

Kromek Group plc

**Annual report and financial statements
for the year ended 30 April 2022**

Registered number: 08661469



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Financial & Operational Highlights

Financial Highlights

- Revenue increased 16% to £12.1m (2021: £10.4m)
- Gross margin was 46.7% (2021: 48.4%)
- Adjusted EBITDA loss reduced to £1.2m (2021: £1.7m loss)*
- Loss before tax reduced to £6.1m (2021: £6.3m loss)
- Cash and cash equivalents at 30 April 2022 were £5.1m (30 April 2021: £15.6m)

**A reconciliation of adjusted EBITDA can be found in the Chief Financial Officer's Review.*

Operational Highlights

Advanced Imaging

- Strong revenue growth with delivery under component supply agreements and increased customer engagement for future projects
- Sustained delivery in medical imaging:
 - Ramp up in delivery continued as planned under medical imaging contract expected to be worth US\$58.1m over the seven-year life of the contract which was awarded in 2019.
 - Completed delivery of a US\$600k order from an OEM customer for detectors to be used in niche SPECT applications, with further orders expected
 - Commenced commercial development engagement with three new strategic OEM customers
- In security screening, the Group completed a two-year US\$1.6m project with the US Department of Homeland Security and entered two new commercial development engagements with OEMs
- Signed a seven-year supply agreement, worth up to US\$17m, in industrial screening with a US-based OEM and secured a US\$250k repeat order from a US-based aerospace and defence company

CBRN Detection

- Significant momentum in nuclear security, with the winning of new and repeat orders and participation in a greater number of tenders reflecting the growth in global government defence spending:
 - Awarded a two-year contract, worth up to US\$1.6m, by a US federal entity for the D3S-ID wearable nuclear radiation detector – with a further US\$300k order received during the year and US\$695k post year end
 - Repeat orders received from the European Commission for the D3S-ID
 - Received orders from three customers for the D5 RIID
 - A four-year contract worth £1.7m was received from a UK government agency customer for CBRN detection products and services
 - Invested in developing new channels to market, including the signing, post year end, of a distribution agreement with Smiths Detection Inc. for the North and South American markets
- 32 new customers won in the civil nuclear segment
- Significant progress in the development of bio-security solutions:
 - Awarded a US\$6m contract extension from the Defense Advanced Research Projects Agency ("DARPA"), an agency of the US Department of Defense, to advance the development of a mobile wide-area bio-security system
 - Successfully completed piloting in schools, airports and other locations of an airborne COVID-19 detection system under a project funded by Innovate UK and commenced productisation phase

Procurement, Manufacturing and IP

- Measures implemented to strengthen supply chain, including procurement team expansion and establishing strategic relationships with suppliers
- Increased utilisation of expanded production capacity in the UK and US facilities following enhancement to manufacturing processes in the prior year
- 8 new patents were filed and 9 were granted during the year

Chairman's Statement

I am pleased to present our 2022 Annual Report, which outlines how we have advanced the execution of our strategy. Against the backdrop of an environment recovering from the harshest business interruption seen, I am proud to say that the way Kromek adapted to the changing eco-system has made this a notable year.

Kromek remains a leading developer of radiation detection and bio-detection technology solutions. Over the past three years, we have evolved to become a commercial stage platform company addressing two large markets with strong growth potential: advanced imaging and CBRN detection.

Kromek continued to deliver on its existing contracts as well as win new and repeat orders during the first half of the year. In H2 2022, the commercial momentum increased, ahead of management's expectations, however, Kromek was not immune from the industry-wide supply chain issues and challenges around obtaining critical components. As a result, certain shipments scheduled to be made in the final month did get delayed into the next fiscal year.

The additional contract wins contributed to the Group achieving strong revenue growth in H2 over H1 2022 resulting in a year-on-year revenue increase of approximately 16%.

The Group continued to maintain tight cost control, improve collections and manage cash flow. The experience of managing our supply chain during the year will hold us in good stead for the current fiscal year. We have record revenue visibility in the coming year, which will help us to manage our inventories effectively and avoid potential delays in delivery of orders.

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 as a result of current geopolitical instabilities, which is leading to increased demand for Kromek's technology.

Strategic Value of Kromek in Medical Imaging

The medical imaging industry is transitioning to Cadmium Zinc Telluride (CZT) as OEMs' next-generation products are increasingly being installed in hospitals globally. As the only remaining independent company capable of large-scale manufacturing of CZT, Kromek is in an advantageous position to increase its exposure to OEMs in this market as photon counting CT and digital SPECT are becoming established in the marketplace.

CBRN Remains a Major Commercial Opportunity

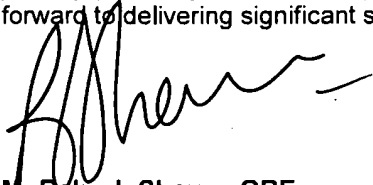
Globally, Kromek has current visibility of tender orders in excess of US\$500m, of which the handheld segment of the market is estimated to be worth almost half of that, per year. Additionally, the UK government announced spending plans of hundreds of millions over the next four years on nuclear detection. Portable detection products are expected to be a key component of that. Overall, we expect that, as a result of the global geo-political situation, the interest in Kromek's capability and products will remain high in the foreseeable future.

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.

Chairman's Statement (continued)

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.

A handwritten signature in black ink, appearing to read 'R Sharma', with a long horizontal flourish extending to the right.

Mr Rakesh Sharma OBE

Chairman

1 August 2022

Strategic Report

Chief Executive Officer's Review

During the year to 30 April 2022, Kromek made good progress in both the advanced imaging and chemical, biological, radiological, and nuclear (CBRN) detection segments of the business. We delivered on our existing contracts and development programmes, won new and repeat orders and experienced increased customer engagement regarding future contracts. This resulted in revenue for FY 2022 increasing by 16% over the previous year, with commercial momentum increasing throughout the year, particularly in the CBRN detection segment. We also continued to increase our utilisation of the expanded production capacity that we had gained through the processes introduced in the previous year to optimise manufacturing across our facilities. Accordingly, and notwithstanding the impact of supply chain pressures as described further below, we ended the year in a stronger position than we had entered it.

Advanced Imaging Segment

The advanced imaging segment comprises the medical imaging, security screening and industrial screening markets. Kromek provides OEM customers with detector components, based on our core cadmium zinc telluride (CZT) platform, to enable better detection of diseases such as cancer and cardiac conditions, contamination in industrial manufacture and explosives in aviation settings.

In this segment, commercial engagement with customers consists of an initial design phase followed by incorporation of our detectors and technologies into a customer's system and then the award of a multi-year supply contract, which provides long-term revenue visibility. We have an established track record of winning orders for development purposes that transition to multi-year supply contracts from customers in gamma probes, bone mineral densitometry ("BMD") and single photon emission computed tomography ("SPECT") in medical imaging as well as in security and industrial screening. This success is evidenced by the significant contracts awarded in H2 2019 in medical imaging and also in the year under review in industrial imaging, which are expected to be worth approximately US\$58.1m and US\$17m, respectively. As we continue to win such contracts, our revenue base expands and the revenue profile becomes increasingly predictable.

Kromek delivered strong growth in this segment compared with the 2021 financial year as we continued to deliver detector components to our customers under orders for development purposes and multi-year supply contracts. We also experienced greater customer engagement regarding future projects as normal business has resumed following the temporary redirection of resources due to the COVID-19 pandemic.

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. The rate of new product introduction with this class of detector is increasing with both GE Healthcare and Siemens Healthineers introducing new products in their clinical SPECT and CT business in 2021. CZT detector platforms enable OEMs to significantly improve the quality of imaging, which leads to earlier and more reliable diagnosis of disease. Kromek's CZT detector solutions are increasingly being commercially adopted for SPECT, molecular breast imaging ("MBI") and BMD applications. These, along with computed tomography ("CT"), are key target areas for future growth as they address diseases particularly associated with an ageing population such as cancer, Alzheimer's, Parkinson's, cardiovascular illnesses and osteoporosis. Kromek also serves the gamma probes market in medical imaging, which are used during surgery for the removal of lymph nodes.

We continued to fulfil our existing supply orders in medical imaging and progress our development programmes. Delivery continued to ramp up as planned to our significant OEM customer that, in H2 2019, awarded a contract expected to be worth a minimum of US\$58.1m over an approximately seven-year period. In addition, we continued delivery of a US\$600k order received in H2 2021 from a different customer for the supply of detectors to be used in niche SPECT applications. This delivery was completed by the end of the 2021 calendar year as planned and we expect to continue the supply of detectors to this longstanding customer with new orders in the current year.

There was a significant increase in new business activity as the impact of the pandemic – which had caused a temporary redirection of resources in healthcare settings – continued to recede. This applied particularly in our key target areas of CT and SPECT, supported by the growing industry adoption of new techniques and rollout of new systems. We commenced commercial development engagement with three new strategic OEM customers in this market. These initial orders are for the supply of CZT-based detectors for use by the OEM customers in their commercial development programmes.

Strategic Report (continued)

Chief Executive Officer's Review (continued)

One of our US medical imaging customers received FDA approval for its system for a niche nuclear medical application, which is using Kromek's detectors. We have received several orders from this customer, which we expect to continue on an ongoing basis.

Security Screening

In security screening, our technologies are used in travel, primarily aviation, settings to 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. We provide OEM and government customers with components and systems for cabin and hold luggage scanning.

During the year, we continued to deliver under our existing component supply agreements in the security screening market. In our development work, we completed a two-year US\$1.6m 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. We also entered two new commercial development engagements during the year to customise our detector solutions for incorporation into OEM customers' systems. This development process has been completed with one of the customers and the customised detectors have been delivered to the customer, and we expect to receive further orders from this customer.

Industrial Screening

In industrial screening, Kromek provides OEM customers with detector components for incorporating into scanning systems used during manufacturing processes to identify potential contaminants.

During the year, we signed a seven-year supply agreement, worth up to US\$17m, to provide CZT-based detector components for incorporation into systems for identifying contaminants for the purpose of product quality inspection. The contract is with a US-based, sector-leading industrial OEM with a global customer base and was awarded following the completion of a two-year development programme. Initial delivery under this contract commenced during the year and is expected to ramp up in the current financial year.

Also, during the year, we were awarded a US\$250k repeat order from a US-based customer that is a global leader in aerospace and defence technologies. The customer's system, which incorporates Kromek detectors, is used for in-line quality control in manufacturing processes.

CBRN Detection Segment

In CBRN detection, we provide nuclear radiation detection solutions to the global homeland defence and security market. Kromek's compact, handheld, high-performance radiation detectors, based on advanced scintillation technology, are primarily used to protect critical infrastructure and urban environments from the threat of 'dirty bombs'. 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 establishments. In addition, we are developing bio-security solutions to detect a wide range of airborne pathogens, including SARS-CoV-2 (COVID-19).

We won new and repeat orders in the nuclear security and civil nuclear markets during the year and participated in an increasing number of tenders reflecting the growth in global government defence spending. With the current geo-political environment, the commercial momentum in this market increased during the fourth quarter and has remained high into the current financial year. We also made significant progress with our development programmes in bio-security and anticipate early commercial deployment of our products in this segment during the current financial year.

Strategic Report (continued)

Chief Executive Officer's Review (continued)

Nuclear Security

Kromek's nuclear security platforms – D3S and D5 – consist of a family of products designed to cater for the varying demands of homeland security and defence markets. In particular, the 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.

We were awarded a contract by a US federal entity for our D3S-ID wearable nuclear radiation detector that is designed to enable first responders, armed forces, border security and other CBRN experts to detect radiological threats. The contract will be delivered over two years and is worth up to US\$1.6m. In the final quarter of the year, this customer made a repeat order worth US\$300k and then a further order post year end of US\$695k. We also continued to receive repeat orders from the European Commission for the D3S-ID.

During the year, we received orders from three customers for our D5 RIID high-performance radiation detector designed for challenging environments, which was launched in the previous year. This included an order worth £173k from an existing UK government agency customer and orders from two new customers. As further testament to the strength of both our solutions and long-term relationships, towards the end of the year, the UK government agency customer awarded a further four-year contract worth £1.7m for the provision of CBRN detection products and services.

We have put significant effort into developing new channels in this market and are seeing increased traction for our products. This includes entering into an agreement, post year end, with Smiths Detection to market and distribute our D3 and D5 series of wearable radiation detectors and identification solutions to North and South American markets. The current geopolitical events have provided an increased emphasis for government spending in this segment as NATO countries are all increasing their defence budgets. The threat of a nuclear event is also at an all-time high since the end of the cold war. Our products provide best-in-class capability to provide early warning and mitigation capability in case of an event.

