basic (p)	**(1.5)**	(4.8)
Diluted (p)	**(1.5)**	(4.8)

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

15. INTANGIBLE ASSETS INCLUDING GOODWILL

	£'000
Cost	
At 1 May 2020	1,275
At 30 April 2021	1,275
Accumulated impairment losses	
At 1 May 2020	-
At 30 April 2021	-
Carrying amount	
At 30 April 2021	**1,275**
At 30 April 2020	1,275

15. INTANGIBLE ASSETS INCLUDING GOODWILL *(CONTINUED)*

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:

CGU	**Goodwill £'000**	**Intangibles £'000**
US	**1,275**	**9,248**
UK	**-**	**14,917**
Total	**1,275**	**24,165**

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 2021 model does not include any revenue growth in years 1 and 2 (see below for comparatives). 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 US CGU operates in. No growth is assumed after 10 years.
- *Discount rates.* Management have derived a pre-tax discount rate of 9.47% (2020: 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 2020. The key drivers of this change are the changes in market assumptions for US corporate bond yields and risk-free rates.

The Challenge Model Base Case incorporates the following into the US forecast:

- Revised year 1 and year 2 cashflows to match the severe but plausible budget conducted as part of the Going Concern review.
- Extended the forecast period to 15 years (plus perpetuity), on the basis that the asset base is expected to generate revenues over a much longer period of time than modelled by management.
- Modelled a smoother increase in revenues from the year 1 and year 2 budgets to year 15.

UK

- *Growth rate.* The model does not include any growth in years 1 and 2 (see below for comparatives). The CAGR (compound annual growth rate) in the 10-year model is 26%. 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 9.13% (2020: 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

Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2021

15. INTANGIBLE ASSETS INCLUDING GOODWILL *(CONTINUED)*

UK (Continued)

- *Discount rates (continued).*
  well as the visibility of cash flows from a contracted perspective. The discount rate is lower than that used in 2020. The key drivers of this change are the changes in market assumptions for UK corporate bond yields and risk-free rates.

The Challenge Model Base Case incorporates the following into the UK forecast:

- Revised year 1 and year 2 cashflows to match the severe but plausible budget conducted as part of the Going Concern review.
- Extended the forecast period to 15 years (plus perpetuity), on the basis that the asset base is expected to generate revenues over a much longer period of time than modelled by management.
- Modelled a smoother increase in revenues from the year 1 and year 2 budgets to year 10.

Sensitivities

The headrooms in the base case models are £21,070k (US CGU) and £15,401k (UK CGU). The table below sets out the impact of the following reasonable changes in assumption on the headroom of each CGU:

	US Headroom	UK Headroom
Challenge model	£143,319k	£93,356k
Combination of Discount Rate +2% and Challenge model	£99,082k	£55,230k

The Directors have reviewed the recoverable amount of the CGU and do not consider there to be any impairment in 2021 or 2020.

16. OTHER INTANGIBLE ASSETS

	Development costs £'000	Patents, trademarks & other intangibles £'000	Total £'000
Cost			
At 1 May 2020	24,687	7,589	**32,276**
Additions	5,463	156	**5,619**
Impairment	(30)	-	**(30)**
Exchange differences	(1,065)	(401)	**(1,466)**
At 30 April 2021	**29,055**	**7,344**	**36,399**
Amortisation			
At 1 May 2020	5,347	5,051	**10,398**
Charge for the year	1,820	539	**2,359**
Exchange differences	(223)	(279)	**(502)**
At 30 April 2021	**6,944**	**5,311**	**12,255**
Carrying amount			
--			
At 30 April 2021	**22,111**	**2,033**	**24,144**
At 30 April 2020	19,340	2,538	21,878

The Group amortises 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 amount of acquired intangible assets arising on the acquisitions of Nova R&D, Inc. and eV Products, Inc. as at the 30 April 2021 was £488k (2020: £705k), 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 15.

