

Kromek Group plc

Corporate Governance Code

Chairman's Introduction

Our aim is to transform people's lives through our multispectral radiation detection products and technologies. Our systems enable our end users to take optimal decisions, which increase operational efficiency and reduce costs, using superior quality of information. Whether in combatting terrorism or in effectively diagnosing disease Kromek products are designed to make people safer. This corporate governance code supports the Board's role to ensure that Kromek is managed for the long-term benefit of all stakeholders, with effective and efficient decision-making, reducing risk and adding value to our business.

Chairman

Changes to corporate governance regime

In line with the London Stock Exchange's changes to the AIM Rules requiring all AIM-listed companies to adopt and comply with a recognised corporate governance code, we have decided to adopt Quoted Companies Alliance (QCA) Corporate Governance Code. The QCA Code identifies ten key principles that focus on the pursuit of medium to long-term value for shareholders without stifling the entrepreneurial spirit upon which the company was created.

This document broadly sets out how we comply and will be updated annually to update our activity which impacts the code.

Principle 1: Establish a strategy and business model which promote long-term value for shareholders

We work to make Kromek the world-leading provider of multispectral radiation detection products and technologies enabling our clients to take more timely decisions based on superior information.

We operate in three broad sectors: civil nuclear, medical imaging and security.

We strive to deliver shareholder value by producing products and technologies servicing these sectors. The products and technologies have a clear differentiation from existing offerings that the market seeks and are underpinned by an R&D effort to improve products that introduce revolutionary technologies that are market-disruptors.

The core values of Kromek represent the themes that run through the business and are present in almost every technology we develop.

- Transform the market, build tools and technologies that produce a marked difference in people's lives.
- Build trust through ethical conduct as individuals and as a business.
- Safety, excellence, teamwork and integrity are core to everything we do.
- Winning mindset, we come to the market with a mindset to succeed.

The Board are aware of the key challenges in executing the business plan and scenario plan to air these challenges and discuss our response to them.

The Board see three key challenges.

- Competition: we work to understand our current competitors and plan for future entrants into the market. By maintaining close ties to industry bodies, Government organisations, users' groups and academia we are well placed to stay ahead of competitor activity.
- Our ability to act: this is a rapidly changing business environment that is subject to huge shifts (for example, change to legislation brought about by terrorist action) the Board understand the need to maintain a fast-moving and agile organisation with a wide skill set able to act quickly to respond to these changes.
- Slow adoption: the Board understand the danger in being at the forefront of technology, and that new technologies can have a slow uptake or freeze because they are unable to cross the chasm from early adopter to the majority market. We work closely with users to ensure that the reasons for technology adoption are understood from the outset and work to make sure our financial exposure is at a minimum to nil.

Principle 2: Seek to understand and meet shareholder needs and expectations

It is vital that analysts and shareholders understand our strategy, business model and performance. In addition to our normal reporting and AGM, we promote communication with the market through our online channels (including an investor newsletter), regular meeting with analysts, investor roadshows and attending investor conferences.

The results of the AGM are reported on our website and publicised through our social media and newsletter channels.

The Kromek team responsible for shareholder liaison include the Group's CEO, CFO, digital marketing manager, communications manager and Chairman.

Principle 3: Take into account wider stakeholder and social responsibilities and their implications for long-term success.

The Board is regularly updated on wider stakeholder engagement feedback to stay abreast of stakeholder insights into the issues that matter most to them and our business, and to enable the Board to understand and consider these issues in decision-making.

Employees feedback is sought at monthly communications briefings designed to keep everyone aware of the progress of the Group and upcoming events and projects. Kromek's HR team conducts a monthly meeting with all managers to discuss any issues.

