14 January 2019

Kromek Group plc
("Kromek" or the "Group")

Interim Results

Kromek (AIM: KMK), a worldwide supplier of detection technology focusing on the medical, security screening and nuclear markets, announces its interim results for the six months ended 31 October 2018.

Financial Summary*

- Revenue was £3.7m (H1 2017/18: £4.8m)
- Gross margin increased to 67% (H1 2017/18: 63%)
- Operating costs reduced to £4.6m (H1 2017/18: £4.8m)
- Loss before tax was £2.1m (H1 2017/18: £1.8m loss)
- EBITDA** was £0.6m loss (H1 2017/18: £0.3m loss)
- Gross cash and cash equivalents at 31 October 2018 were £6.3m*** (30 April 2018: £9.5m; 31 October 2017: £15m)

**The Group has prepared the interim statements in accordance with the new accounting standards IFRS 15 'Revenue from Contracts with Customers' and IFRS 16 'Leases'. For more information, please see note 1 to the consolidated financial statements below*
***EBITDA defined as earnings before interest, taxation, depreciation, amortisation and share-based payments as detailed in the Financial Review below*
****This excludes £1.3m (H1 2017/18: £1.3m) that has been invested into a money market account that is classified as an investment rather than cash and cash equivalents*

Operational Summary

- Unchanged outlook for FY 2018/19: on track to achieve revenue growth and EBITDA profit in line with market expectations
- Successfully relocated Kromek's US manufacturing operations to new premises in Pittsburgh, which was purpose-built to be a high-volume manufacturing site for SPECT cameras and other medical imaging products
- Increased revenue visibility for the current and next financial year through new contracts and repeat orders won during the period

Medical Imaging

- Awarded a $700k contract, to be delivered over 18 months, by a new OEM customer in the nuclear medicine instrumentation market
- Received a $340k repeat order, to be delivered in the current financial year, from an OEM customer in the Bone Mineral Densitometry market
- Won a five-year repeat order, worth $1.2m, from an existing medical customer for the supply of gamma detector modules
- Continued to advance towards full clinical validation of Kromek's CZT-based SPECT detector system

Nuclear Detection

- Awarded two contracts in the US by DTRA, worth a total of $2.9m, to enhance the D3S platform, including the development of a ruggedised small form factor device for use in the military field
- D3S continued to be deployed and field-tested in major areas in the US by DARPA and by other public administrations across the globe
- Won several new customers in the nuclear sector, including the Spanish Army, and added new distributors in Europe and Asia
- Post period, received first contract for biological threat detection: $1.99m awarded by DARPA to develop, over a 12-month period, a proof-of-concept device for a vehicle-mounted biological-threat identifier

Security Screening

- Awarded a two-year $1.5m contract by the US Department of Homeland Security to develop CZT detector modules for commercial off-the-shelf detectors for advanced X-ray systems for passenger baggage screening
- Post period, won a new five-year $7.8m contract from an existing OEM customer to provide customised detector modules for incorporation in baggage screening products

Three new patents were filed and four were granted during the period.

Dr Arnab Basu, CEO of Kromek, said: “The progress of 2017/18 was sustained into the current fiscal year as Kromek remained at the forefront in developing solutions to combat some of the greatest security and health challenges that are faced by society today. Our position has been strengthened by our new state-of-the-art facility in the US, which is designed to be a world-class manufacturing base for the production of medical imaging products including SPECT cameras. During the six months, we undertook a significant process of relocation, installation and revalidation of our manufacturing processes, and I'm delighted that the facility is now fully operational.

“Over the last three fiscal years we have won $80m of contracts, across all of our core sectors, demonstrating the successful conversion of our growing order pipeline. They also demonstrate the strong and long-lasting partnerships that we are continuing to build with our commercial and large government customers across the globe.

“As we continue to deliver on existing contracts as well as win new orders, our visibility of revenue for the next six to 24 months continues to increase, which includes visibility of approximately 86% of the forecast revenue for 2018/19. As a result, the Board is confident of delivering full year revenue growth and positive EBITDA, in line with market expectations.”

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Arnab Basu, CEO, and Derek Bulmer, CFO, will be hosting a presentation for analysts at 9.00am GMT today at the offices of Luther Pendragon, 48 Gracechurch Street, London, EC3V 0EJ.