Civil Nuclear

In the civil nuclear market, we won 32 new customers during the year compared with 24 for 2021. We continued our programme of work under a development and supply contract awarded in the previous financial year, worth a minimum of US\$960k, which is for a product with both nuclear security and civil nuclear applications. The project is progressing on schedule, with the development work being completed by the end of calendar year 2021 and the product is now in the validation phase ahead of the commencement of supply, which we expect to start in the current financial year.

Biological-Threat Detection

Kromek is developing bio-security solutions consisting of fully automated and autonomous systems to detect a wide range of airborne pathogens using genomic sequencing for the purposes of national security and protecting public health. 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 autonomously senses, analyses and identifies airborne pathogens. The programme was established to combat bioterrorism and is now also aimed at providing an early warning system in the event of a virus outbreak to enable action to be taken to localise the spread and prevent it from becoming an epidemic or global pandemic. We are also working under a programme funded by Innovate UK, which commenced in 2021, to develop a bio-security solution to support end-use cases specifically for COVID-19 detection.

During the year, we continued to deliver on the development milestones under our programme with DARPA and received a US\$6m contract for the next phase. The programme is for the development of a completely automated wide spectrum airborne pathogen detection system that is fully mobile and runs autonomously. It is being designed to be networkable and provide wide-area monitoring capability in near real-time. To date, we have been awarded a total of over US\$13m by DARPA under this programme.

Strategic Report (continued)

Chief Executive Officer's Review (continued)

Several successful pilots were carried out for the fully automated genomic sequencing platform in the UK and US. During the year we published a white paper outlining the challenges the world faces from the emergence of natural and synthetic pathogens. The main recommendations of the white paper include the implementation of a national network of automated genomic sequencing systems. These systems can provide an early warning alert for the emergence and understanding of the prevalence of pathogens in the environment, and this has been fed into a government consultation process led by the Cabinet Office, which is aimed at forming a national strategy for bio resilience and bio security for the UK. The initial findings are very well aligned to our platform, and we continue to work with multiple government agencies to define use cases and widescale implementation opportunities.

Under our programme funded by Innovate UK to develop a solution for airborne COVID-19 detection, we successfully completed piloting of the system at several sites, including schools, airports and other locations. The solution is now in the productisation phase, with a manufacturing partner having been identified and a number of pre-production models also having been produced. Further, we engaged in validation of the technology in third-party laboratories with very positive results on the detection levels, sensitivity and false alarm rates.

Procurement

As previously stated, our growth was impeded during the year by supply chain pressures, particularly global electronic component shortages. Specifically, the late arrival of certain components prevented the completion of orders totalling approximately £2.9m that were scheduled to be delivered before the year end. These orders have now begun to be shipped and the revenue is expected to be largely recognised in the first half of the current financial year.

Several steps were taken during the year to strengthen our supply chain so that we are better positioned to be able to manage such pressures going forward. As discussed in the Chief Financial Officer's Review, inventories increased with components being sourced when available rather than in accordance with what had previously been the normal supply lead times. We bolstered our procurement team during the year and have transitioned our buying cycles to accommodate the current longer lead supply times. This has significantly helped management, enabling greater visibility over orders. In addition, we have widened and strengthened our supplier base through establishing an increased number of strategic, rather than transactional, relationships with key suppliers.

R&D, IP and Manufacturing

We continue to ramp up several projects that commenced in 2021 for the expansion of production capacity and increased process automation. These programmes are resulting in greater productivity and cost efficiency in the manufacture of CZT and non-CZT products in both our UK and US facilities.

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 and, in particular, significantly progressed the development of our biological-threat detection solution.

During the year, we applied for 8 new patents and had 9 patents granted across three patent families, bringing the total number of patents held by Kromek to in excess of 250. The new applications cover innovations in both of our segments.

Outlook

Kromek has had a positive start to the new financial year with a significantly larger order book than at the same point last year and the highest level of revenue visibility in our history. We have excellent visibility over full year revenue forecasts with approximately 53% of our forecast revenue contracted, 37% going through contract negotiation and the remaining 10% expected to be provided by our regular repeat order business.

As a result, we anticipate a year-on-year increase in revenue of approximately 48%, in line with market expectations, with accelerated growth in both our advanced imaging and CBRN detection segments.

Strategic Report (continued)

Chief Executive Officer's Review (continued)

The anticipated growth is based on delivery under existing long-term contracts, new orders won last year and the sustained demand being received for our products. In particular, the current geopolitical environment is driving increased interest from government agencies in Kromek's products in the CBRN detection segment. In advanced imaging, Kromek's CZT-based products continue to be in high demand from both existing and new OEM customers.

We continue to maintain tight cost control, improve collections and manage cash flow. We are also effectively managing our supply chain and the current challenges around obtaining critical components. The high revenue visibility for the current year means we can manage our inventories efficiently and avoid potential delays in the delivery of orders.

Looking further ahead, Kromek is operating in multiple substantial markets where our technology enables our advanced imaging customers to differentiate their products, forming an important part of the roadmap of major OEMs, and allowing our CBRN detection customers to enhance national defence. The demand for technology that enables early medical diagnosis to improve patient outcomes and government vigilance to the threat of terrorism will continue. In addition, our strategic position in the advanced imaging segment was significantly strengthened during the year with Kromek becoming the only commercial independent global supplier of CZT. Consequently, the Board continues to look to the future with great confidence.

A handwritten signature in black ink, appearing to read 'Dr Arnab Basu', is positioned above the printed name.

Dr Arnab Basu MBE
Chief Executive Officer
1 August 2022

Strategic Report (continued)

Chief Financial Officer's Review

I am pleased to present my Chief Financial Officer's Report for the 12-month period ended 30 April 2022.

Following the significant disruption to the business environment caused by the COVID-19 pandemic in the latter part of our 2020 financial year and into 2021, the Group recovered well in the year under review with good progress in both the advanced imaging and CBRN detection segments of the business and revenue growth in excess of 16% year-on-year.

The Group's revenue growth was, however, significantly impacted by continuing supply chain pressures, particularly global electronic component shortages, which resulted in the delivery of £2.9m of contracts being delayed into FY 2023. These orders have now begun to be shipped and the revenue is expected to be largely recognised in the first half of the current financial year. In response to the ongoing supply chain pressures, we have taken a number of steps to secure supply of critical components including investing in additional procurement staff and purchasing forward inventory from a wider range of suppliers than we would normally due to the longer lead times for certain components. In total, we invested £4.3m in additional inventory during the year, some of which was at significantly higher cost than under normal market conditions due to supply side inflation. It is anticipated that the current supply chain pressures will continue into calendar year 2023 although we do not expect the impact on the business to be as significant as it was in FY 2022 as a result of the mitigation actions taken as outlined above.

Revenue for the year was £12.1m (2021: £10.4m), an increase of £1.7m from the prior year, and gross profit was £5.6m (2021: £5.0m). Due to the higher gross profit, an increase of £1.0m in other operating income, partially offset by higher administration costs, adjusted EBITDA loss was reduced to £1.2m (2021: £1.7m loss). A reconciliation between adjusted EBITDA and results from operations is detailed on page 11.

Revenue

The Group generated total revenue of £12.1m (2021: £10.4m), an increase of 16% over the prior year. However, growth was impeded, as noted above, by global supply chain issues. The split between product sales and revenue from R&D contracts is detailed in the table below.

Revenue Mix	2022		2021	
	£'000	% share	£'000	% share
Product	9,935	82%	5,836	56%
R&D	2,120	18%	4,516	44%
Total	12,055		10,352	

Gross Margin

Gross profit at £5.6m (2021: £5.0m) represented a margin of 46.8% (2021: 48.4%). The slight reduction in gross margin is attributable to the change in revenue mix and the increase in component prices due to supply chain pressures.

Administration Costs

Administration costs and operating expenses increased by £1.3m to £12.2m (2021: £10.9m). This increase is substantially the net result of:

- £0.2m of amortisation due to continued investment in the technology platform and product applications;
- £0.5m bad debt expense having assessed receivables at the year end for expected credit losses;
- a £0.2m increase in travel and subsistence due to the global relaxation of travel restrictions;
- a £0.5m increase in staff costs due to general salary increases and the planned expansion of personnel to support the biological detection project; and
- savings of £0.1m relating to facility and general office expenses.

Strategic Report (continued)

Chief Financial Officer's Review (continued)

Adjusted EBITDA* and Result from Operations

Adjusted EBITDA for 2022 was a loss of £1.2m compared with a loss of £1.7m for the prior year as set out in the table below:

	2022	2021
	£'000	£'000
Revenue	12,055	10,352
Gross profit	5,636	5,006
Gross margin (%)	46.7%	48.4%
Loss before tax	(6,129)	(6,331)
EBITDA Adjustments:		
Net interest	548	546
Depreciation of PPE and right-of-use assets	1,751	1,685
Amortisation	2,569	2,359
Share-based payments	236	106
Exceptional Item	(132)	(52)
Adjusted EBITDA*	(1,157)	(1,687)

**Adjusted EBITDA is defined as earnings before interest, taxation, depreciation, amortisation, exceptional items, early settlement discounts and share-based payments. 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 Group's loss before tax was reduced to £6.1m compared with £6.3m in the prior year. The improvement is primarily due to the increase in gross profit and higher other operating income as described below, partially offset by the increase in operating costs.

During 2022, the Group recognised a gain of £2.1m (2021: £2.0m loss) in the statement of other comprehensive income that arose from foreign exchange differences on the translation of foreign operations as described in note 2 to the financial statements. This gain has been treated as a reserve movement, consistent with the prior year. This accounting treatment is unlike the £0.2m foreign exchange loss arising on the revaluation and realisation of working capital balances that were expensed to the profit and loss account during the 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 £0.9m for the year (2021: £1.0m 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 (2021: £nil) 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 £1.2m (2021: £1.0m credit).

Earnings per Share ("EPS")

The EPS is recorded in the year on a basic and diluted basis as 1.1p loss per share (2021: 1.5p loss per share after excluding exceptional items), reflecting the £0.4m reduction in loss for the period.

R&D

The Group invested £5.6m in the year (2021: £5.5m) 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 lifecycle.

The Group continues 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

Strategic Report (continued)

Chief Financial Officer's Review (continued)

platform, which enables the identification of COVID-19 and other biological pathogens, offers significant medium-term opportunities for the Group in this critical market.

The other key areas of development continue to be the development and 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 (2021: £0.2m) with 8 new patents filed and 9 patents granted across 3 patent families.

Other Income

The Group generated total other operating income of £1.4m (2021: £0.4m), which predominantly comprises the forgiveness of Paycheck Protection Programme (PPP) loans in the US. The Group had been granted PPP loans totalling US\$1.8m (£1.4m) in the prior year and, during the period under review, applied for, and received, forgiveness for repayment from the US Government. In the prior year period, £0.3m of the £0.4m of other operating income comprised UK Government grants in response to COVID-19. The balance of remaining other operating income relates to grants received from the Coronavirus Job Retention Scheme provided by the UK Government in response to COVID-19's economic impact on businesses and other small miscellaneous grants.

Capital Expenditure

Capital expenditure in the year amounted to £0.7m (2021: £0.5m), which primarily relates to modest capital expenditure across lab and computer equipment and manufacturing projects.

Financing Activities

The Group's US operations secured an Economic Injury Disaster Loan of £0.4m in August 2021.

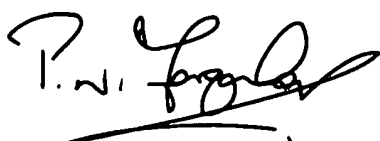
Cash Balance

Cash and cash equivalents were £5.1m as of 30 April 2022 (30 April 2021: £15.6m). The £10.5m decrease in cash during 2022 was primarily due to the combination of the following:

- Adjusted EBITDA loss for the year of £1.2m, which includes the PPP loan forgiveness of £1.4m
- Net cash used in financing activities of £1.6m
- A net increase in working capital of £4.8m
- R&D tax receipts of £1.3m
- Investment in product development and other intangibles, with capitalised development costs of £5.6m and IP additions of £0.2m
- Capital expenditure of £0.7m
- Impact of foreign exchange of £1.0m

Working capital increased by £4.8m as a result of the following:

- A £4.3m increase in inventories held on 30 April 2022 to £10.5m (30 April 2021: £6.2m). This increase was primarily in order to secure surety of critical electronic components for delivery of FY 2023 revenues in response to supply chain pressures. As such, the Group sourced component inventory when available, rather than in accordance with normal supply lead times. There was significant component price inflation caused by the constrained market supply, which also contributed to the increased spend on inventories;
- £0.2m decrease in trade and other receivables, reflecting the timing of receipts; and
- a £1.7m increase in trade and other payables to £8.9m (2021: £7.2m) due to the timing of invoicing around the year end.