We maintain active communication with customers, distributors and stakeholder communities through regular one-to-one calls, on-going social media alerts and interactions, newsletter communication and face-to-face meetings. All applicable investor relations material is published on our website and publicised on our social media feeds and through email. Any feedback from these is shared with the management team. One recent action following shareholder feedback was to introduce an investor relations newsletter which anyone could subscribe to via the website; this builds on the existing stakeholder email list already in operation. We have also introduced feedback mechanisms for users of Kromek equipment via the website and regular sector/device specific digital communication to user stakeholder groups.

Principle 4: Embed effective risk management, considering both opportunities and threats, throughout the organisation

We adopt a risk-based approach to the management of risk in our business. As part of our quality management system, we maintain a corporate risk register to identify strategic risks to the business and the plans in place to mitigate those risks. These include a business continuity plan and an emergency management team.

We have an established framework of internal financial controls, overseen by executive management, the audit committee and the Board. These include procedures for budgeting and planning, for monitoring and reporting business performance against plan, and for forecasting expected performance.

Projects plans are typically reported on a bi-weekly basis and supplemented with monthly review meetings ran by project managers and product owners.

We adopt a consistent appraisal methodology for investments, overseen by the Board and executive team. Each business area is required to comply with specific financial controls and procedures to be provided resources for operational and development needs.

We also have a key risk register that is published in our annual accounts and through that publication on our website, as shown below:

1. *Risks associated with competition*

The Group faces competition from two types of competitor: specialised companies targeting discrete markets and divisions of large integrated device manufacturers. The Group's current and future competitors may develop superior technology or offer superior products, sell products at a lower price or achieve greater market acceptance in the Group's target markets. Competitors may have longer operating histories, greater name recognition, access to larger customer bases and resources. As such, they could be able to respond quickly to changing customer demands or to devote greater resources to the development, promotion and sale of their products than the Group could. To the extent possible, the Group carefully monitors competing technologies and product offerings. The Group intends to continue to make commercially-driven investments in developing new technologies and products to maintain a strong technology position and is investing in further and more specialised marketing and sales resources. Group IP gives some additional protection, and Kromek has invested in new IP management systems and processes in the last financial year.

2. *Risks associated with the management of the Group's growth strategy*

The ability of the Group to implement its strategy in rapidly evolving and competitive markets will require effective management planning and operational controls. Significant expansion will be required to respond to market opportunities and the Group's future growth, and prospects will depend on its ability to manage this growth and to continue to expand and improve operational and financial performance, while at the same time maintaining effective cost controls. The Group's experienced management team is well versed in the current markets available to the Group and well positioned to adapt to any changes in those markets. The Group also has detailed control systems including R&D cost control and extensive project management criteria. The Group has demonstrated its ability to identify, execute and integrate M&A opportunities with its two successful US acquisitions. The Group has also relocated one of the US subsidiary companies to a custom-built facility that specialises in the production of CZT Gamma Cameras.

3. *Risks associated with product and technology adoption rates*

The rate of market acceptance of the Group's products is uncertain as many factors influence the adoption of new products including changing needs, regulation, marketing and distribution, users' habits and business systems and product pricing. With a widely applicable technology base, the Group only chooses opportunities in which it believes there is a good match between its rare or unique capabilities and strong adoption drivers in growing large markets. The use of common technology platforms across multiple markets and applications reduces the investment risk in any given market segment and diversifies overall adoption risk.

4. *Risks associated with the timing of customer or third-party projects*

The Group's strategy includes co-development with, or licensing its technologies to, large OEM partners for additional development, manufacturing or subsequent marketing. Consequently, the Group will be increasingly reliant on securing and retaining such partners, and delays in the progress of the development, manufacturing or marketing of the end-product, as a result of a partner's action or inaction, may delay the receipt of product-related revenues. The Group has a diversified customer base and operates in a

carefully selected portfolio of markets with different adoption risks and cycles. As part of its business model it also more directly controls a certain proportion of its revenues via the sale of complete end-user products in three different markets.