About Kromek Group plc

Kromek Group plc is a technology group (global HQ in County Durham) and a leading developer of high performance radiation detection products based on cadmium zinc telluride (“CZT”) and other advanced technologies. Using its core technology platforms, Kromek designs, develops and produces x-ray and gamma ray imaging and radiation detection products for the medical, security screening and nuclear markets.

The Group’s products provide high resolution information on material composition and structure and are used in multiple applications, ranging from the identification of cancerous tissues to hazardous materials, such as explosives, and the analysis of radioactive materials.

The Group’s business model provides a vertically integrated technology offering to customers, from radiation detector materials to finished products or detectors, including software, electronics and application specific integrated circuits (“ASICs”).

The Group has operations in the UK and US (California and Pennsylvania), and is selling internationally through a combination of distributors and direct OEM sales.

Currently, the Group has over one hundred full-time employees across its global operations. Further information on Kromek Group is available at www.kromek.com and https://twitter.com/kromekgroup.

Overview

The progress of the 2017/18 financial year was sustained into the fiscal current year with Kromek continuing to execute on previously-signed agreements as well as winning new customers, new contracts and repeat orders in its target markets. These new awards, alongside customers increasingly moving from R&D programmes to full commercialisation as cadmium zinc telluride ("CZT") detection technology progressively replaces legacy systems, provide the Group with greater visibility over revenue for the coming years and confidence in its growth prospects.

During the period, the Group relocated its US operations to a new state-of-the-art and purpose-built premises near Pittsburgh, Pennsylvania that provides a world-class platform upon which to manufacture and engineer next generation molecular imaging single photon emission computed tomography ("SPECT") cameras. As described further below, while key components of manufacturing equipment were in the process of being relocated and reinstalled, there was a planned short-term hiatus in manufacturing in the US, which is reflected in the reduced revenue in H1 2018/19 compared with the prior period. The new facility is now fully operational and successfully delivering orders. Consequently, the Group remains on track to achieve revenue growth for full year 2018/19 in line with market expectations.

The Group also reduced its operating cost base during the period, partly due to the implementation of certain cost control measures that contributed to reducing operating costs by 4.3%.

Medical Imaging

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

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

The Group advanced towards achieving clinical validation of its CZT-based SPECT detector system under its contract signed in 2014 with an established manufacturer of X-ray diagnostics and analysis equipment. The Group's management believes that Kromek's CZT-based SPECT camera will significantly enhance the identification and management of diseases such as cancer and Parkinson's in a $100m p.a. market. Kromek was also awarded a $700k order from a new OEM customer, to be delivered over 18 months, to supply its CZT detectors to be used to build next-generation nuclear medical instrumentation.

In the BMD segment, which is used for the detection of osteoporosis, Kromek was awarded a repeat contract, worth $340k, by an existing OEM customer to provide CZT-based detectors for the customer's existing product line. This contract reinforces the run rate of this product group with all revenue from this contract to be recorded in the current financial year and it represents further progress in this $20m p.a. market.

In the gamma probes segment, which are used for radio guided surgery, the Group secured a long-term repeat order from an existing medical customer for the supply of gamma detector modules for incorporation in the customer's products. The contract, which covers a five-year period, is worth $1.2m.

Nuclear Detection

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

During the period, the Group's D3S continued to be deployed and field-tested in major areas in the US by DARPA and other agencies and by a number of customers in Europe and Asia. This includes being used by the Belgian

Federal Police (Airport Unit), supported by the European Commission Counter Terrorism Unit of the Directorate General for Home Affairs, during the July 2018 NATO Summit in Brussels. It was deployed during security sweeps conducted before and during the event to detect potential radiological threats present in objects such as cargo, vehicles, buildings and other equipment.

Kromek was awarded two contracts by the Defense Threat Reduction Agency ("DTRA"), an agency of the US Department of Defense, to enhance the D3S platform. One contract, which is worth $1.5m over three years with a potential $0.7m two-year extension, is to bring further technology capabilities to the platform. It is being delivered in collaboration with three UK universities – University of Glasgow, University of Liverpool and University of Manchester – which were selected by Kromek for their high level of relevant technological expertise.

The other contract is to develop a next-generation, ruggedised small form factor D3S for use by the US military to identify radioactive threats in combat environments. The funding, which totals $1.8m, will be delivered over the two-year project period.