17. PROPERTY, PLANT AND EQUIPMENT

	Lab Equipment £'000	Computer Equipment £'000	Plant and Machinery £'000	Fixtures and Fittings £'000	Total £'000
Cost or valuation					
At 1 May 2020	20	1,306	18,041	552	19,919
Additions	189	79	166	20	454
Disposals	-	-	(90)	-	(90)
Exchange differences	-	(50)	(699)	(30)	(779)
At 30 April 2021	**209**	**1,335**	**17,418**	**542**	**19,504**
Accumulated depreciation and impairment					
At 1 May 2020	-	957	6,173	238	7,368
Charge for the year	33	108	1,066	56	1,263
On disposals	-	-	(8)	-	(8)
Exchange differences	-	(33)	(275)	(11)	(319)
At 30 April 2021	**33**	**1,032**	**6,956**	**283**	**8,304**
Carrying amount					
At 30 April 2021	**176**	**303**	**10,462**	**259**	**11,200**
At 30 April 2020	20	349	11,868	314	12,551

18. RIGHT-OF-USE ASSET

Details of the Group's right-of-use assets and their carrying amount are as follows:

	£'000
Cost	
Cost at 1 May 2020	4,565
New leases in the year	194
Lease modification	756
Effect of movements in exchange rates	(336)
Cost at 30 April 2021	**5,179**
Depreciation	
Depreciation at 1 May 2020	713
Charge for the year	430
Exchange differences	(40)
Depreciation at 30 April 2021	**1,103**
Carrying amount	
At 30 April 2021	**4,076**
At 30 April 2020	3,852

Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2021

19. SUBSIDIARIES

A list of the subsidiaries, including the name, country of incorporation and proportion of ownership interest is given in note 4 to the Company's separate financial statements.

20. INVENTORIES

	2021 £'000	2020 £'000
Raw materials	**2,022**	3,202
Work-in-progress	**3,707**	3,015
Finished goods	**473**	199
	6,202	6,416

The cost of inventories recognised as an expense during the year in respect of continuing operations was £3,899k (2020: £4,654k).

The write-down of inventories to net realisable value amounted to £496k (2020: £616k). The reversal of write-downs amounted to £120k (2020: £150k).

21. AMOUNTS RECOVERABLE ON CONTRACTS AND TRADE AND OTHER RECEIVABLES

	2021 £'000	2020 £'000
Contracts in progress at the balance sheet date:		
Amounts due from contract customers included in trade and other receivables	**10,844**	12,195
ECL impairment	**(10,844)**	(12,023)
	-	172
Contract costs incurred plus recognised profits less recognised losses to date	**-**	12,730
Less: progress billings	**-**	(535)
Less: ECL impairment	**-**	(12,023)
	-	172

The analysis above relates to the same contract with movement relating to foreign exchange.

Trade and Other Receivables

	2021 £'000	2020 £'000
Amount receivable for the sale of goods	**4,979**	6,076
Amounts recoverable on contracts	**-**	172
Other receivables	**958**	662
Prepayments and accrued income	**707**	1,300
Current tax assets	**1,015**	1,031
	7,659	9,241

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 reviews the recoverability of receivables over 120 days on a six-monthly basis. This impairment review seeks evidence of recoverability, most notably, where specific support is being provided to strategic partners in the marketing of new products. Commercial finance will then determine if the Group should recognise an impairment allowance.

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.

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

Amount receivable for the sale of goods (continued)

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:

	2021 £'000	2020 £'000
31-60 days	**410**	222
61-90 days	**12**	38
91-120 days	**-**	4
121+ days	**1,977**	1,915
Total	**2,399**	2,179

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:

	2021 £'000	2020 £'000
31-60 days	**-**	-
61-90 days	**-**	-
91-120 days	**-**	-
121+ days	**1,158**	1,323
Total	**1,158**	1,323

At 30 April 2021, trade receivables are shown net of an impairment allowance of £1,158k (2020: £1,323k) arising from the ordinary course of business, as follows:

	2021 £'000	2020 £'000
Balance at 1 May	**1,323**	116
Provided during the year	**16**	1,204
Impact of foreign exchange	**(181)**	3
Balance at 30 April	**1,158**	1,323

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 2021

22. DEFERRED TAX LIABILITIES

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

	Fair value revaluation of acquired intangibles £'000	Accelerated capital allowances £'000	Short-term timing differences £'000	Tax losses £'000	Total £'000
At 1 May 2020	389	4,956	(516)	(4,829)	-
(Credit)/charge to profit or loss	-	221	(132)	(89)	-
At 30 April 2021	**389**	**5,177**	**(648)**	**(4,918)**	**-**

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:

	2021 £'000	2020 £'000
Deferred tax liabilities	**4,918**	4,829
Deferred tax assets	**(4,918)**	(4,829)
	-	-

At the statement of financial position date, the Group has unused tax losses of £32,435k (2020: £27,614k) available for offset against future profits. A deferred tax asset has been recognised in respect of £4,918k (2020: £4,484k) 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 £27,517k (2020: £23,130k) 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.