5. *Risks associated with exchange rate fluctuations*

As a consequence of the international nature of its business, the Group is exposed to risks associated with changes in foreign currency exchange rates on both sales and operations. The Group is based in the UK and presents its financial statements in pounds sterling. However, its subsidiaries eV Products, Inc. and NOVA R&D, Inc., operate in the US and earn revenues and incur costs in US dollars. A growing proportion of the Group's future revenues are expected to be denominated in currencies other than pounds sterling. Exchange rate variations between currencies in which the Group operates could have a significant impact on the Group's reported financial results. The Group is predominantly exposed to currency risk on sales and purchases made from customers and suppliers. Sales and purchases from customers and suppliers are made on a central basis, and the risk is monitored centrally but not hedged utilising any forward exchange contracts. Apart from these particular cash flows, the Group aims to fund expenses and investments in the respective currency and to manage foreign exchange risk at a local level by matching the currency in which revenue is generated, and expenses are incurred.

6. *Risks associated with Brexit*

As a consequence of the UK's decision to leave the European Union, there is international uncertainty around the impact this will have on business and trade. The Group has significant operations and market presence in non-EU territories such as the US and the Far East, as well as a portfolio of products that are market leaders because of the technological capabilities offered. As a result, Brexit is not expected to have a material impact on the Group. However, management monitors the current economic climate regularly for any potential future impacts.

Principle 5: Maintaining the Board as a well-functioning, balanced team led by the Chair

The Board is made up of a non-executive Chairman, two executive directors and four non-executive directors.

Directors are encouraged to use their independent judgement and to challenge all matters, whether strategic or operational. The Chairman holds regular update meetings with each director to ensure they are performing as they are required.

We consider all the non-executive directors to be independent. While technically Mr Graeme Spiers, directly and indirectly, holds major shareholding in the Group, his expertise, experience and professionalism demonstrate clear objectivity.

The Board is supported by an Audit Committee and Remuneration Committee as well as by the executive team comprising the CEO, CFO (also legal counsel), COO, and CTO.

The Group maintains effective procedures to monitor and deal with conflicts of interest.

Board and committee meetings

The Board meeting approximately six times per annum, with one AGM, one strategy away day per year. There is two audit committee per annum.

Board meeting details

| Date | Attendees |
|----------|---|
| 17/03/17 | Sir Peter Williams Arnab Basu Derek Bulmer Graeme Speirs Jerel Whittingham Lawrence Kinet |
| 27/06/17 | Sir Peter Williams Arnab Basu Derek Bulmer Graeme Speirs Jerel Whittingham Lawrence Kinet |
| 25/09/17 | Sir Peter Williams Arnab Basu Derek Bulmer Graeme Speirs Jerel Whittingham Lawrence Kinet |
| 12/12/17 | Sir Peter Williams Arnab Basu Derek Bulmer Lawrence Kinet Graeme Speirs Jerel Whittingham Christopher Wilks |
| 11/04/18 | Sir Peter Williams Arnab Basu Derek Bulmer Lawrence Kinet Graeme Speirs Jerel Whittingham Christopher Wilks |
| 27/06/18 | Sir Peter Williams Arnab Basu Derek Bulmer Lawrence Kinet Graeme Speirs Jerel Whittingham Christopher Wilks |

Audit committee meeting details

| | |
|----------|---|
| 27/06/17 | Sir Peter Williams Graeme Speirs Lawrence Kinet Jerel Whittingham Derek Bulmer Colin Haigh Group FC Matt Hughes Audit Partner: Deloitte James Cleave Audit Manager: Deloitte |
| 12/12/17 | Sir Peter Williams Graeme Speirs Lawrence Kinet Jerel Whittingham Chris Wilks Derek Bulmer Colin Haigh Group FC Nick Plumb Audit Partner: KPMG |
| 27/06/18 | Sir Peter Williams Graeme Speirs Lawrence Kinet Jerel Whittingham Chris Wilks Derek Bulmer Colin Haigh Group FC Nick Plumb Audit Partner: KPMG David Mitchell Audit Partner: KPMG |

The time commitment required from directors

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 anticipate a minimum time commitment of one day per month and further days if required for the satisfactory fulfilment of your duties. This includes attendance at six 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. This year, the Board visited Kromek USA, and it is likely that from 2018 onwards, this will become an annual commitment. Also, directors are expected to devote appropriate preparation time ahead of each meeting.