Paul N. Farquhar
CFO
1 August 2022

Strategic Report (continued)

REVIEW OF PRINCIPAL RISKS

The Group takes a holistic approach to risk management, first building a picture of the principal risks at a divisional level and then consolidating those principal risks alongside Group risks into a Group view. In addition, we continue to identify and analyse emerging risks, which are considered and approved at senior management meetings before being presented to the Audit Committee and Board for consideration and approval. The objective of this process is to ensure that all key risks to the Group are known and are being actively monitored, and mitigating controls are put in place to ensure risk falls within the risk appetite set by the Board.

Our risk management methodology is designed to identify the principal and emerging risks that could:

- adversely impact the safety or security of the Group's employees, customers and assets
- have a material impact on the financial or operational performance of the Group
- impede achievement of the Group's strategic objectives and financial targets
- adversely impact the Group's reputation or stakeholder expectations

Risks are reviewed on a regular basis by the Board and Audit Committee to identify any changes in risk profiles and to consider the optimal range of mitigation strategies.

Pandemic

In 2022, the Group, in common with many businesses, continued to face certain 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

Whilst the economic and operational effects of COVID-19 on the Group are receding compared to the last two years, the Board and management continue to monitor the current and potential impacts of the pandemic on Group and divisional performance. The health and safety of our staff is of paramount importance and we continue to operate with additional hygiene measures in Kromek facilities and encourage hybrid working where possible. 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

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 continues to invest in IP resources and management systems and processes to maximise our opportunities to succeed in the competitive markets we serve.

Strategic Report (continued)

REVIEW OF PRINCIPAL RISKS (continued)

Risks associated with product and technology adoption rates

The rate of market acceptance of the Group's products is uncertain as many factors influence the adoption of new products including changing needs, regulation, marketing and distribution, users' habits and business systems, and product pricing.

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

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

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.

Risks associated with Brexit and other macroeconomic conditions

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 and the Russia-Ukraine conflict. 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.

Strategic Report (continued)

REVIEW OF PRINCIPAL RISKS (continued)

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 constantly monitor the changing environment, latest government guidelines and industry best practice.

Risks associated with global electronic component shortages

The global shortage of certain electronic components, and in particular semiconductors and micro-chips, as outlined in the 2021 Annual Report, continued and worsened into 2022, and component prices have increased significantly as a result of the excess demand in the market. It is anticipated that the situation will not improve until 2023, at the earliest.

The situation was 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 were 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. In addition, the Russia-Ukraine conflict is causing extra disruption to semiconductor manufacturers by impacting the supply of neon and hexafluorobutadiene gases that are essential to manufacture semiconductor chips as these are used in the lithography processes for micro-chip production.

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. We bolstered our procurement team during the year and have transitioned our buying cycles to accommodate the current longer lead supply times. This has significantly helped management, enabling greater visibility over orders. In addition, we have widened and strengthened our supplier base through establishing an increased number of strategic, rather than transactional, relationships with key suppliers.

Risks associated with economic conditions

This risk relates to the Group's exposure to short-term macroeconomic conditions and market cycles in the sectors in which we operate such as inflation and periodic market downturns. Some of the factors driving such market changes are beyond the Group's control and are difficult to forecast.

The Group's success depends on adapting to these economic fluctuations which may negatively impact performance through increased costs, changing customer needs, reduced demand and/or reduced opportunities for growth. Globally, the economic outlook is less certain, and in common with other businesses, the Group has experienced significant cost inflation driven by increased fuel costs related in part to the Russia-Ukraine conflict. All these market changes have the potential to decrease the Group's available financial resources to invest capital in innovative solutions that drive demand.

Strategic Report (continued)

REVIEW OF PRINCIPAL RISKS (continued)

Mitigation

The Group cannot control market conditions but believes it has effective measures in place to respond to changes.

Kromek continues to reinforce existing measures in place, including:

- the evolution of our business model;
- cost control, pricing and gross margin management initiatives, including a focus on customer service and productivity improvement;
- resource allocation processes; and
- capital expenditure controls and procedures.

The Group continues to monitor for any business disruption due to a resurgence of COVID-19 and remains prepared to implement appropriate mitigation strategies.

Risks associated with data security and privacy, including cyber-security

This risk includes the risk of cyber-attack, security of IT systems and resilience to restore system availability. A cyber-attack presents a risk to Kromek's operations in the following ways:

- Destructive compromise of Group-wide networks resulting in a loss of all services
- Confidentiality (leakage of customer data)
- Integrity (accuracy of Kromek's data)
- Availability (loss and access to data)

Cyber-attacks, computer malware, viruses, spamming and phishing attacks have become more prevalent and may result in a breach of our systems. A breach of our facilities and/ or networks could disrupt our operations and impair our ability to protect data, and/or compromise our confidential business information. A failure to prevent, mitigate or detect security breaches and/or improper access to our business and/or customer information and/or comply with consumer privacy regulations could result in disruption to our operations, significant penalties and have an adverse impact on confidence in the Group.

Mitigation

To protect our data and comply with all data privacy regulations, the Group has implemented IT infrastructure controls across the company. The Group administers a training programme to new employees, communicating their role in protecting and preventing the unauthorised access to sensitive data, and also provides refresher training to all employees on an annual basis. Business continuity plans continue to evolve and are updated as the transition to greater dependency on technology continues in order to minimise the impact of cyber-attacks and the potential impact to the continuity of our operations.

Risks associated with human resources

Employee costs represent the largest component of the Group's operating costs. These costs include expenses related to recruitment, retention and talent development. The costs are impacted by changes in employment markets, new regulatory requirements and diversity and inclusion programmes. A failure to effectively recruit and retain a diverse and talented workforce could have adverse financial, reputational and operational impacts. The employment market for many disciplines, including engineers and scientific staff, has become more challenging since the pandemic. This has increased our recruitment and retention costs and may impact operations in future periods. Our employee turnover has also been impacted by current wider economic circumstances, particularly rising inflation.

Strategic Report (continued)

REVIEW OF PRINCIPAL RISKS (continued)

Mitigation

In order to increase retention and decrease employee costs, the Group has enhanced recruitment practices, including leveraging multiple channels including online recruitment for all roles. To help prevent overall employee turnover, we continue to focus on improving communication with employees, defining a new people strategy, investing in employee development and diversity and inclusion, and providing market competitive salaries and benefits.

Strategic Report (continued)

Section 172 (1) Statement

The Directors have acted in a way that they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, in line with Section 172 of the Companies Act 2006.

This section of the Strategic Report describes how the Directors continue to have regard for:

- the likely consequences of any decision in the long term;
- the interests of the Company's employees;
- the need to foster the Company's business relationships with suppliers, customers and others;
- the impact of the Company's operations on the community and the environment;
- the desirability of the Company maintaining a reputation for high standards of business conduct; and,
- the need to act fairly as between members of the Company.

In discharging its Section 172 duties, the Board has considered the factors set out above and the views of key stakeholders as described below. The Board identifies the Group's key stakeholders as shareholders, employees, customers, suppliers and community participants, and it is committed to effective engagement with these stakeholders.

Shareholders

The 10 largest shareholders in the Group held, in aggregate, approximately 63% of the Group's shares at 30 April 2022. 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, the CFO and the Group's brokers. The Group communicates with institutional Shareholders 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 154 staff during 2022. The management team interacts daily with all employees and operates 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 dedicated Procurement and Legal functions that operate with the Group's commercial, project and production teams and those of the Group's key customers and suppliers.

Strategic Report (continued)

Section 172 (1) Statement (continued)

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.

Responsible business

Over the course of 2022, the Board recognised and discussed the increasing importance of Environmental, Social and Governance (ESG) matters for a number of our stakeholders. 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 at all times in an ethical and in an environmentally conscious manner.

Kromek is committed to being a responsible corporate member of society and our priority both before, during, and as we come out of 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 uses 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 and Chief Executive Officer's Statements and the Chief Financial Officer's Review.



Dr Arnab Basu MBE
Chief Executive Officer
1 August 2022

Directors' Biographies

Rakesh Sharma, Chairman

Mr Sharma is a former FTSE 250 CEO with 30 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.

Arnab Basu, Chief Executive Officer

Dr Basu has a PhD in physics from Durham University, specialising in semiconducting sensor materials. He also worked in commercial product development for Elmwood Sensors Ltd (Honeywell Group, UK). A prominent figure within the business community, Dr Basu is Chair of Academic Health Science Network for North East and North Cumbria, a Honorary Fellow of the Institute of Physics, and an Export Champion for the Department of International Trade. Dr Basu was awarded EY 'Entrepreneur of the Year' (2009) and received an MBE for services to regional development and international trade in 2014.

Paul N. 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.

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 of 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 application specific elemental analysis solutions for the petroleum and consumer products industries.

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 former Chairman of Metrasens Ltd in Malvern, UK (a company in the healthcare and security fields) and is the Board Chair of Reglagene Inc., a company in the field of cancer treatment.

Directors' Biographies (continued)

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 and is also chairing a regional project looking to radically improve University spinout and SME access to patient capital. He has served as interim CEO or Executive Chairman of spinouts from Manchester and Cambridge Universities. Jerel is a graduate of UCL, Cranfield and ULB.

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 2022.

Principal activities

Kromek Group plc is a leading developer of radiation detection and bio-detection technology solutions for advanced imaging and CBRN detection, based on cadmium zinc telluride (CZT) and associated technologies. Headquartered in County Durham, UK, Kromek has manufacturing operations in the UK and US, delivering on the vision of enhancing the quality of life through innovative detection technology solutions.

Advanced imaging comprises the medical (including CT and SPECT), security and industrial markets. Kromek provides its OEM customers with detector components, based on its CZT platform, to enable better detection of diseases such as cancer and Alzheimer's, contamination in industrial manufacture and explosives in aviation settings.

In CBRN detection, the Group provides nuclear radiation detection solutions to the global homeland defence and security market. Kromek's compact, handheld, high-performance radiation detectors, based on advanced scintillation technology, are primarily used to protect critical infrastructure and urban environments from the threat of 'dirty bombs'. The Group is also developing bio-security solutions in the CBRN detection division; these consist of fully automated and autonomous systems to detect a wide range of airborne pathogens.

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

Business and strategic review

The information that fulfils the requirements of the strategic report and business review, including details of the results for the year ended 30 April 2022, principal risks and uncertainties, research and development, financial KPIs and the outlook for future years, are set out in the Chairman's and Chief Executive Officer's Statements and the Chief Financial Officer's Review, on pages 3 - 12.

Future developments

The Group's development objectives for the year to 30 April 2022 are disclosed in the Strategic Report on pages 5 - 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 2022.

Results and dividends

The consolidated income statement is set out on page 45.

The Group's loss after taxation amounted to £4.9m (2021: £5.3m loss after tax and exceptional items).

The Directors do not recommend the payment of a dividend for the year ended 30 April 2022 (2021: £nil).

During the year ended 30 April 2022, the Group made political donations of £nil (2021: £nil) and charitable donations of £nil (2021: £nil).

Directors' Report (continued)

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
Mr P N Farquhar
Mr A Beumer
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 34 to 37.

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

Directors' indemnities

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

Statement of Directors' responsibilities in respect of the annual report and the financial statements

The Directors are responsible for preparing the annual report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. Under the AIM Rules of the London Stock Exchange, they are required to prepare the Group financial statements in accordance with UK-adopted International Financial Reporting Standards ("IFRS"), 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 UK-adopted IFRS;
- 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.

Directors' Report (continued)

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 168 and the percentage of this number that is female is 35%.