23. TRADE AND OTHER PAYABLES

Payable within one year:	**2021 £'000**	2020 £'000
Trade payables and accruals	**6,000**	8,632
Deferred income	**174**	163
	6,174	8,795

Payable in more than one year:	**2021 £'000**	2020 £'000
Deferred income	**1,071**	1,021
	1,071	1,021

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.

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.

24. 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:

	2021 £'000	2020 £'000
Opening lease liability at 1 May	**4,168**	4,211
New leases entered into during the year	**194**	134
Effect of lease modifications	**756**	-
Finance costs	**239**	240
Payments made during the year	**(395)**	(539)
Impact of foreign exchange	**(307)**	122
At 30 April	**4,655**	4,168
Presented as:		
Lease liability payable within 1 year	**399**	324
Lease liability payable in more than 1 year	**4,256**	3,844
At 30 April	**4,655**	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 £42k (2020: £15k).

25. BORROWINGS

	2021 £'000	2020 £'000
Secured borrowing at amortised cost		
Revolving credit facility and capex facility	**4,900**	4,900
Other borrowings	**3,303**	706
	8,203	5,606
Total borrowings		
Amount due for settlement within 12 months	**5,387**	3,669
Amount due for settlement after 12 months	**2,816**	1,937

The Group has a £5.0m revolving credit facility (RCF) with HSBC, which also incorporates a capex facility. This facility is for a 36-month period with an option to extend to years 4 and 5. This loan is repaid on a quarterly basis in an amount equal to 1/20th of the drawn capex loan. Once repaid, the Group is 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 interest rate on the RCF is LIBOR+2.5% with a repayment term of six months from date of drawdown. The fair value equates to the carrying value.

During the year the Group successfully secured a 2-year, £1.4m Term Loan with HSBC which attracts interest at 3.49% per annum over Base Rate. This loan is repayable over 36 months, commencing on the date which is 13 months after the date of drawdown.

Other borrowings comprise a loan with the landlord in the US in respect of the facility occupied by eV Products, Inc. This loan is repaid in equal instalments on a monthly basis and attracts interest at 7.50% per annum. At 30 April 2021, the total loan due to the landlord was £0.5m (2020: £0.7m). Of this, £0.2m is due within 12 months (2020: £0.1m) and £0.3m (2020: £0.6m) is due after 12 months.

As a result of COVID-19, the Group's US operations successfully secured £0.8m of Paycheck Protection Program Loans from the US Government. A second draw of Paycheck Protection Program Loans was announced in January 2021 and the Group successfully applied for, and secured, a further loan of £0.6m.

Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2021

25. BORROWINGS *(CONTINUED)*

The first round of Paycheck Protection Program Loans were forgiven post year end. Please see note 37 for further detail.

In addition to the Paycheck Protection Program Loans, the Group's US operations were eligible to apply for an Economic Injury Disaster Loan. A loan of £0.1m was approved and secured in June 2020. This loan attracts interest at a rate of 3.75% per annum and the maturity date is 30 years from the date of loan note.

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:

	2021 %	2020 %
Revolving credit facility	3.00	3.30
Other borrowing facilities	6.70	5.20

26. DERIVATIVES FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

The Group had no derivatives in place at 30 April 2021 and 30 April 2020.

27. SHARE CAPITAL

	£'000
Allotted, called up and fully paid:	
Balance at 1 May 2020: 344,647,089 (2020: 344,635,089) Ordinary shares of £0.01 each	**3,446**
Issued in the Year: 87,204,731 (2020: 12,000) Ordinary shares of £0.01 each	**873**
Balance at 30 April 2021: 431,851,820 (2020: 344,647,089) Ordinary shares of £0.01 each	**4,319**

During the year, 250,000 shares (2020: 12,000) were allotted under share option schemes.