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

Principle 6: Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities

We are satisfied that, between the Board, the executive team and senior management that 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.

Board member technical qualifications and experience

- Sir Peter Williams, CBE, FREng, FRS, Chairman, and chairman of the Audit Committee. MA degree and PhD at Cambridge, Lectureship at Imperial College. Extensive experience of working in technology companies including Deputy Chief Executive and Chief Executive Officer and Chairman at Oxford Instruments, Chairman of Isis Innovation Ltd, the technology transfer arm of Oxford University, Chairman of the National Physical Laboratory, Master of St. Catherine's College Oxford and Vice President and Treasurer of the Royal Society. Other PLC experience includes serving as senior independent director of GKN plc and as a non-executive director of WS Atkins plc. He is currently Chairman of the Daiwa Anglo Japanese Foundation in addition to his Kromek responsibilities.
- Dr Arnab Basu MBE, CEO. PhD in physics from Durham University, specialising in semiconducting sensor materials. Held senior management positions in his family business, which manufactured materials for the electronics industry serving over 250 major telecommunications and consumer electronics manufacturers, including Siemens, GEC. He worked in commercial product development for Elmwood Sensors Ltd, (Honeywell Group, UK).
- Mr Derek Bulmer, Executive Director, Chief Financial Officer and in-house Counsel. Qualified Chartered Accountant and Barrister, worked with KPMG and undertaken a number of senior management roles with blue chip plc's including Bass plc, AWG plc and Ibstock plc. More recently, he has held a number of roles as Finance Director of privately owned groups in both the IT and oil and gas industries have provided a wealth of experience in executing and managing business acquisitions plus significant aspects of the commercial and legal disciplines of corporate management.
- Mr Lawrence Kinet, Director and member of the Remuneration Committee. BSc from the University of Birmingham (UK) and an MBA from the University of Chicago. Forty years' experience in the medical device and bio-pharmaceutical industry in leadership positions, most recently as Group Chief Executive of LMA International NV and, President of Smiths Medical, London. Lawrence has raised more than \$100m in funding for early stage companies, taking one through an IPO, and made over \$1bn worth of acquisitions at Baxter International, running a number of overseas operations eventually becoming President of Baxter's International Division.

- Dr. Graeme Speirs, Director and member of the Audit Committee.
BSc in chemistry, PhD in molecular physics and Master's degree in Technology and Economics. He is owner of the Polymer Holdings Group and Polymer N2, an investment company focused on UK start-ups in the technology, life sciences and energy sectors. Involved in the oil and gas industry, Graeme is an expert in the design and manufacture of polymer composite products.
- Mr Jerel Whittingham, Director and Chairman of the Remuneration Committee.
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. Currently he combines NED and operational roles in technology growth companies. He also served as CEO and later Executive Chairman of Myconostica Ltd, a medical technology company.
- Christopher Wilks BSc, ACA, Director,
BSc in Applied Physics and Electronics, Chartered Accountant.
Currently Chief Financial Officer at Signum Technology, which he co-founded in 2012. Prior to this he was Chief Financial Officer at Sondex plc where he successfully managed their listing on the Main Market of the London Stock Exchange in 2003 and made several post IPO acquisitions. In 2007 Sondex was acquired by GE. He was a manager in the Corporate Finance team at Ernst & Young.

The Board recognises the need to keep everyone's skill set up to date. The Board monitors this on a real-time basis with each Board member to take the actions they think necessary to maintain their skill set. The effectiveness of this is part of the evaluation of the Board performance.

Directors receive regular information on Kromek's operational and financial performance, with regular reports on headline performance against agreed project metrics which are reviewed on an ongoing basis.