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 2022 and 30 June 2022 (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:

Directors' Report (continued)

Name of shareholder	At 30 April 2022		At 30 June 2022	
	Number of shares	% of voting rights	Number of shares	% of voting rights
Interactive Investor	50,184,970	11.62%	50,007,806	11.58%
Hargreaves Lansdown Asset Mgt	49,066,373	11.36%	50,568,960	11.71%
Canaccord Genuity Wealth Management	38,637,500	8.95%	38,637,500	8.95%
Halifax Share Dealing	27,691,392	6.41%	28,046,170	6.49%
Polymer Holdings	21,940,142	5.08%	21,940,142	5.08%
Herald Investment Management	19,080,059	4.42%	19,080,059	4.42%
A J Bell Securities	15,833,357	3.67%	16,105,691	3.73%
Mr David Newlands and Mrs Monique Newlands	15,520,000	3.59%	14,370,000	3.33%
Barclays Wealth	14,900,835	3.45%	14,864,261	3.44%

By order of the Board



Dr Arnab Basu MBE
Chief Executive Officer
 1 August 2022

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	<ul style="list-style-type: none"> Kromek is a leading supplier of radiation detection components and devices. The Group strategy is set out in the Strategic Report section on pages 3 to 12 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	<ul style="list-style-type: none"> 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 Sedgfield, County Durham, 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 pages 18 to 19 of this Annual Report.
3. Consider wider stakeholder and social responsibilities and their implications for long-term success	<ul style="list-style-type: none"> 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 pages 18 to 19 of this Annual Report.
4. Embedded effective risk management, considering both opportunities and threats throughout the organisation	<ul style="list-style-type: none"> 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 13 to 17 of the Strategic Report within this Annual Report.
5. Maintain the Board as a well-functioning, balanced team led by the Chairman	<ul style="list-style-type: none"> 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 27 to 29 of this Annual Report.
6. Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities	<ul style="list-style-type: none"> 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 to 21 of this Annual Report.
7. Evaluate Board performance based on clear and relevant objectives, seeking continuous improvements	<ul style="list-style-type: none"> 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. The Board review the preparation of the Group budget; review period results against budget, together with commentary on

	<p>significant variances and updates of both result and cash flow expectations for the period.</p> <ul style="list-style-type: none"> • Board authorisation of all major purchases and disposals and regular reporting of legal and accounting developments to the Board.
8. Promote a corporate culture that is based on ethical values and behaviours	<ul style="list-style-type: none"> • The Group's ethical values are outlined on page 24 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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 online on the Group's website. Please visit www.kromek.com.

The Board

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

Board meetings

The Board met five times during the year ended 30 April 2022, including one AGM. The following details the Board meetings during 2021/22, and the attendees:

Date	Attendees
30.03.21	Rakesh Sharma Arnab Basu Paul Farquhar Lawrence Kinet Jerel Whittingham Chris Wilks Berry Beumer
18.07.21	Rakesh Sharma Arnab Basu Paul Farquhar Lawrence Kinet Jerel Whittingham Chris Wilks Berry Beumer
14.10.21	Rakesh Sharma Arnab Basu Paul Farquhar Lawrence Kinet Jerel Whittingham Chris Wilks Berry Beumer
09.12.21	Rakesh Sharma Arnab Basu Paul Farquhar Lawrence Kinet Jerel Whittingham Chris Wilks Berry Beumer
03.03.22	Rakesh Sharma Arnab Basu Paul Farquhar Lawrence Kinet Jerel Whittingham Chris 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.

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 to 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. 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 2022:

Date	Attendees
08/07/2021	Rakesh Sharma Paul Farquhar Lawrence Kinet Jerel Whittingham Christopher Wilks Arnab Basu
09/12/2021	Rakesh Sharma Paul Farquhar Lawrence Kinet Jerel Whittingham Christopher Wilks Arnab Basu

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 34 to 37.

Internal control

The Board is responsible for establishing and maintaining the Group's system of internal control and for reviewing its effectiveness. The system is designed to manage rather than eliminate the risk of failure to achieve the Group's strategic objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The Directors have set out below some of the key aspects of the Group's internal control procedures.

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 2022, the Group had net current assets of £9.0m (30 April 2021: £17.5m) and cash and cash equivalents of £5.1m (30 April 2021: £15.6m) as set out in the consolidated statement of financial position. The Group made a loss before tax of £6,129k in the year (2021: £6,331k).

The Directors have prepared detailed forecasts of the Group's financial performance over the next twelve months from the date of this report. Given the rapidly changing macroeconomic landscape and the Group's forecast financial performance for the next twelve months, management also prepared a financial forecast based on a sensitised and severe but plausible scenario. It should be noted that in each scenario, the Board has specifically excluded any significant upsides from these scenarios or mitigating cost reductions.

The forecasts prepared by the Directors indicate that the Group will breach its net debt:EBITDA bank covenant during the forecast period. In response to these potential breaches, the Board has negotiated with HSBC that the Group shall not be required to ensure compliance with this leverage covenant up to and including the January 2023 quarterly compliance review. As this waiver is conditional at the date of signing this report, should the condition not be met, it would result in the early repayment of the outstanding bank debt. The conditional nature of the bank waiver gives rise to an event which may cast significant doubt over the Group's ability to continue as a going concern. The Directors are comfortable that the conditions will be met, and acknowledge if they are not met, there is sufficient mitigation due to the Group having various ongoing fundraising opportunities at its disposal. The Directors consider it to be almost certain that sufficient financial support could be raised from one or more of these opportunities to repay the bank in the unlikely instance that the condition of the bank waiver is not met.

In both the original and the severe but plausible scenario forecasts, there is an assumption that additional financing will be available to the Group. The requirement for future funding results in conditions that may cast significant doubt over the Group's ability to continue as a going concern. The Board is exploring a number of such opportunities that are available, and has concluded that it is almost certain the required mitigating financing will be secured. As a consequence, the Board is confident that the Group will have 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, the Board continues to adopt the going concern basis in preparing the Group financial statements.

Audit Committee Report

On behalf of the Board, I am pleased to present the Audit Committee report for the year ended 30 April 2022.

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 spacecraft, 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;
- review of the 2022 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 2022 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 both the 2022 and the 2021 years.

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 five years normalised loss before tax and exceptional items. The materiality of the Group for the 2022 audit was £255k (2021: £193k). 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.

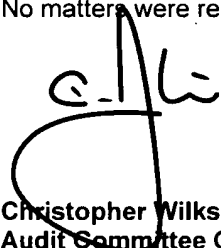
Audit Committee Report (continued)

Risk management and internal controls

As described on page 30 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.

A handwritten signature in black ink, appearing to read 'C. Wilks', written over a large, stylized circular mark.

Christopher Wilks
Audit Committee Chairman
1 August 2022

Remuneration Committee Report (Unaudited)

As the Kromek 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 and life 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.

Share Options and 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 share ownership incentive schemes, which are designed to promote long-term improvement in the performance of the Group, sustained increase in shareholder value and provide clear linkage between executive reward and the Group's performance. The LTIP scheme is based on total shareholder return ("TSR") relative to the FTSE AIM All-Share Index, which is the peer group for the LTIP scheme. Any awards made vest only after three years.

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.

Directors' emoluments (Audited)

Emoluments of the Directors for the year ended 30 April 2022 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.

Directors' emoluments (Audited) (continued)

Details of contributions payable by the Group are:

Year ended	30 April 2022 £'000	30 April 2021 £'000
Director		
Arnab Basu ¹	4	15
Paul Farquhar ²	13	5
Berry Beumer ³	6	5

¹ In 2022 Mr Basu opted to take part of his contractual pension contribution entitlement as salary in lieu of contributions to the Company pension scheme

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

Directors' shareholdings

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

	30 April 2022		30 April 2021	
	Number	%	Number	%
Arnab Basu	2,988,750	0.7	2,988,750	0.7
Rakesh Sharma	469,195	0.1	311,704	0.1
Paul Farquhar ¹	66,500	0.0	66,500	0.0
Berry Beumer	80,000	0.0	80,000	0.0
Lawrence Kinet	350,000	0.1	350,000	0.1
Jerel Whittingham	364,890	0.1	364,890	0.1
Christopher Wilks	177,941	0.0	177,941	0.0

¹ Includes shares owned by family

The table below forms part of the audited financial statements:

	Salary £'000	Benefits £'000	Bonus Paid £'000	Pension contributions £'000	Total emoluments 2022 £'000	Total emoluments 2021 £'000
Non-Executive Chairman						
Rakesh Sharma ¹	80	-	-	-	80	45
Executive						
Arnab Basu ²	264	2	-	4	270	231
Paul Farquhar ³	166	1	-	13	180	94
Berry Beumer ⁴	219	11	-	6	236	66
Non-Executive						
Lawrence Kinet ⁵	39	-	-	-	39	26
Jerel Whittingham ⁵	42	-	-	-	42	28
Christopher Wilks ⁵	42	-	-	1	43	28
Total	852	14	-	24	890	518

¹ Rakesh Sharma was appointed as a Director on 8 October 2020 and assumed the role of Chairman on 1 January 2021

² The 2022 salary of Arnab Basu includes £13,500 of contractual pension entitlement which Mr Basu has opted to take as salary in lieu of contributions to the Company pension scheme

³ Paul Farquhar was appointed a Director on 31 October 2020. The 2022 salary of Paul Farquhar includes £6,000 of compensation taken as cash in lieu of a Group car.

⁴ Berry Beumer was appointed as a Director on 16 December 2020, having previously been a senior manager at Kromek

⁵ 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

None of the executive or non-executive directors exercised any share options in the year ended 30 April 2022 (2021: nil).

Directors' emoluments (Audited) (continued)

Executive Directors' share incentive scheme (LTIP)

Share incentive scheme for executive directors

The Remuneration Committee agreed, in April 2022, an incentive award scheme for Arnab Basu, Paul Farquhar and Berry Beumer, to offer them up to 833,333, 516,667 and 614,844 shares respectively, at a price of 1p per share, to vest based on specified performance criteria.

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 1p per share, to vest based on specified performance criteria.

The share incentives noted above are measured by a Total Shareholder Return (TSR) condition, calculated as the average total return in comparison to a peer group.

As at 30 April 2022, the LTIP incentive option shares issued in fiscal years 2021 and 2022, remained unvested.

Share price during the year

During the year to 30 April 2022, the highest share price was 21.00p (2021: 23.47p) and the lowest share price was 9.98p (2021: 10.07p). The market price of the Group's shares at 30 April 2022 was 10.25p (30 April 2021: 15.15p).

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

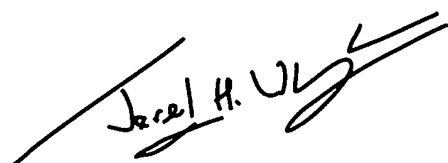
Whilst the issue of equity incentives for executive directors is primarily focused on the LTIP scheme as detailed on the previous page, the Group does make occasional and targeted use of market price options for executive directors outside the LTIP.

Directors' emoluments (Audited) (continued)

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 2021 number	Awarded during the year number	Cancelled during the year number	Exercised during the year number	At 30 April 2022 number	Expiry date
Arnab Basu	20 November 2011	20.0	1,000,000	-	-	-	1,000,000	20 November 2024
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	30 April 2023
Arnab Basu	1 May 2021	1.0	-	400,000	-	-	400,000	1 May 2031
Paul Farquhar	15 October 2020	12.0	1,000,000	-	-	-	1,000,000	15 October 2030
Paul Farquhar	1 May 2021	1.0	-	150,000	-	-	150,000	1 May 2031
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	30 April 2023
Berry Beumer	1 May 2021	1.0	-	150,000	-	-	150,000	1 May 2031

¹ Awarded to Mr Beumer prior to him being appointed as a Director



Jerel Whittingham
Remuneration Committee Chairman
1 August 2022

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 2022 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Statement of Financial Position, the Consolidated and Parent Company Statement 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 the preparation of the financial statements is applicable law and UK-adopted International Financial Reporting Standards ("IFRS").

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 2022 and of the Group's loss for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards;
- 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 Company'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's and Parent Company's ability to continue as a going concern;
- Evaluating the methodology used by the directors to assess the Group's and Parent Company'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 by applying a number of sensitivities to the base forecast and plausible worst-case forecast, prepared by management, to provide comfort over there being sufficient cash to pay debts as they fall due throughout the going concern period;
- Reviewing and recalculating banking covenant requirements during the year and for the period of the forecasts;
- Reviewing correspondence between the bank and the Group in relation to covenant breaches;
- Obtaining, and reviewing correspondence and other supporting documentation, between the Group and potential sources of equity and debt finance, which are required in the short to medium term, to ensure that the Group is able to meet its liabilities as and when they fall due;

- Where possible, obtaining confirmation directly from potential sources of finance to support the director's going concern assessment;
- Reviewing the appropriateness of disclosures in the financial statements.

The directors have prepared a detailed cashflow forecast including a plausible worst-case scenario. The plausible worst-case scenario indicates a requirement for funding to ensure the Group can continue operating as a going concern throughout the forecast period. This indicates there are conditions that may cast significant doubt on the Group's ability to continue as a going concern. The directors are comfortable that the level of support required to ensure the Group can pay its debts as they fall due within the going concern period, will be met by one, or a number of financing options available to the Group as at the date of signing this report.