28. SHARE PREMIUM ACCOUNT

	£'000
Balance at 1 May 2020	61,600
Premium arising on issue of equity shares	12,176
Expenses arising on issue of equity shares	(833)
Balance at 30 April 2021	**72,943**

29. TRANSLATION RESERVE

	£'000
Balance at 1 May 2020	1,981
Exchange differences on translating the net assets of foreign operations	(1,981)
Balance at 30 April 2021	**-**

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 2020	(43,813)
Net loss for the year	(5,353)
Effect of share-based payment credit	106
Balance at 30 April 2021	**(49,060)**

31. NOTES TO THE CASH FLOW STATEMENT

	2021 £'000	2020 £'000
Loss for the year	**(5,353)**	(16,540)
Adjustments for:		
Finance income	**(2)**	(60)
Finance costs	**548**	604
Income tax credit	**(978)**	(1,805)
Depreciation of property, plant and equipment and ROU	**1,685**	1,185
Amortisation of intangible assets	**2,359**	2,142
Share-based payment expense	**106**	225
Impairment of intangible asset	**30**	-
Loss on disposal	**82**	-
Operating cash flow before movements in working capital	**(1,523)**	(14,249)
Decrease/(increase) in inventories	**214**	(3,189)
Decrease in receivables	**1,566**	11,787
(Decrease)/increase in payables	**(2,571)**	4,932
Cash used in operations	**(2,314)**	(719)
Income taxes received	**1,005**	898
Net cash (used in)/generated from operating activities	**(1,309)**	179

Cash and cash equivalents

	2021 £'000	2020 £'000
Cash and bank balances	**15,602**	9,444

Cash and cash equivalents comprise cash and term bank deposits repayable between one and twelve months from balance sheet date, 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 2021

32. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	Borrowings £'000	Lease liability £'000
Balance at 1 May 2020	5,606	4,168
Cash flows;		
- Repayments	(595)	(395)
- Additions and modifications	3,215	-
Non-cash		
- Additions and modifications	-	950
- Effect of exchange rates	(69)	(317)
- Interest applied	46	248
Balance at 30 April 2021	8,203	4,654

33. SHARE-BASED PAYMENTS

Equity-settled share option scheme

The Company has a share option scheme for all employees of the Group, for which some options are EMI qualifying. Options are generally 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	**2021 Weighted average exercise price (£)**	Number of share options	2020 Weighted average exercise price (£)
Outstanding at beginning of the year	**11,392,670**	**0.15**	10,028,470	0.17
Granted during the year	**11,981,489**	**0.13**	2,295,200	0.21
Exercised during the year	**(250,000)**	**0.015**	(12,000)	0.015
Forfeited during the year	**(4,713,494)**	**0.24**	(919,000)	0.22
Outstanding at the end of the year	**18,410,665**	**0.13**	11,392,670	0.15
Exercisable at the end of the year	**7,438,570**	**0.21**	9,299,470	0.17

The weighted average share price at the date of exercise for share options exercised during the year was £0.015 (2020: £0.015). The options outstanding at 30 April 2021 had a weighted average exercise price of £0.15 (2020: £0.17) and a weighted average remaining contractual life of four years (2020: four years). The range of exercise prices for outstanding share options at 30 April 2021 was 1.5p to 79p (2020: 1.5p to 79p). In 2021, the aggregate of the estimated fair values of the options granted was £4k (2020: £92k). The inputs into the Black-Scholes model are as follows:

	2021	2020
Weighted average share price	**15p**	22p
Weighted average exercise price	**15p**	22p
Expected volatility	**37.70%**	29.85%
Expected life	**5 years**	3 years
Risk-free rate	**0.08**	0.74
Expected dividend yields	**0%**	0%

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.

33. SHARE-BASED PAYMENTS (*CONTINUED*)

The Kromek Group Plc 2013 Long Term Incentive Plan

On 10 October 2013, a Long Term Incentive Plan ("LTIP") was adopted and then subsequently modified on 14 March 2018. Under the revised plan, awards are made annually to key employees. Subject to the satisfaction of the required Relative Total Shareholder Return (RTSR) performance criteria, these grants will vest after a three-year period, with the first having ended on 30 April 2014, and the remainder on subsequent year end dates. Details of the LTIP share options outstanding during and at the end of the year are as follows:

	Number of share options	**2021 Weighted average exercise price (£)**	Number of share options	2020 Weighted average exercise price (£)
Outstanding at beginning of the year	**2,473,889**	**0.01**	2,157,118	0.01
Granted during the year	**2,150,664**	**0.01**	1,298,330	0.01
Exercised during the year	**-**	**0.01**	-	0.01
Forfeited during the year	**(1,184,209)**	**0.01**	(981,559)	0.01
Outstanding at the end of the year	**3,440,344**	**0.01**	2,473,889	0.01
Exercisable at the end of the year	**350,000**	**0.01**	-	0.01

During 2021, 2,150,664 (2020: 1,298,330) options were granted under the 2018 LTIP to a number of key employees, including two (2020: two) executive directors of the Group. The fair value of these options granted was £84k (2020: £124k). The amounts recognised as a share-based payment LTIP expense for the year ended 30 April 2021 was £63k (2020: £61k).

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:

	2021	2020
Weighted average share price	**15p**	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%

The Kromek Group Plc 2017-18 Average Valuation Scheme

During 2018, a new incentive award scheme was introduced for a number of key employees based on Valuation Creation of the Company, referred to as the "VC". This has awarded key employees 8,007,162 options under the scheme. However, the active members agreed to end the scheme on 29 April 2021 and accordingly there are no 2018 issued VC share options outstanding at 30 April 2021. The options cancelled of 8,007,162 (2020: £nil) have been added back to the available share options pool and a write back in VC share option expense of £23k (2020: £nil) is included within this year's overall share-based payments charge.

Details of the VC share options outstanding during and at the end of the year are as follows:

	Number of share options	**2021 Weighted average exercise price (£)**	Number of share options	2020 Weighted average exercise price (£)
Outstanding at beginning of the year	**8,007,162**	**0.01**	8,007,162	0.01
Granted during the year	**-**	**0.01**	-	0.01
Exercised during the year	**-**	**0.01**	-	0.01
Forfeited during the year	**(8,007,162)**	**0.01**	-	0.01
Outstanding at the end of the year	**-**	**0.01**	8,007,162	0.01
Exercisable at the end of the year	**-**	**0.01**	-	0.01

The Group recognised a total expense in the year of £44k (2020: £225k) related to all equity-settled share-based payment transactions. This is inclusive of both the equity-settled share option scheme and the 2013 LTIP scheme.

Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2021

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.

There are two defined contribution pension schemes for UK employees, one of which is an auto-enrolment workplace pension scheme established following the UK Pensions Act 2008. 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 £401k (2020: £365k) represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes. As at 30 April 2021, contributions of £42k (2020: £50k) 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 each entity in the Group will be able to continue as a going concern whilst maximising the return to shareholders through the optimisation of the balance between debt and equity. The Group's overall strategy has remained unchanged between 2020 and 2021.

The capital structure of the Group consists of net debt, which includes the borrowings disclosed in note 25 after deducting cash and cash equivalents, and equity attributable to equity holders of the Company, comprising issued capital, reserves and accumulated losses as disclosed in notes 27 to 30.

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 commensurate 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 (2020: £4.9m). 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:

	2021 £'000	2020 £'000
£ sterling	**14,497**	8,285
US$ (sterling equivalent)	**444**	612
€ (sterling equivalent)	**661**	547

Had the foreign exchange rate between sterling, US$ and € changed by 9% (2020: 4%), this would affect the loss for the year and net assets of the Group by £272k (2020: £493k). 9% (2020: 3%) is considered a reasonable assessment of foreign exchange movement as this has been the movement noted between 2020 and 2021 (2019 and 2020).

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

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

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

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

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. In 2020, management increased the expected loss rates for trade and other receivables by £13,062k, which has been summarised further in note 9. Of the items impaired in the prior year, the Group has reversed £52k in 2021.

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.

Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2021

35. FINANCIAL INSTRUMENTS (*CONTINUED*)

Liquidity risk (continued)

	Weighted average effective interest rate %	Less than 1 month £'000	1-3 months £'000	3 months to 1 year £'000	1-5 years £'000	5+ years £'000	**Total £'000**
Revolving Credit Facility 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**
Revolving Credit and Capex Facility at 30 April 2021	3.0	-	-	3,900	1,000	-	**4,900**
Other Borrowing Facilities at 30 April 2021	6.7	11	24	1,452	1,735	81	**3,303**
Lease Obligations at 30 April 2021	5.0	33	67	299	1,987	2,269	**4,655**
		44	**91**	**5,651**	**4,722**	**2,350**	**12,858**

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. 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.