Post period, Kromek was awarded its first contract for biological-threat detection, which expands on the Group's existing capabilities in radiological and nuclear threat detection. The contract, awarded by DARPA as part of its new SIMGA+ initiative, is for the development of a proof-of-concept vehicle-mounted device capable of detecting and identifying the pathogens used in any biological attack at significantly higher speeds compared with current systems – enabling a quicker response and reduced harm to people and the environment. The contract is worth $1.99m over a twelve-month period, which could potentially be extended to a multi-year contract for the development of a fully-deployable system.

In the nuclear markets, the Group's portfolio also includes a range of high resolution detectors and measurement systems used in nuclear power plants, research and for other applications. During the period, this area of business continued to grow as expected, with the Group winning several new customers, including the Spanish Army, as well as adding new distributors in Europe and Asia.

Security Screening

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

Kromek was awarded a $1.5m contract by the US Department of Homeland Security to develop CZT detector modules for commercial off-the-shelf detectors for advanced X-ray systems for passenger baggage screening. This contract, to be delivered over two years, reflects Kromek's established relationship with the US government for developing next generation radiation detection solutions for national defence and security applications.

Post period, Kromek was awarded a new long-term supply contract, worth a minimum of $7.8m, by an existing OEM customer that is a leading company in X-ray imaging systems. The five-year contract is for the customisation of current technologies and CZT detector modules and supply for the baggage security screening market.

Manufacturing Facilities and R&D

During the period, the Group relocated its US operations to a new purpose-built premises near Pittsburgh, Pennsylvania, with the process commencing 1 May 2018. The new building, under a 20-year lease, provides a significantly more efficient facility. Customised development and manufacturing areas, coupled with the ability for further capacity expansion, means the Group can deliver on the anticipated growth. The facility is also in a preferable location for attracting talent and enhances transport connectivity. With the previous site's lease coming to an end during the last financial year, the new and superior facility, which will serve as the focus of the Group's medical imaging activity, provides a strong basis on which to strengthen this part of the business.

While key components of manufacturing equipment were in the process of being relocated and reinstalled, there was a planned short-term hiatus in production capability in the US. The facility is now fully up and running and offers the Group a world-class platform upon which to build next generation CZT-based molecular imaging SPECT cameras and other medical imaging products.

During the relocation process, a greater proportion of the Group's resources were allocated to delivering on R&D contracts. Kromek also continued to work on both externally and internally funded R&D activities to develop products and platform technologies that form important elements of the Group's future product roadmap. The Group expects investment in R&D to remain at a steady level over the next few years as it seeks to maintain its commercial advantage. During the period, three new patents were filed and four patents were granted.

Financial Review

Revenue for the six-month period ended 31 October 2018 was £3.7m (H1 2017/18: £4.8m). As noted above, the decrease compared with the first half of the prior year was due to the temporary downtime in manufacturing in the US as a result of the relocation of the US facility. Consequently, some of the production that was initially scheduled for H1 2018/19 has moved to the second half and therefore, combined with the orders already due to be delivered in H2 2018/19, the Group remains on track for achieving revenue growth for the full year 2018/19 in line with market expectations.

Due to the lower level of production during the period, there was a shift in revenue mix between product sales and revenue generated by R&D contracts as detailed below. However, as manufacturing increases following the successful relocation of the US facility, product sales are expected to account for a greater proportion of revenue for FY 2018/19.

Revenue Mix	H1 2018/19		H1 2017/18		Full year 2017/18	
	£'000	% share	£'000	% share	£'000	% share
Product	2,865	*78%*	4,179	*87%*	9,611	*81%*
R&D	820	*22%*	623	*13%*	2,234	*19%*
Total	**3,685**		**4,802**		**11,845**	

Gross margin for H1 2018/19 increased to 67% compared with 56% for FY 2017/18 and 63% for H1 2017/18. This increase reflects the change in revenue mix as revenue from R&D contracts typically carries a higher gross margin. With the planned increase in production in H2 2018/19, the gross margin is expected to normalise resulting in the FY 2018/19 gross margin being at a similar level to that of FY 2017/18.

Operating costs for H1 2018/19 were reduced by 4.3% to £4.6m (H1 2017/18: £4.8m) due to cost control measures and advantageous foreign exchange movements. The lower operating costs were achieved despite a £0.5m reduction in the total net impact of development capitalisation of £0.8m (H1 2017/18: £1.3m).