The forecasts prepared by the directors indicate that the Group will breach its net debt:EBITDA bank covenant during the forecast period. The Group has received confirmation from the bank that the Group will not be required to ensure compliance with this leverage covenant up to and including the January 2023 quarterly compliance review. The waiver that has been obtained is conditional at the date of signing this report. The conditionality of this waiver is an event that casts significant doubt over the ability of the Group to remain a going concern. Should the condition not be met, it would result in the early repayment of the outstanding bank debt. The directors are confident that conditions will be met and are comfortable that if they are not met, there are sufficient mitigations in place, due to the Group having various ongoing fundraising opportunities at its disposal. The directors consider it to be almost certain that sufficient financial support could be raised from one or more of these opportunities to repay the bank in the unlikely instance that the condition of the bank waiver is not met.

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

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

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 opinion. 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.

Materiality for the Group financial statements was set at £255,000. This was determined with reference to 6% 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 £192,000.

The reporting threshold to the Audit and Risk Committee was set as 5% of materiality, being £12,750. If in our opinion differences below this level warranted reporting on qualitative grounds, these would also be reported.

Materiality for the Parent Company financial statements was set at £192,000. This was determined with reference to gross assets, based on the company being a holding entity with no trading activity outside of the group, and was capped at 0.23% 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 £144,000.

The reporting threshold to the Audit and Risk Committee was set as 5% of materiality, being £9,600. 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. For the three companies that are resident in the UK, we have performed full scope statutory audits.

For the entities registered in the USA, we have performed audit procedures on each entity to varying degrees of detail, with the work performed on the most significant component, eV Products Inc. being equivalent to that of a full scope statutory audit, performed to component materiality. For Nova R&D Inc., which is considered to be material but not significant, we have performed analytical procedures for areas considered to be low risk, and substantive audit testing for those material balances which are considered to be high risk. For Kromek Inc., which is considered to be relevant but not material or significant, we have performed analytical procedures and enquiries of management, 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 is considered to be appropriate to all components of the Group as materiality is based on a trading measure.

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.

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.

In addition to the matter described in the Conclusion related to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report

Key Audit Matter Description	How the matter was addressed in the audit
<p>Presumed risk in revenue recognition</p> <p>Included in the Group Statement of Comprehensive Income is revenue of £12.06m (2021: £10.35m).</p> <p>Revenue is derived from contracts with customers as well as the sale of goods and services.</p> <p>See revenue and profit recognition accounting policy note 2 and note 3 critical accounting estimates and judgements, performance obligations arising from customer contracts for further details regarding revenue recognition.</p> <p>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.</p>	<p>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.</p> <p>For all contracts which were assessed by management to be recognised at a point in time, we reviewed and challenged management's assessment to ensure revenue was recorded in line with the stipulations of IFRS 15, and was recognised using the input method with reference to milestones detailed in the contract.</p> <p>For all contracts which were assessed by management to be recognised over time, we reviewed and challenged the input being method used to ensure the contracts were being recognised in line with the stipulations of IFRS 15, regarding revenue recognised from contracts over time.</p>

	<p>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 supporting documentation, such as contracts, invoices and proof of milestones being achieved.</p> <p>For product sales, we performed a test in total of all sales in the year.</p> <p>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.</p> <p>Where product sales around the year end were recognised in accordance with Incoterms 2020, we ensured that the relevant Incoterms applied to each sale were appropriately considered when considering the point in time at which revenue was recognised.</p>
<p>Recoverability of development costs and application of IAS 38 Intangible assets</p> <p>Included in the Group Statement of Financial Position are capitalised development costs of £26.5m (2021: £22.1m).</p> <p>The estimated recoverable amount of capitalised developments costs is highly material on a Group level. There is a risk that this balance is materially overstated and that an impairment should be recognised in addition to any amortisation charged in the year.</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>Our audit work focused on assessing the forecasts presented by management to support the valuation of the capitalised development costs.</p> <p>This included but was not limited to:</p> <ul style="list-style-type: none"> - Challenging the CGUs on which forecasts were based; - Agreeing future revenues included in the forecast to committed contracts; - Agreeing pipeline sales to supporting documentation to support the inclusion of non-committed revenue; - Assessing the appropriateness of the discount factor used in the preparation of the forecasts; - Comparing actuals and historical forecasts, when assessing the reasonableness forecasts used to support the year end balances; - Assessing the sensitivity analysis presented by management to detail the headroom for each category of intangible asset; - Performing our own sensitivity analysis to assess the level of headroom regarding the capitalised intangible assets; - Reviewing 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; - Reviewing the sensitivity analysis disclosure in the financial statements in line with the forecasts provided by management as part of their impairment review.

	In line with the stipulations of IAS 38 intangible assets, we obtained and assessed, management's inclusion of capitalised development cost additions to ensure that these met the definition criteria of development costs.
<p>Valuation of investments in subsidiaries and intercompany receivables</p> <p>Included in the Parent Company's Statement of Financial Position, are investments in subsidiaries of £5.7m (2021: £5.5m) and intercompany receivables of £71.7m (2021: £64.7m).</p> <p>Given the Group, and each of the subsidiaries to which the balances relate are loss making, there is a risk that the investment and intercompany receivable should be impaired.</p> <p>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 and receivable balances relate.</p> <p>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.</p>	<p>We obtained and assessed forecasts of the subsidiaries to which these balances relate. This consisted of, but was not limited to:</p> <ul style="list-style-type: none"> - Agreeing future revenues included in the forecast to committed contracts; - Agreeing pipeline sales to supporting documentation to support the inclusion of non-committed revenue; - Assessing the appropriateness of the discount factor used in the preparation of the forecasts; - Comparing actuals and historical forecasts, when assessing the reasonableness forecasts used to support the year end balances; - Assessing the sensitivity analysis presented by management detailing the headroom for each subsidiary; - Considering external impairment indicators as part of our review of the impairment assessment performed by the Directors; - Performing our own sensitivity analysis to assess the level of headroom regarding the balance of investments and intercompany receivables.

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
- 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 page 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 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 regarding the relevant laws and regulations that the apply to the Group and its subsidiaries;
- 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 breaches of AIM rules, 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 particularly relating to assumptions made in preparing value in use calculations for impairment assessments.

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk

increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission or misrepresentation.

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
1 August 2022

10 Queen Street Place
London
EC4R 1AG

Kromek Group plc
Group statement of comprehensive income
For the year ended 30 April 2022

	Note	2022 £'000	2021 £'000
Continuing operations			
Revenue	4	12,055	10,352
Cost of sales		<u>(6,419)</u>	<u>(5,346)</u>
Gross profit		5,636	5,006
Other operating income	5	1,410	379
Distribution costs		(551)	(287)
Administrative expenses		<u>(12,208)</u>	<u>(10,935)</u>
Operating loss (before exceptional items)		(5,713)	(5,837)
Exceptional impairment reversal on trade receivables and amounts recoverable on contracts	9	132	52
Operating results (post exceptional items)		<u>(5,581)</u>	<u>(5,785)</u>
Finance income	10	34	2
Finance costs	11	<u>(582)</u>	<u>(548)</u>
Loss before tax	6	(6,129)	(6,331)
Tax	12	<u>1,211</u>	<u>978</u>
Loss for the year from continuing operations		<u>(4,918)</u>	<u>(5,353)</u>
Loss for the year from continuing operations (before exceptional items)		<u>(5,050)</u>	<u>(5,405)</u>
Loss per share	14		
- basic (p)		(1.1)	(1.5)

The notes form part of these financial statements.

Kromek Group plc
Group statement of other comprehensive income
For the year ended 30 April 2022

	2022 £'000	2021 £'000
Loss for the year	<u>(4,918)</u>	<u>(5,353)</u>
<i>Items that are or may be subsequently reclassified to profit or loss:</i>		
Exchange differences on translation of foreign operations	<u>2,063</u>	<u>(1,981)</u>
Total comprehensive loss for the year	<u><u>(2,855)</u></u>	<u><u>(7,334)</u></u>

The notes form part of these financial statements.

Kromek Group plc
Consolidated statement of financial position
As at 30 April 2022

	Note	2022 £'000	2021 £'000
Non-current assets			
Goodwill	15	1,275	1,275
Other intangible assets	16	28,375	24,144
Property, plant and equipment	17	10,944	11,200
Right-of-use assets	18	3,874	4,076
		<u>44,468</u>	<u>40,695</u>
Current assets			
Inventories	20	10,503	6,202
Trade and other receivables	21	6,429	6,644
Current tax assets	21	942	1,015
Cash and bank balances		5,081	15,602
		<u>22,955</u>	<u>29,463</u>
Total assets		<u>67,423</u>	<u>70,158</u>
Current liabilities			
Trade and other payables	23	(7,855)	(6,174)
Borrowings	25	(5,716)	(5,387)
Lease obligation	24	(375)	(399)
		<u>(13,946)</u>	<u>(11,960)</u>
Net current assets		<u>9,009</u>	<u>17,503</u>
Non-current liabilities			
Deferred income	23	(1,131)	(1,071)
Lease obligation	24	(4,161)	(4,256)
Borrowings	25	(749)	(2,816)
		<u>(6,041)</u>	<u>(8,143)</u>
Total liabilities		<u>(19,987)</u>	<u>(20,103)</u>
Net assets		<u>47,436</u>	<u>50,055</u>
Equity			
Share capital	27	4,319	4,319
Share premium account	28	72,943	72,943
Merger reserve		21,853	21,853
Translation reserve	29	2,063	-
Accumulated losses	30	(53,742)	(49,060)
Total equity		<u>47,436</u>	<u>50,055</u>

The notes form part of these financial statements.

The financial statements of Kromek Group plc (registered number 08661469) were approved by the Board of Directors and authorised for issue on 1 August 2022. They were signed on its behalf by:


Dr Arnab Basu MBE
Chief Executive Officer

Kromek Group plc
Consolidated statement of changes in equity
For the year ended 30 April 2022

	Share capital £'000	Share premium account £'000	Merger reserve £'000	Translation reserve £'000	Retained losses £'000	Total equity £'000
Balance at 1 May 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 loss 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
Loss for the year	-	-	-	-	(4,918)	(4,918)
Exchange difference on translation of foreign operations	-	-	-	2,063	-	2,063
Total comprehensive loss for the year	-	-	-	2,063	(4,918)	(2,855)
Credit to equity for equity-settled share-based payments	-	-	-	-	236	236
Balance at 30 April 2022	4,319	72,943	21,853	2,063	(53,742)	47,436

The notes form part of these financial statements.

Kromek Group plc
Consolidated statement of cash flows
For the year ended 30 April 2022

	Note	2022 £'000	2021 £'000
Net cash used in operating activities	31	<u>(3,530)</u>	<u>(1,309)</u>
Investing activities			
Interest received		34	2
Purchases of property, plant and equipment		(651)	(454)
Purchases of patents and trademarks		(179)	(156)
Capitalisation of development costs		<u>(5,619)</u>	<u>(5,463)</u>
Net cash used in investing activities		<u>(6,415)</u>	<u>(6,071)</u>
Financing activities			
Net proceeds on issue of shares		-	12,216
New borrowings		760	3,215
Payment of borrowings		(1,340)	(595)
Payment of lease liability		(646)	(395)
Interest paid		<u>(340)</u>	<u>(309)</u>
Net cash (used in)/generated from financing activities		<u>(1,566)</u>	<u>14,132</u>
Net (decrease)/increase in cash and cash equivalents		<u>(11,511)</u>	<u>6,752</u>
Cash and cash equivalents at beginning of year		15,602	9,444
Effect of foreign exchange rate changes		990	(594)
Cash and cash equivalents at end of year		<u>5,081</u>	<u>15,602</u>

The notes form part of these financial statements.

Kromek Group plc
Notes to the consolidated financial statements
For the year ended 30 April 2022

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 prepares its consolidated financial statements in accordance with UK-adopted IFRS.

The Board is currently evaluating the impact of the adoption of all other standards, amendments and interpretations but does not expect them to have a material impact on the Group's 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

As at 30 April 2022, the Group had net current assets of £9.0m (30 April 2021: £17.5m) and cash and cash equivalents of £5.1m (30 April 2021: £15.6m) as set out in the consolidated statement of financial position. The Group made a loss before tax of £6,129k in the year (2021: £6,331k).

The Directors have prepared detailed forecasts of the Group's financial performance over the next twelve months from the date of this report. Given the rapidly changing macroeconomic landscape and the Group's forecast financial performance for the next twelve months, management also prepared a financial forecast based on a sensitised and severe but plausible scenario. It should be noted that in each scenario, the Board has specifically excluded any significant upsides from these scenarios or mitigating cost reductions.