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

	2021 £'000	2020 £'000
Financial assets		
Cash and bank balances	**15,602**	9,444
Loans and receivables	**5,937**	6,969
Financial liabilities		
Amortised cost	**(20,098)**	(18,957)

35. FINANCIAL INSTRUMENTS (*CONTINUED*)

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 2021.

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 in the first round of Paycheck Protection Program Loans offered to businesses in the US. Post year end, the Group applied for full forgiveness of these loans and was successful in its application. This income will be reported as other operating income in 2022. Other than the forgiveness of these loans, there have been no further events after the reporting date that require adjustment or disclosure in line with IAS10 events after the reporting period.

Company statement of financial position

As at 30 April 2021

	Note	2021 £'000	Restated* 2020 £'000
Non-current assets			
Investment in subsidiaries	4	**5,500**	5,394
Amounts due from subsidiary company		**64,688**	60,284
		70,188	65,678
Current assets			
Trade and other receivables	6	**192**	196
Cash and cash equivalents		**12,897**	6,020
		13,089	6,216
Total assets		**83,277**	71,894
Current liabilities			
Trade and other payables	7	**(407)**	(342)
Borrowings	8	**(3,900)**	(3,500)
		(4,307)	(3,842)
Net current assets		**8,782**	2,374
Non-current liabilities			
Borrowings	8	**(1,000)**	(1,400)
		(1,000)	(1,400)
Total liabilities		**(5,307)**	(5,242)
Net assets		**77,970**	66,652
Equity			
Share capital	12	**4,319**	3,446
Share premium account	13	**72,943**	61,600
Merger reserve		**3,221**	3,221
Accumulated losses	14	**(2,513)**	(1,615)
Total Equity		**77,970**	66,652

*see note 2 on page 81 of the accounts

The loss for the year was £1,004k (2020: loss £645k).

The financial statements of Kromek Group plc (registered number 08661469) were approved by the Board of Directors and authorised for issue on 13 July 2021. 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 2021

	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 2019 (as previously reported)	**3,446**	**61,600**	**3,221**	**(2,364)**	**65,903**
Settled share-based payment transactions (see note 2)	-	-	-	1,169	1,169
Balance at 1 May 2019 restated	**3,446**	**61,600**	**3,221**	**(1,195)**	**67,072**
Total comprehensive loss for the year	-	-	-	(645)	(645)
Settled share-based payment transactions (see note 2)	-	-	-	225	225
Balance at 30 April 2020 restated	**3,446**	**61,600**	**3,221**	**(1,615)**	**66,652**
Total comprehensive loss for the year	-	-	-	(1,004)	(1,004)
Settled share-based payment transactions	-	-	-	106	106
Issue of share capital	873	-	-	-	873
Premium on shares issued less expenses	-	11,343	-	-	11,343
Balance at 30 April 2021	**4,319**	**72,943**	**3,221**	**(2,513)**	**77,970**

Company statement of cash flows

For the year ended 30 April 2021

	Note	2021 £'000	2020 £'000
Net cash used in operating activities	11	**(806)**	(630)
Investing activities			
Investment receipts from money market account		**-**	1,250
Interest received		**-**	11
Net cash (used in)/generated from investing activities		**(806)**	1,261
Financing activities			
Borrowings received		**400**	2,100
Borrowings repaid		**(400)**	(200)
Net proceeds from issue of share capital		**12,216**	-
Loans made to Group companies		**(4,404)**	(13,382)
Net interest paid		**(129)**	(72)
Net cash from/(used in) financing activities		**7,683**	(11,554)
Net increase/(decrease) in cash and cash equivalents		**6,877**	(10,923)
Cash and cash equivalents at beginning of year		**6,020**	16,943
Cash and cash equivalents at end of year		**12,897**	6,020

Notes to the Company financial statements

For the year ended 30 April 2021

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. RESTATEMENT

Following a management review and in accordance with IFRS 2, Kromek Group plc has an obligation to settle equity instrument transactions with Kromek Limited's employees by providing its own equity instruments. The accounting treatment is to recognise an increase in equity and a corresponding increase in investment. Reserves as at 30 April 2020 have been adjusted to recognise the cumulative impact of settled share-based payments (£1,169k) and the settled share-based payment transactions expense for 2020 (£225k), with the corresponding entry posted to investments. This has a nil impact on the loss before tax and cash flow for the years ended 30 April 2021 and 2020.