EBITDA loss for the period was £0.6m (H1 2017/18: £0.3m loss), with the increase due to the lower revenue but partially offset by the reduction in operating costs as noted above. However, the Group anticipates reporting positive EBITDA for FY 2018/19 in line with market expectations. Loss before tax was £2.1m (H1 2017/18: £1.8m loss). EBITDA is calculated as per the following table:

	H1 2018/19 (Unaudited)	H1 2017/18 (Unaudited)	Full Year 2017/18 (Audited)
	£'000	**£'000**	**£'000**
Loss before tax	**(2,133)**	**(1,847)**	**(2,533)**
Adjustments:-			
Net interest	47	125	192
Depreciation	445	409	787
Amortisation	1,040	957	1,907
Share-based payments	48	46	131
EBITDA	(553)	(310)	484

EBITDA is a non-GAAP measure that the Group uses internally as a key measure of profit and cash generation. Share-based payments are also added back in the measure of EBITDA because it is a non-cash charge that, at this stage in the Group's development, represents a disproportionate share of the Group's operating expenses.

Total investment in product development was £1.5m (H1 2017/18: £1.9m) reflecting the commitment to invest for future growth of the business, capture the market opportunity with new and enhanced products, and to meet the demands of accelerated customer programmes. The amortisation of such development was £0.7m (H1 2017/18: £0.6m).

Cash and cash equivalents at:

- 31 October 2018 were £6.3m (including £3.0m utilised on the revolving credit facility RCF)
- 30 April 2018 were £9.5m (including £3.0m utilised on the RCF)
- 31 October 2017 were £15m (including £3.0m utilised on the RCF)

The net decrease in cash and cash equivalents in the six months ended 31 October 2018 was £3.2m. This consists largely of the EBITDA loss of £0.6m; investment in development costs of £1.5m; net increases in working capital of £1.5m (including foreign exchange impacts); receipt of R&D tax credit of £1.1m; and other cash impacting capital expenditure of £0.5m. A further £7.3m of capital expenditure has been incurred, however, in connection with the new US facility: £2.5m relates to tenancy improvements on the new facility, which are financed by a 15-year interest bearing loan with the new site's landlord, and a £4.8m expenditure relates to the Group adopting the new accounting standard, IFRS 16 'Leases', and accounting for its existing property leases in accordance with this standard.

Mandatory adoption of IFRS 16 comes into effect for the Group for the accounting period ending 30 April 2020, and, therefore, the Group has decided to early adopt this standard to best reflect the new 20-year lease for the US facility. This adoption applies to the accounting of all four existing leases of the Group.

In accordance with IFRS 16, right of use (ROU) assets representing the present value of future lease payments have been recognised on the face of the balance sheet at 31 October 2018 totalling £4.8m (30 April 2018: nil; 31 October 2017: nil). Corresponding liabilities have also been recognised on the face of the balance sheet, which are split between amounts due within one year and amounts due after more than one year: at 31 October 2018 these liabilities totalled £4.5m (30 April 2018: nil; 31 October 2017: nil). For more information on IFRS 16, see note 1 to the consolidated financial statements below.

Outlook

Kromek entered the second half of 2018/19 in a stronger position than at the same point of the prior year. The Group is delivering on its existing customer product contracts in all of its segments as well as continuing to win new orders. This has given the Group strong visibility over revenues for the next six to 24 months. The Group has delivered or is in the process of delivering contracts totalling approximately 86% of expected revenue for FY 2018/19. As a result, the Board is confident of delivering full year revenue growth and positive EBITDA, in line with market expectations.

Looking further ahead, the Group continues to benefit from its customers commercially launching next-generation CZT-based products and from the increasing adoption of CZT-based technology across its target markets. The Group's products continue to gain traction in all its business segments and Kromek is strengthening its relationships with existing customers as well as enhancing its reputation among potential customers. Consequently, and combined with a strengthened order book and visibility of more than 70% of FY 2019/20 expected revenue, the Board looks to the future with great confidence.