The forecasts prepared by the Directors indicate that the Group will breach its net debt:EBITDA bank covenant during the forecast period. In response to these potential breaches, the Board has negotiated with HSBC that the Group shall not be required to ensure compliance with this leverage covenant up to and including the January 2023 quarterly compliance review. As this waiver is conditional at the date of signing this report, should the condition not be met, it would result in the early repayment of the outstanding bank debt. The conditional nature of the bank waiver gives rise to an event which may cast significant doubt over the Group's ability to continue as a going concern. The Directors are comfortable that the conditions will be met, and acknowledge if they are not met, there is sufficient mitigation due to the Group having various ongoing fundraising opportunities at its disposal. The Directors consider it to be almost certain that sufficient financial support could be raised from

Notes to the consolidated financial statements (continued)

Significant accounting policies (continued)

one or more of these opportunities to repay the bank in the unlikely instance that the condition of the bank waiver is not met.

In both the original and the severe but plausible scenario forecasts, there is an assumption that additional financing will be available to the Group. The requirement for future funding results in conditions that may cast significant doubt over the Group's ability to continue as a going concern. The Board is exploring a number of such opportunities that are available, and has concluded that it is almost certain the required mitigating financing will be secured. As a consequence, the Board is confident that the Group will have 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, the Board continues to adopt the going concern basis in preparing the Group financial statements.

Business combinations

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

Acquisitions on or after 1 May 2010

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

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

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

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

Goodwill

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

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

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

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

Notes to the consolidated financial statements (continued)

Significant accounting policies (continued)

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.

Notes to the consolidated financial statements (continued)

Significant accounting policies (continued)

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 FCA Delivery Location (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 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.

Sale of 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. The Group continued to adopt 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 required 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

Notes to the consolidated financial statements (continued)

Significant accounting policies (continued)

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.

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 and leased cars. 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 average exchange rate for the month to which the transaction relates. 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.

Notes to the consolidated financial statements (continued)

Significant accounting policies (continued)

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 £19k (2021: £379k).

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, such as impairment reversals, 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.

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 UK 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.

Notes to the consolidated financial statements (continued)

Significant accounting policies (continued)

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;

Notes to the consolidated financial statements (continued)

Significant accounting policies (continued)

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

Research expenditure is written off as incurred. Development expenditure is also written off, except where the Directors are satisfied as to the technical, commercial and financial viability of individual projects. In such cases, the identifiable expenditure is deferred and amortised over the period during which the Group is expected to benefit. This period normally equates to the life of the products 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.

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 11.35% (2021: 9.47%) that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. See note 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.

Notes to the consolidated financial statements (continued)

Significant accounting policies (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. The Group continue to adopt 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 six 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.

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

Notes to the consolidated financial statements (continued)

Significant accounting policies (continued)

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 120 days past due. This is assessed on a case-by-case basis, taking into consideration the commercial relationship and historical pattern of payments.

Notes to the consolidated financial statements (continued)

Significant accounting policies (continued)

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
- 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

Credit losses are measured and assessed on an individual balance by balance basis. In calculating, the Group uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses. The general approach incorporates a review for any significant increase in counterparty credit risk since inception.

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. If there is recovery of the financial asset, a reversal will be recognised in the profit and loss.

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.

Notes to the consolidated financial statements (continued)

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 assess 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. 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.

Notes to the consolidated financial statements (continued)

Critical accounting judgements and key sources of estimation uncertainty (continued)

ii) Contract revenue

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

iii) R&D Tax credit

The R&D tax credit is calculated using the current rules as prescribed by HMRC. The estimation is based on the actual UK R&D projects that qualify for the scheme that have been carried out in the period. Management estimate the tax credit on a prudent basis and then obtain additional professional input from the Company's tax advisers 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 £47k to £895k.

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 £44,468k 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.

vi) Calculation of share-based payment charges

The charge related to equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date they are granted, using an appropriate valuation model selected according to the terms and conditions of the grant. Judgement is applied in determining the most appropriate valuation model and estimates are used in determining the inputs to the model. Third-party experts are engaged to advise in this area where necessary and management believe an external valuation should be carried out at least every two - three years.

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.

Notes to the consolidated financial statements (continued)

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:

	2022	2021
	£'000	£'000
United Kingdom	2,033	1,627
North America	5,807	5,693
Asia	1,556	610
Europe	2,601	2,387
Australasia	58	3
Africa	-	32
	<hr/>	<hr/>
Total revenue	<u>12,055</u>	<u>10,352</u>

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)

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

Year ended 30 April 2022:

	UK Operations £'000	US Operations £'000	Total for Group £'000
Revenue from sales			
Revenue by segment:			
-Sale of goods and services	9,036	9,013	18,049
-Revenue from grants	646	-	646
-Revenue from contract customers	1,227	245	1,472
Total sales by segment	10,909	9,258	20,167
Removal of inter-segment sales	(5,564)	(2,548)	(8,112)
Total external sales	5,345	6,710	12,055
Segment result – operating loss before exceptional items	(3,732)	(1,981)	(5,713)
Interest received	34	-	34
Interest expense	(348)	(234)	(582)
Exceptional items	-	132	132
Loss before tax	(4,046)	(2,083)	(6,129)
Tax credit	1,228	(17)	1,211
Loss for the year	(2,818)	(2,100)	(4,918)
Reconciliation to adjusted EBITDA:			
Net interest	314	234	548
Tax	(1,228)	17	(1,211)
Depreciation of PPE and right-of-use assets	1,010	741	1,751
Amortisation	1,548	1,021	2,569
Share-based payment charge	236	-	236
Reversal of exceptional items	-	(132)	(132)
Adjusted EBITDA	(938)	(219)	(1,157)
Other segment information			
Property, plant and equipment additions	124	527	651
Right-of-use assets	2,048	3,458	5,506
Depreciation of PPE and right-of-use assets	1,010	741	1,751
Release of capital grant	(44)	-	(44)
Intangible asset additions	4,199	1,599	5,798
Amortisation of intangible assets	1,548	1,021	2,569
Statement of financial position			
Total assets	39,494	27,929	67,423
Total liabilities	(13,376)	(6,611)	(19,987)

Notes to the consolidated financial statements (continued)

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 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 assets	997	688	1,685
Amortisation	1,370	989	2,359
Share-based payment charge	106	-	106
Exceptional items	-	(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 assets	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)

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)

Revenues from major products and services

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

	2022 £'000	2021 £'000
Product revenue	9,935	5,836
Research and development revenue	2,120	4,516
Consolidated revenue	<u>12,055</u>	<u>10,352</u>

Information about major customers

Included in revenues arising from US operations are revenues of approximately £2,178k (2021: £1,934k) that arose from the Group's largest commercial customer. Included in revenues arising from UK operations are revenues of approximately £955k (2021: £2,784k) that arose from a major Governmental organisation customer.

5. Other Operating Income

During the financial year, other operating income comprised the forgiveness of PPP loans granted by the US Government and grants received from the Coronavirus Job Retention Scheme provided by the UK Government in response to COVID-19's economic impact on businesses.

	2022 £'000	2021 £'000
Coronavirus Job Retention Scheme	19	129
Miscellaneous	17	-
PPP loan forgiveness	1,374	-
Other government grants	-	250
Total other operating income	<u>1,410</u>	<u>379</u>

6. Loss before tax for the year

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

	2022 £'000	2021 £'000
Net foreign exchange losses	155	80
Research and development costs recognised as an expense	1,308	1,116
Depreciation of property, plant and equipment	1,751	1,685
Release of capital grant	(44)	(44)
Amortisation of internally-generated intangible assets	2,569	2,359
Cost of inventories recognised as expense	3,003	3,899
Exceptional items – reversal of trade receivables and AROC (see note 9)	(132)	(52)
Staff costs (see note 8)	<u>9,543</u>	<u>8,806</u>

Notes to the consolidated financial statements (continued)

7. Auditor's remuneration

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

	2022 £'000	2021 £'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	120	99
Total audit fees	120	99

8. Staff costs

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

	2022 Number	2021 Number
Directors (executive)	3	2
Research and development, production	133	118
Sales and marketing	5	7
Administration	13	12
	154	139

Their aggregate remuneration comprised:

	2022 £'000	2021 £'000
Wages and salaries	8,069	7,618
Social security costs	739	682
Pension scheme contributions	499	400
Share-based payments	236	106
	9,543	8,806

The total Directors' emoluments (including non-executive directors) was £890k (2021: £640k). The aggregate value of contributions paid to money purchase pension schemes was £24k (2021: £28k) in respect of four directors (2021: four directors). For a breakdown of remuneration by director, refer to the Directors' emoluments table on page 35. There has been no exercise of share options by the Directors in the period and therefore no gain recognised in the year (2021: nil).

The highest paid director received emoluments of £270k (2021: £231k) and amounts paid to money purchase pension schemes was £4k (2021: £15k).

Notes to the consolidated financial statements (continued)

Key management compensation:

	2022 £'000	2021 £'000
Wages and salaries and other short-term benefits	1,050	888
Social security costs	112	125
Pension scheme contributions	32	29
Share-based payment expense	146	106
	<u>1,340</u>	<u>1,148</u>

Key management comprise the Executive Directors and senior operational staff.

9. Exceptional Items

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

	2022 £'000	2021 £'000
Reversal of trade receivables and AROC	<u>(132)</u>	<u>(52)</u>
Total exceptional items	<u>(132)</u>	<u>(52)</u>

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 £132k in 2022 (2021: £52k) in relation to items impaired in a prior year. The impairment (recognised in FY2020) 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. A charge of £13,062k was presented in FY2020 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 and 2022 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.

Notes to the consolidated financial statements (continued)

10. Finance income

	2022 £'000	2021 £'000
Bank deposits	34	2
Total finance income	<u>34</u>	<u>2</u>

11. Finance costs

	2022 £'000	2021 £'000
Interest on bank overdrafts, loans and borrowings	340	309
Interest expense for lease arrangements	<u>242</u>	<u>239</u>
Total interest expense	<u>582</u>	<u>548</u>

12. Tax

Recognised in the income statement

	2022 £'000	2021 £'000
Current tax credit:		
UK corporation tax on losses in the year	942	1,014
Adjustment in respect of previous periods	286	(25)
Foreign taxes paid	<u>(17)</u>	<u>(11)</u>
Total current tax	1,211	978
Deferred tax:		
Origination and reversal of timing differences	-	-
Adjustment in respect of previous periods	-	-
Total deferred tax	<u>-</u>	<u>-</u>
Total tax credit in income statement	<u>1,211</u>	<u>978</u>

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 2022 has been calculated at 19% (2021: 19%). The corporate tax rate will increase to 25% from 19% with effect from April 2023.

Notes to the consolidated financial statements (continued)

Reconciliation of tax credit

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

	2022 £'000	2021 £'000
Loss before tax	(6,129)	(6,331)
Tax at the UK corporation tax rate of 19% (2021: 19%)	1,165	1,203
Non-taxable income/expenses not deductible	(184)	614
Effect of R&D	456	451
Effect of other tax rates/credits	124	-
Share scheme deduction under Part 12 CTA 2009	-	5
Unrecognised movement on deferred tax	(815)	(1,648)
Adjustment in respect of previous periods	286	(26)
Effects of overseas tax rates	179	379
Total tax credit for the year	<u>1,211</u>	<u>978</u>

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.

The rate of corporation tax for the year is 19% (2021: 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 27.59%, which represents the federal plus state tax rate.

13. Dividends

The Directors do not recommend the payment of a dividend (2021: £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 earnings per share is based on the following data:

	2022 £'000	2021 £'000
Losses		
Losses for the purposes of basic and diluted losses per share being net losses attributable to owners of the Group	<u>(4,918)</u>	<u>(5,353)</u>
Number of shares	2022 Number	2021 Number
Weighted average number of ordinary shares for the purposes of basic losses per share	431,851,820	358,912,092
Effect of dilutive potential ordinary shares:		
Share options	<u>350,556</u>	<u>372,638</u>
Weighted average number of ordinary shares for the purposes of diluted losses per share	<u>432,202,376</u>	<u>359,284,730</u>

Notes to the consolidated financial statements (continued)

	2022	2021
Basic (p)	<u>(1.1)</u>	<u>(1.5)</u>

Basic earnings per share is calculated by dividing the loss attributable to shareholders by the weighted average number of ordinary shares in issue during the year. IAS 33 requires presentation of diluted EPS when a company could be called upon to issue shares that would decrease earnings per share or increase the loss per share. For a loss-making company with outstanding share options, net loss per share would be decreased by the exercise of options. Therefore, the anti-dilutive potential ordinary shares are disregarded in the calculation of diluted EPS.