3. AUDITOR'S REMUNERATION

The auditor's remuneration for audit and other services is disclosed in note 7 to the consolidated financial statements.

4. SUBSIDIARIES

Details of the Company's direct and indirect subsidiaries as at 30 April 2021 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	Dormant company
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 2020 (restated)	5,394
At 30 April 2021	**5,500**

The impact 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 15 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.

Notes to the Company financial statements *(continued)*

For the year ended 30 April 2021

4. SUBSIDIARIES (*CONTINUED*)

At 30 April 2021 the Company was owed £64,688k (2020: £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. Based on their assessment, the Directors do not consider there to be any impairment in 2021 or 2020. The loan is unsecured and interest free.

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.

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

5. STAFF COSTS

The average monthly number of employees (excluding non-executive directors) was:	**2021 Number**	2020 Number
Research and development, production	**2**	2
Sales and marketing	**1**	1
Administration	**4**	4
	7	7

Their aggregate remuneration comprised:	**2021 £'000**	2020 £'000
Wages and salaries	**527**	565
Social security costs	**66**	71
Pension scheme contributions	**26**	23
	619	659

6. TRADE AND OTHER RECEIVABLES

	2021 £'000	2020 £'000
Prepayments and accrued income	**192**	196
	192	196

7. TRADE AND OTHER PAYABLES

	2021 £'000	2019 £'000
Trade payables and accruals	**318**	283
Social security and other taxation	**89**	59
	407	342

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.

8. BORROWINGS

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

9. 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.

10. 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 62 days. The carrying amount of trade payables approximates to their fair value.

11. NOTES TO THE STATEMENT OF CASH FLOWS

	2021 £'000	2020 £'000
Loss for the year	**(1,004)**	(645)
Adjustments for:		
Finance costs	**129**	61
Operating cash flows before movements in working capital	**(875)**	(584)
Decrease/(increase) in receivables	**4**	(39)
Increase/(decrease) in payables	**65**	(7)
Net cash used in operating activities	**(806)**	(630)

12. SHARE CAPITAL

	£'000
Allotted, called up and fully paid:	
Balance at 1 May 2020: 344,647,089 (2020: 344,635,089) Ordinary shares of £0.01 each	3,446
Issued in the Year: 87,204,731 (2020: 12,000) Ordinary shares issued at £0.01 each	873
Balance at 30 April 2021: 431,851,820 (2020: 344,647,089) Ordinary shares of £0.01 each	4,319

During the year, 250,000 shares (2020: 12,000) were allotted under share option schemes. See note 33 of the Group financial statements for further details of share-based payments.

13. SHARE PREMIUM ACCOUNT

	£'000
Balance at 1 May 2020	61,600
Premium arising on issue of equity shares	12,176
Expenses arising on issue of equity shares	(833)
Balance at 30 April 2021	**72,943**

Notes to the Company financial statements *(continued)*

For the year ended 30 April 2021

14. ACCUMULATED LOSSES

	£'000
Balance at 1 May 2020 as restated (see note 2)	(1,615)
Net loss for the year	(1,004)
Settled share-based payments	106
Balance at 30 April 2021	**(2,513)**

15. 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 each entity in the Company will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the balance between debt and equity.

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.

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.

15. FINANCIAL INSTRUMENTS (*CONTINUED*)

Liquidity risk (continued)

	Weighted average effective interest rate %	Less than 1 month £'000	1-3 months £'000	3 months to 1 year £'000	1-5 years £'000	5+ years £'000	**Total £'000**
Revolving Credit Facility at 30 April 2020	3.3	-	-	3,500	1,400	-	4,900
Revolving Credit Facility and Capex Facility at 30 April 2021	**3.3**	**-**	**-**	**3,900**	**1,000**	**-**	**4,900**

Financial covenants

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

- A maximum cap on the net debt / EBITDA ratio. 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.

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.

16. ULTIMATE CONTROLLING PARENT AND PARTY

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

17. EVENTS AFTER THE BALANCE SHEET DATE

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

18. 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 A Beumer
Mr P N Farquhar
Mr R Sharma
Mr L H N Kinet
Mr J H Whittingham
Mr C Wilks

COMPANY SECRETARY

Mr P N Farquhar

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