Consolidated condensed income statement
For the six months ended 31 October 2018

	Note	Six months ended 31 October 2018 £'000 (Unaudited)	Six months ended 31 October 2017 £'000 (Unaudited)	Year ended 30 April 2018 £'000 (Audited)
Continuing operations				
Revenue	4	3,685	4,802	11,845
Cost of sales		(1,205)	(1,758)	(5,161)
Gross profit		2,480	3,044	6,684
Distribution costs		(78)	(107)	(214)
Administrative expenses (including operating expenses)		(4,488)	(4,659)	(8,811)
Operating loss		(2,086)	(1,722)	(2,341)
Finance income		129	9	35
Finance costs		(176)	(134)	(227)
Loss before tax		(2,133)	(1,847)	(2,533)
Tax	5	480	691	1,429
Loss from continuing operations		(1,653)	(1,156)	(1,104)
Losses per share				
-basic (p)	7	(0.6)	(0.4)	(0.4)
-diluted (p)		(0.6)	(0.4)	(0.4)

Consolidated condensed statement of comprehensive income
For the six months ended 31 October 2018

	Six months ended 31 October 2018 £'000 (Unaudited)	Six months ended 31 October 2017 £'000 (Unaudited)	Year ended 30 April 2018 £'000 (Audited)
Loss for the period	(1,653)	(1,156)	(1,104)
Items that may be recycled to the income statement			
Exchange gains/(losses) on translation of foreign operations	1,689	(56)	(1,026)
Total comprehensive gain/(loss) for the period	36	(1,212)	(2,130)

Consolidated condensed statement of financial position
As at 31 October 2018

	Note	31 October 2018 £'000 (Unaudited)	As restated* 31 October 2017 £'000 (Unaudited)	30 April 2018 £'000 (Audited)
Non-current assets				
Goodwill		**1,275**	1,275	1,275
Other intangible assets		**17,760**	15,706	16,555
Investments – Long term cash deposits		**1,250**	1,250	1,250
Property, plant and equipment	8	**10,352**	3,357	3,097
		30,637	21,588	22,177
Current assets				
Inventories		**3,307**	2,697	3,014
Trade and other receivables		**13,115**	7,652	11,334
Current tax assets		**514**	429	1,167
Cash and bank balances		**6,340**	15,045	9,488
		23,276	25,823	25,003
Total assets		**53,913**	47,411	47,180
Current liabilities				
Trade and other payables		**(3,197)**	(3,153)	(3,500)
Finance lease liabilities		**(310)**	-	-
Borrowings		**(3,105)**	(3,000)	(3,000)
Provisions for liabilities		**(281)**	(169)	(424)
		(6,893)	(6,332)	(6,924)
Net current assets		**16,383**	19,501	18,079
Non-current liabilities				
Finance lease liabilities		**(4,289)**	-	-
Borrowings		**(2,389)**	-	-
Total liabilities		**(13,571)**	(6,322)	(6,924)
Net assets		**40,342**	41,089	40,256
Equity				
Share capital	10	**2,605**	2,604	2,604
Share premium account		**42,626**	42,625	42,625
Capital redemption reserve		**21,853**	21,853	21,853
Translation reserve		**1,420**	701	(269)
Retained earnings		**(28,162)**	(26,694)	(26,557)
Total equity		**40,342**	41,089	40,256

*See note 3 for restatement.

Consolidated condensed statement of changes in equity
For the six months ended 31 October 2018

Equity attributable to equity holders of the Group

	Share Capital £'000	Share Premium Account £'000	Capital Redemption Reserve £'000	Merger Reserve £'000	Translation Reserve £'000	Retained Earnings £'000	Total £'000
Balance at 1 May 2018	**2,604**	**42,625**	**-**	**21,853**	**(269)**	**(26,557)**	**40,256**
Loss for the period	-	-	-	-	-	(1,653)	**(1,653)**
Other comprehensive income for the period	-	-	-	-	1,689	-	**1,689**
Total comprehensive gain for the period	-	-	-	-	1,689	(1,653)	**36**
Transactions with shareholders recorded in equity							
Issue of share capital net of expenses	1	-	-	-	-	-	**1**
Premium on shares issued less expenses	-	1	-	-	-	-	**1**
Credit to equity for equity-settled share based payments	-	-	-	-	-	48	**48**
Balance at 31 October 2018	**2,605**	**42,626**	**-**	**21,853**	**1,420**	**(28,162)**	**40,342**
Balance at 1 May 2017	2,591	63,270	1,175	-	757	(25,584)	**42,209**
Prior period adjustment (see note 3)	-	(20,678)	(1,175)	21,853	-	-	**-**
As restated	2,591	42,592	-	21,853	757	(25,584)	**42,209**
Loss for the period	-	-	-	-	-	(1,156)	**(1,156)**
Other comprehensive income for the period	-	-	-	-	(56)	-	**(56)**
Total comprehensive loss for the period	-	-	-	-	(56)	(1,156)	**(1,212)**
Transactions with shareholders recorded in equity							
Issue of share capital net of expenses	13	-	-	-	-	-	**13**
Premium on shares issued less expenses	-	33	-	-	-	-	**33**
Credit to equity for equity-settled share based payments	-	-	-	-	-	46	**46**
Balance at 31 October 2017 (as restated)	**2,604**	**42,625**	**-**	**21,853**	**701**	**(26,694)**	**41,089**
Balance at 1 May 2017	2,591	63,270	1,175		757	(25,584)	**42,209**
Prior period adjustment (note 3)		(20,678)	(1,175)	21,853			
As restated		42,592					
Loss for the year	-	-	-	-	-	(1,104)	**(1.104)**
Other comprehensive income for the period	-	-	-	-	(1,026)	-	**(1,026)**
Total comprehensive loss for the year	-	-	-	-	(1,026)	(1,104)	**(2,130)**
Transactions with shareholders recorded in equity							
Issue of share capital net of expenses	13	33	-	-	-	-	**46**
Credit to equity for equity-settled share based payments	-	-	-	-	-	131	**131**
Balance at 30 April 2018	**2,604**	**42,625**	**-**	**21,853**	**(269)**	**(26,557)**	**40,256**