15. Intangible Assets including Goodwill

	£'000
Cost	
At 1 May 2021 and 30 April 2022	<u>1,275</u>
Accumulated impairment losses	
At 1 May 2021 and 30 April 2022	<u>-</u>
Carrying amount	
At 30 April 2022 and 30 April 2021	<u>1,275</u>

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:

	Goodwill £'000	Intangibles £'000
CGU		
US	1,275	10,862
UK	-	17,513
Total	<u>1,275</u>	<u>28,375</u>

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 (UK) and 15 years (US) 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 and the cash flows are based on the useful economic life of the 'know how', which is considered to be the essential asset.

Notes to the consolidated financial statements (continued)

US

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

- **Growth rate.** The 2022 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 11.35% (2021: 9.47%) 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 higher than that used in 2021. 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 whilst taking into consideration potential capacity constraints.

UK

- **Growth rate.** The model does not include any growth in years 1 and 2 (see below for comparatives), with a 5% growth rate from year 3 onwards. 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 10.50% (2021: 9.13%) using the latest market assumptions for the risk-free rate, the equity premium and the net cost of debt, which are all based on publicly available sources, as well as adjustments for forecasting risk for which management considered the historical growth of the entity as well as the visibility of cash flows from a contracted perspective. The discount rate is higher than that used in 2021. 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 £30,209k (US CGU) and £34,729k (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 base model	£119,554k	£112,343k
Combination of Discount Rate +2% and Challenge model	£85,450k	£70,641k
Combination of Discount Rate -2% and Challenge model	£171,904	£179,612

Notes to the consolidated financial statements (continued)

The Directors have reviewed the recoverable amount of the CGU and do not consider there to be any impairment in 2022 or 2021.

16. Other intangible assets

	Development costs £'000	Patents, trademarks & other intangibles £'000	Total £'000
Cost			
At 1 May 2021	29,055	7,344	36,399
Additions	5,619	179	5,798
Exchange differences	1,206	390	1,596
At 30 April 2022	35,880	7,913	43,793
Amortisation			
At 1 May 2021	6,944	5,311	12,255
Charge for the year	2,056	513	2,569
Exchange differences	296	298	594
At 30 April 2022	9,296	6,122	15,418
Carrying amount			
At 30 April 2022	26,584	1,791	28,375
At 30 April 2021	22,111	2,033	24,144

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. Any impairment of development costs are recognised immediately through the profit and loss.

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 2022 was £357k (2021: £488k), 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.

Notes to the consolidated financial statements (continued)

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 2021	209	1,335	17,418	542	19,504
Additions	1	76	527	47	651
Exchange differences	-	52	676	30	758
At 30 April 2022	210	1,463	18,621	619	20,913
Accumulated depreciation and impairment					
At 1 May 2021	33	1,032	6,956	283	8,304
Charge for the year	42	118	1,078	50	1,288
Exchange differences	-	39	324	14	377
At 30 April 2022	75	1,189	8,358	347	9,969
Carrying amount					
At 30 April 2022	135	274	10,263	272	10,944
At 30 April 2021	176	303	10,462	259	11,200

18. Right-of-use Assets

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

	£'000
Cost	
Cost at 1 May 2021	5,179
Effect of movements in exchange rates	327
Cost at 30 April 2022	5,506
Depreciation	
Depreciation at 1 May 2021	1,103
Charge for the year	463
Exchange differences	66
Depreciation at 30 April 2022	1,632
Carrying amount	
At 30 April 2022	3,874
At 30 April 2021	4,076

19. Subsidiaries

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

Notes to the consolidated financial statements (continued)

20. Inventories

	2022 £'000	2021 £'000
Raw materials	3,554	2,022
Work-in-progress	6,304	3,707
Finished goods	645	473
	<u>10,503</u>	<u>6,202</u>

The cost of inventories recognised as an expense during the year in respect of continuing operations was £5,006k (2021: £3,899k).

The write-down of inventories to net realisable value amounted to £852k (2021: £496k). The reversal of write-downs amounted to £94k (2021: £120k).

21. Amounts recoverable on contracts and trade and other receivables

Trade and Other Receivables

	2022 £'000	2021 £'000
Amount receivable for the sale of goods	4,860	4,979
Amounts recoverable on contracts	-	-
Other receivables	542	958
Prepayments and accrued income	1,027	707
Current tax assets	942	1,015
	<u>7,371</u>	<u>7,659</u>

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 79 days. The Group reviews the recoverability of receivables over 120 days every six months and on an individual balance by balance 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 and finance will then determine if the Group should recognise an impairment allowance. When considering the impairment allowance, strategic and commercial relationships are taken into account.

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

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

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

	2022 £'000	2021 £'000
31-60 days	109	410
61-90 days	3	12
91-120 days	-	-
121+ days	1,346	1,977
Total	<u>1,458</u>	<u>2,399</u>

Notes to the consolidated financial statements (continued)

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:

	2022 £'000	2021 £'000
31-60 days	-	-
61-90 days	-	-
91-120 days	-	-
121+ days	1,460	1,158
Total	1,460	1,158

At 30 April 2022, trade receivables are shown net of an impairment allowance of £1,460k (2021: £1,158k) arising from the ordinary course of business, as follows:

	2022 £'000	2021 £'000
Balance at 1 May	1,158	1,323
Provided during the year	321	16
Release during the year	(139)	-
Impact of foreign exchange	120	(181)
Balance at 30 April	1,460	1,158

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.

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 2021	389	5,177	(648)	(4,918)	-
(Credit)/charge to profit or loss	-	1,629	-	(1,629)	-
At 30 April 2022	389	6,806	(648)	(6,547)	-

Notes to the consolidated financial statements (continued)

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:

	2022 £'000	2021 £'000
Deferred tax liabilities	6,547	4,918
Deferred tax assets	<u>(6,547)</u>	<u>(4,918)</u>
	<u>-</u>	<u>-</u>

At the statement of financial position date, the Group has unused tax losses of £49,862k (2021: £32,435k) available for offset against future profits. A deferred tax asset has been recognised in respect of £6,547k (2021: £4,918k) 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 £43,315k (2021: £27,517k) 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:

	2022 £'000	2021 £'000
Trade payables and accruals	7,524	6,000
Deferred income	<u>331</u>	<u>174</u>
	<u>7,855</u>	<u>6,174</u>

Payable in more than one year:

	2022 £'000	2021 £'000
Deferred income	<u>1,131</u>	<u>1,071</u>
	<u>1,131</u>	<u>1,071</u>

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 55 days. For all suppliers, no interest is charged on the trade payables. The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

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

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

Notes to the consolidated financial statements (continued)

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:

	2022 £'000	2021 £'000
Opening lease liability at 1 May	4,655	4,168
New leases entered into during the year	-	194
Effect of lease modifications	-	756
Finance costs	242	239
Payments made during the year	(646)	(395)
Impact of foreign exchange	285	(307)
At 30 April	4,536	4,655
Presented as:		
Lease liability payable within 1 year	375	399
Lease liability payable in more than 1 year	4,161	4,256
At 30 April	4,536	4,655

Rental charges associated with other low value leased assets that fall within the expedient threshold have been expensed to the profit and loss accounts £46k (2021: £42k).

25. Borrowings

	2022 £'000	2021 £'000
Secured borrowing at amortised cost		
Revolving credit facility and capex facility	4,500	4,900
Other borrowings	1,965	3,303
	6,465	8,203
Total borrowings		
Amount due for settlement within 12 months	5,716	5,387
Amount due for settlement after 12 months	749	2,816

The Group has a £5.0m revolving credit facility (RCF) with HSBC, which also incorporates a capex facility. This facility was for an initial 36-month period with an option to extend to years 4 and 5. The Group opted to extend the facility to year 4 being the year to March 2023, which was agreed by the Bank. 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. The facility is secured by a debenture and a composite guarantee across the Group. The interest rate on the RCF is Bank of England Base Rate +2.5% with a repayment term of six months from date of drawdown. The fair value equates to the carrying value.

The RCF and capex facility from HSBC have certain covenants attached (see page 85 for a definition of the covenants and the measurement and testing requirements). The Group has been in compliance with all of the Bank's covenant requirements during the year other than the compliance period 30 April 2022, when the Group breached its leverage covenant. This breach was subsequently waived by HSBC and the Board has negotiated with HSBC that the Group shall not be required to ensure compliance with this leverage covenant up to and including the January 2023 quarterly compliance review. This waiver is conditional at the date of signing this report, however, the Board are confident that the Group will be able to satisfy the condition.

Notes to the consolidated financial statements (continued)

In the prior year, the Group successfully secured a 2-year, £1.4m Term Loan with HSBC which attracts interest at 3.49% per annum over Bank of England Base Rate. This loan is repayable in August 2022.

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 2022, the total loan due to the landlord was £0.4m (2021: £0.5m). Of this, £0.2m is due within 12 months (2021: £0.2m) and £0.2m (2021: £0.3m) is due after 12 months.

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. A further loan of £0.4m was approved and secured in August 2021. This loan attracts interest at a rate of 3.75% per annum and the maturity date is 30 years from the date of the loan note.

Due to the disruption to the Group's business caused by COVID-19, in 2021 the Group's US operations successfully secured £1.4m of Paycheck Protection Program Loans offered to businesses in the US. During the year, the Group applied for full forgiveness of these loans and was successful in its application. This loan forgiveness has been recorded as other operating income (note 5).

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:

	2022 %	2021 %
Revolving credit facility	2.80	3.00
Other borrowing facilities	6.60	6.70

26. Derivatives financial instruments and hedge accounting

The Group had no derivatives in place at 30 April 2022 and 30 April 2021.

27. Share capital

	£'000
Allotted, called up and fully paid:	
Balance at 1 May 2022: 431,851,820 (2021: 344,647,089) Ordinary shares of £0.01 each	4,319
Issued in the Year: nil (2021: 87,204,731) Ordinary shares of £0.01 each	-
Balance at 30 April 2022: 431,851,820 (2021: 431,851,820) Ordinary shares of £0.01 each	<u>4,319</u>

During the year, no shares (2021: 250,000) were allotted under share option schemes.

28. Share premium account

	£'000
Balance at 30 April 2022 and 1 May 2021	72,943

Notes to the consolidated financial statements (continued)

29. Translation reserve

	£'000
Balance at 1 May 2021	-
Exchange differences on translating the net assets of foreign operations	<u>2,063</u>
Balance at 30 April 2022	<u>2,063</u>

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 2021	(49,060)
Net loss for the year	(4,918)
Effect of share-based payment credit	<u>236</u>
Balance at 30 April 2022	<u>(53,742)</u>

31. Notes to the cash flow statement

	2022 £'000	2021 £'000
Loss for the year	(4,918)	(5,353)
Adjustments for:		
Finance income	(34)	(2)
Finance costs	582	548
Income tax credit	(1,211)	(978)
Depreciation of property, plant and equipment and ROU	1,751	1,685
Amortisation of intangible assets	2,569	2,359
Share-based payment expense	236	106
PPP loan forgiveness	(1,443)	-
Impairment of intangible asset	-	30
Loss on disposal	-	82
Operating cash flow before movements in working capital	(2,468)	(1,523)
(Increase)/decrease in inventories	(4,301)	214
Decrease in receivables	215	1,566
Increase/(decrease) in payables	<u>1,741</u>	<u>(2,571)</u>
Cash used in operations	(4,813)	(2,314)
Income taxes received	<u>1,283</u>	<u>1,005</u>
Net cash used in operating activities	<u>(3,530)</u>	<u>(1,309)</u>

Cash and cash equivalents

	2022 £'000	2021 £'000
Cash and bank balances	<u>5,081</u>	<u>15,602</u>

Notes to the consolidated financial statements (continued)

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.