Directors retire by rotation and put themselves up for re-election at regular intervals in accordance with AIM guidelines.

Directors can take independent professional advice in the furtherance of their duties, if necessary, at the Company's expense.

Gender balance

We monitor the gender balance across the Group and strive for a balance. Kromek as a whole at the time of writing employees 85 men and 28 women across all its locations. Currently, no Board or executive team member are women - changing the gender balance of the Board is an on-going agenda item.

Principle 7: Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement

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

1. Their contribution is relevant and effective.
2. That they are committed to Kromek and our values.
3. Where relevant, they have maintained their independence.

In order to measure the effectiveness of the board in meeting against these three points we consider four areas of performance:

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

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

Succession planning

Succession planning is managed through regular management discussions involving not only the Board but also HR and senior managers within the business. This gives us a wide range of opinions on where the company's future business leaders are and what personal development plans need to be put in place put in place to harness their potential and plan for job growth and career progression.

In practice, the chairman and CEO lead on the board nomination and appointment process. They consider the balance of skills, knowledge and experience on the board and make appropriate recommendations for consideration by the whole board. Each board member is invited to meet with the candidate. Other senior appointments are made by the chief executive in discussion with the chairman.

Principle 8: Promote a culture that is based on ethical values and behaviours

Kromek develops and manufactures products and systems that are designed to make the world a safer place. We value technological development in our sector and actively support developments that lead to better scanning and detection systems. To this end we take part in technology transfer projects, work 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 Company's success. Our ethical values are outlined in our:

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

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

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

Principle 9: Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board

The Board is responsible for the long-term success of the Company. There is a formal schedule of matters reserved to the Board. It is responsible for overall Group strategy; approval of major investments approval of the annual and interim results; annual budgets; dividend policy; and Board structure. It monitors the exposure to key business risks and reviews the strategic direction of all trading subsidiaries, their annual budgets and their performance in relation to those budgets. The Chairman is responsible for running the business of the Board and for ensuring appropriate strategic focus and direction. The Chief Executive Officer is responsible for proposing the strategic focus to the Board, implementing it once it has been approved and overseeing the management of the Company through the Executive Team.

Roles of committees:

- Executive committee: it is responsible for the daily running of the group and the execution of approved policies and the business plan.
- Audit committee: its primary focus is on corporate reporting (from an external perspective) and on monitoring the company's internal control and risk management systems (from an internal perspective).
- Remuneration committee: its primary function is to determine, on behalf of the board, the remuneration packages of the executive directors.

All Directors receive regular and timely information on the Group's operational and financial performance.

The business reports monthly on its headline performance against its agreed budget, and the Board reviews the monthly update on the performance, and any significant variances are reviewed at each meeting. Senior executives below Board level attend Board meetings where appropriate to present business updates.

The Company's governance framework will evolve over time in line with the Company's size, complexity and objectives. The addition of new committees will be considered by the Board after due evaluation.

Principle 10: Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

The Company communicates with shareholders through the Annual Report and Accounts, full-year and half-year announcements, the Annual General Meeting (AGM) and one-to-one meetings with existing and potential new shareholders. All regulatory announcements including annual reports and notices of all general meetings over the last five years are available on the corporate website and are publicised through our social media presence and newsletters.

The Board receives regular updates on the views of shareholders through briefings and reports from Investor Relations, the CEO, CFO and the Company's brokers. The Company communicates with institutional investors frequently through briefings with management at a minimum at the half year and full years reporting. Also, analysts' notes and brokers' briefings are reviewed and supplied to foster a comprehensive understanding of the Group to shareholders and stakeholders as appropriate.

Where a significant proportion of votes (e.g. 20% of independent votes) have been cast against a resolution at any general meeting, the Company will, on a timely basis, include an explanation of what actions it intends to take to understand the reasons behind that vote result, and, where appropriate, any different action it has taken, or will take, as a result of the vote.