32. Reconciliation of liabilities arising from financing activities

	Borrowings £'000	Lease liability £'000
Balance at 1 May 2021	8,203	4,655
Cash flows		
- Repayments	(1,340)	(646)
- Additions and modifications	760	-
Non-cash		
- Additions and modifications	-	-
- PPP loan forgiveness	(1,443)	
- Effect of exchange rates	241	285
- Interest applied	44	242
Balance at 30 April 2022	<u>6,465</u>	<u>4,536</u>

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 10 years from the date of grant, the options expire unless, at the discretion of the Remuneration Committee, the options are granted an extension period. 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:

	2022			2021	
	Number of share options	Weighted average exercise price (£)	Number of share options	Weighted average exercise price (£)	
Outstanding at beginning of the year	18,410,665	0.13	11,392,670	0.15	
Transfer from LTIP	350,000	0.01	-	-	
Granted during the year	2,743,628	0.10	11,981,489	0.13	
Exercised during the year	-	-	(250,000)	0.015	
Forfeited during the year	(1,470,302)	0.21	(4,713,494)	0.24	
Outstanding at the end of the year	20,033,991	0.15	18,410,665	0.13	
Exercisable at the end of the year	5,990,000	0.21	7,438,570	0.21	

The weighted average share price at the date of exercise for share options exercised during the year was £nil (2021: £0.015). The options outstanding at 30 April 2022 had a weighted average exercise price of £0.15 (2021: £0.13) and a weighted average remaining contractual life of four years (2021: four years). The range of exercise prices for outstanding share options at 30 April 2022 was 1.5p to 73p (2021: 1.5p to 79p). In 2022, the aggregate of the estimated fair values of the options granted was £159k (2021: £4k). The inputs into the Black-Scholes model are as follows:

Notes to the consolidated financial statements (continued)

	2022	2021
Weighted average share price	10p	15p
Weighted average exercise price	10p	15p
Expected volatility	40.21%	37.70%
Expected life	5 years	5 years
Risk-free rate	0.36	0.08
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.

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:

	2022		2021	
	Number of share options	Weighted average exercise price (£)	Number of share options	Weighted average exercise price (£)
Outstanding at beginning of the year	3,440,344	0.01	2,473,889	0.01
Transfer to share option scheme	(350,000)	0.01	-	-
Granted during the year	2,213,001	0.01	2,150,664	0.01
Exercised during the year	-	0.01	-	0.01
Forfeited during the year	(939,680)	0.01	(1,184,209)	0.01
Outstanding at the end of the year	4,363,665	0.01	3,440,344	0.01
Exercisable at the end of the year	-	0.01	350,000	0.01

During 2022, 2,213,001 (2021: 2,150,664) options were granted under the 2018 LTIP to a number of key employees, including three (2021: two) executive directors of the Group. The fair value of these options granted was £31k (2021: £84k). The amounts recognised as a share-based payment LTIP expense for the year ended 30 April 2022 was £77k (2021: £63k).

The 2013 Long Term Incentive Plan award was valued using the Monte Carlo pricing model in 2021. The inputs into the Monte Carlo pricing model are as follows:

	2022	2021
Weighted average share price	15p	15p
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%

In 2022 an assessment of the LTIP expense was carried out internally by management. As noted in note 3, management believe an external valuation should be carried out every two to three years.

The Group recognised a total expense in the year of £236k (2021: £44k) 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)

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 £496k (2021: £401k) represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes. As at 30 April 2022, contributions of £51k (2021: £42k) 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 2021 and 2022.

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 £4.5m (2021: £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.

Notes to the consolidated financial statements (continued)

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:

	2022 £'000	2021 £'000
£ sterling	5,366	14,497
US\$ (sterling equivalent)	(601)	444
€ (sterling equivalent)	316	661

Had the foreign exchange rate between sterling, US\$ and € changed by 1% (2021: 9%), this would affect the loss for the year and net assets of the Group by £16k (2021: £272k). 1% (2021: 9%) is considered a reasonable assessment of foreign exchange movement as this has been the movement noted between 2021 and 2022 (2020 and 2021).

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 120 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.

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 £132k in 2022.

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

Notes to the consolidated financial statements (continued)

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

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

	Weighted average effective interest rate %	Less than 1 month £'000	1-3 months £'000	3 months to 1 year £'000	1-5 years £'000	5+ years £'000	Total £'000
Revolving Credit Facility at 30 April 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
Revolving Credit and Capex Facility at 30 April 2022	2.8	-	-	4,500	-	-	4,500
Other Borrowing Facilities at 30 April 2022	6.6	13	27	1,176	246	503	1,965
Lease Obligations at 30 April 2022	5.0	33	65	277	1,785	2,376	4,536
		46	92	5,953	2,031	2,879	11,001

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 Group has three covenants with HSBC in respect of the RCF facility:

- A minimum tangible net worth of the Group's balance sheet. The tangible net worth is defined as shareholders' funds less intangible assets plus non-redeemable preference shares. In accordance with the year 4 extension period to the Bank facility, this covenant will be tested on a quarterly basis on 31 July 2022, 31 October 2022 and 31 January 2023.
- 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. In accordance with the year 4 extension period to the Bank facility, this covenant will be tested on a quarterly basis on 31 July 2022, 31 October 2022 and 31 January 2023.
- A maximum cap on the net debt / EBITDA ratio whereby leverage shall not exceed 3:1. However, as discussed in note 25, the Board has negotiated with HSBC that the Group shall not be required to ensure compliance with this leverage covenant up to and including the January 2023 quarterly

Notes to the consolidated financial statements (continued)

compliance review and whilst this waiver is conditional at the date of signing this report, the Board are confident that the Group will be able to satisfy the condition.

Categories of financial instruments

	2022 £'000	2021 £'000
Financial assets		
Cash and bank balances	5,081	15,602
Loans and receivables	5,375	5,937
Financial liabilities		
Amortised cost	(19,769)	(20,098)

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 2022.

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

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

Kromek Group plc
Company statement of financial position

As at 30 April 2022

		2022	2021
		£'000	£'000
Non-current assets			
Investment in subsidiaries	3	5,736	5,500
Amounts due from subsidiary company		<u>71,668</u>	<u>64,688</u>
		77,404	70,188
Current assets			
Trade and other receivables	5	229	192
Cash and cash equivalents		<u>4,538</u>	<u>12,897</u>
		4,767	13,089
Total assets		82,171	83,277
Current liabilities			
Trade and other payables	6	(417)	(407)
Borrowings	7	<u>(4,500)</u>	<u>(3,900)</u>
		(4,917)	(4,307)
Net current (liabilities)/assets		(150)	8,782
Non-current liabilities			
Borrowings	7	-	(1,000)
		<u>-</u>	<u>(1,000)</u>
Total liabilities		(4,917)	(5,307)
Net assets		77,254	77,970
Equity			
Share capital	11	4,319	4,319
Share premium account	12	72,943	72,943
Merger reserve		3,221	3,221
Accumulated losses	13	<u>(3,229)</u>	<u>(2,513)</u>
Total Equity		77,254	77,970

The loss for the year was £952k (2021: loss £1,004k).

The notes form part of these financial statements.

The financial statements of Kromek Group plc (registered number 08661469) were approved by the Board of Directors and authorised for issue on 1 August 2022. They were signed on its behalf by:



Dr Arnab Basu MBE
Chief Executive Officer

Kromek Group plc
Company statement of changes in equity
For the year ended 30 April 2022

	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 2020	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
Total comprehensive loss for the year	-	-	-	(952)	(952)
Settled share-based payment transactions				236	236
Balance at 30 April 2022	4,319	72,943	3,221	(3,229)	77,254

The notes form part of these financial statements.

Kromek Group plc
Company statement of cash flows
For the year ended 30 April 2022

		2022 £'000	2021 £'000
Net cash used in operating activities	10	(818)	(806)
Investing activities			
Investment receipts from money market account		-	-
Interest received		33	-
Net cash used in investing activities		(785)	(806)
Financing activities			
Borrowings received		400	400
Borrowings repaid		(800)	(400)
Net proceeds from issue of share capital		-	12,216
Loans made to Group companies		(6,980)	(4,404)
Net interest paid		(194)	(129)
Net cash from/(used in) financing activities		(7,574)	7,683
Net increase/(decrease) in cash and cash equivalents		(8,359)	6,877
Cash and cash equivalents at beginning of year		12,897	6,020
Cash and cash equivalents at end of year		4,538	12,897

The notes form part of these financial statements.

Kromek Group plc
Notes to the Company financial statements
For the year ended 30 April 2022

1. Significant accounting policies

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

The financial statements have been prepared on the historical cost basis except for the remeasurement of certain financial instruments to fair value. The principal accounting policies adopted are the same as those set out in note 2 to the consolidated financial statements except as noted below.

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

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

2. Auditor's remuneration

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

3. Subsidiaries

Details of the Company's direct and indirect subsidiaries as at 30 April 2022 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, United Kingdom, TS21 3FD	Ordinary	100	Scientific research and development
Kromek Germany Limited (Indirect through Kromek Limited)	NETPark, Sedgefield, United Kingdom, TS21 3FD	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)	2934 East Garvey Avenue South, Suite 104, West Covina CA 91791, 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, United Kingdom, TS21 3FD	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.

Notes to the Company financial statements (continued)

The investments in subsidiaries are all stated at cost.

	£'000
At 1 May 2021	5,500
Share option charge	<u>236</u>
At 30 April 2022	<u>5,736</u>

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.

At 30 April 2022 the Company was owed £71,668k (2021: £64,688k) 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 2022 or 2021. 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.

4. Staff costs

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

	2022 Number	2021 Number
Research and development, production	2	2
Sales and marketing	1	1
Administration	<u>4</u>	<u>4</u>
	<u>7</u>	<u>7</u>

Their aggregate remuneration comprised:

	2022 £'000	2021 £'000
Wages and salaries	494	527
Social security costs	56	66
Pension scheme contributions	<u>47</u>	<u>26</u>
	<u>597</u>	<u>619</u>

During the year, no directors were paid through Kromek Group PLC (2021: none).

Notes to the Company financial statements (continued)

5. Trade and other receivables

	2022 £'000	2021 £'000
Prepayments and accrued income	229	192
	<u>229</u>	<u>192</u>

6. Trade and other payables

	2022 £'000	2021 £'000
Trade payables and accruals	345	318
Social security and other taxation	72	89
	<u>417</u>	<u>407</u>

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.

7. Borrowings

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

8. Financial assets

Intercompany balances

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

Cash and cash equivalents

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

9. Financial liabilities

Trade and other payables

Trade payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 56 days. The carrying amount of trade payables approximates to their fair value.

Notes to the Company financial statements (continued)

	2022 £'000	2021 £'000
10. Notes to the statement of cash flows		
Loss for the year	(952)	(1,004)
Adjustments for:		
Finance costs	161	129
Operating cash flows before movements in working capital	(791)	(875)
(Increase)/decrease in receivables	(37)	4
Increase in payables	10	65
Net cash used in operating activities	(818)	(806)

11. Share capital

	£'000
Allotted, called up and fully paid:	
Balance at 1 May 2022: 431,851,820 (2021: 344,647,089) Ordinary shares of £0.01 each	4,319
Issued in the Year: nil (2021: 87,204,731) Ordinary shares issued at £0.01 each	-
Balance at 30 April 2022: 431,851,820 (2021: 431,851,820) Ordinary shares of £0.01 each	4,319

During the year, no shares (2021: 250,000) were allotted under share option schemes. See note 33 of the Group financial statements for further details of share-based payments.

12. Share premium account

	£'000
Balance at 1 May 2021 and 30 April 2022	72,943

13. Accumulated losses

	£'000
Balance at 1 May 2021	(2,513)
Net loss for the year	(952)
Settled share-based payments	236
Balance at 30 April 2022	(3,229)

Notes to the Company financial statements (continued)

14. Financial instruments

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

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

Capital risk

The Company manages its capital to ensure that 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.

Notes to the Company financial statements (continued)

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

	Weighted average effective interest rate %	Less than 1 month £'000	1-3 months £'000	3 months to 1 year £'000	1-5 years £'000	5+ years £'000	Total £'000
Revolving Credit Facility at 30 April 2021	3.3	-	-	3,900	1,000	-	4,900
Revolving Credit Facility and Capex Facility at 30 April 2022	2.8	-	-	4,500	-	-	4,500

Financial covenants

The Company has three covenants with HSBC in respect of the RCF facility:

- A minimum tangible net worth of the Group's balance sheet. The tangible net worth is defined as shareholders' funds less intangible assets plus non-redeemable preference shares. In accordance with the year 4 extension period to the Bank facility, this covenant will be tested on a quarterly basis on 31 July 2022, 31 October 2022 and 31 January 2023.
- 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. In accordance with the year 4 extension period to the Bank facility, this covenant will be tested on a quarterly basis on 31 July 2022, 31 October 2022 and 31 January 2023.
- A maximum cap on the net debt / EBITDA ratio whereby leverage shall not exceed 3:1. However, as discussed in note 25, the Board has negotiated with HSBC that the Group shall not be required to ensure compliance with this leverage covenant up to and including the January 2023 quarterly compliance review and whilst this waiver is conditional at the date of signing this report, the Board are confident that the Group will be able to satisfy the condition.

15. Ultimate controlling parent and party

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

16. Events after the balance sheet date

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