Consolidated condensed statement of cash flows
For the six months ended 31 October 2018

	Note	Six months ended 31 October 2018 £'000 (Unaudited)	Six months ended 31 October 2017 £'000 (Unaudited)	Year ended 30 April 2018 £'000 (Audited)
Net cash used in operating activities	9	**(1,940)**	(2,008)	(4,613)
Investing activities				
Investment in long term cash deposits		**-**	(1,250)	(1,250)
Interest received		**129**	9	35
Purchases of property, plant and equipment		**(349)**	(100)	(272)
Purchases of equipment under finance lease*		**(7,265)**	-	-
Purchases of patents and trademarks		**(104)**	(122)	(641)
Capitalisation of research and development costs		**(1,503)**	(1,884)	(3,450)
Net cash used in investing activities		**(9,092)**	(3,347)	(5,578)
Financing activities				
Loans received*		**2,495**	-	-
Finance leases received*		**4,770**	-	-
Proceeds on issue of shares		**2**	46	46
Interest paid		**(176)**	(134)	(227)
Finance lease repayments		**(171)**	-	-
Net cash (used in)/generated from financing activities		**6,920**	(88)	(181)
Net decrease in cash and cash equivalents		**(4,112)**	(5,443)	(10,372)
Cash and cash equivalents at beginning of period		**9,488**	20,343	20,343
Effect of foreign exchange rate changes		**964**	145	(483)
Cash and cash equivalents at end of period		**6,340**	15,045	9,488

*These amounts are non-cash movements and have been presented following the adoption of IFRS 16 as outlined in note 1.

Notes to the unaudited interim statements
For the six months ended 31 October 2018

1. Basis of preparation

This interim financial report does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. The auditors reported on the Kromek Group plc financial statements for the year ended 30 April 2018; their report was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 498(2) or (3) of the Companies Act 2006. The Group's consolidated annual financial statements for the year ended 30 April 2018 have been filed with the Registrar of Companies and are available on the Group's website www.kromek.com.

Adoption of New and Revised Standards

The accounting policies used in this interim financial report are consistent with International Financial Reporting Standards. However, new accounting standards have been adopted as described below:

IFRS 15 Revenue from contracts with customers

IFRS 15 revenue from contracts with customers is mandatory for all periods beginning on or after 1 January 2018 and thus has been adopted by the Group. The 'Modified Retrospective approach' has been adopted by the Group which means no prior year comparative financial information has to be restated. There is no material difference between IFRS 15 and the former standards IAS 18 Revenue and IAS 11 Construction Contracts. The relevant disclosures stipulated by IFRS 15 will be disclosed in the Group's annual report and accounts for the year ended 30 April 2019.

IFRS 16 Leases

The Group has early adopted IFRS 16 Leases using the modified retrospective approach. This has been adopted in conjunction with the option 2B method, whereby the right of use (ROU) asset is measured at an amount equal to the current outstanding lease liability. Under this methodology, the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4.

The Group recognises a ROU asset and a lease liability at the transition date (1 May 2018). Leases subject to IFRS 16 will be recorded on the balance sheet, showing a ROU asset and a corresponding lease liability. The lease liability is initially measured at the present value of future lease payments that are not paid at the commencement date, discounted using the relevant incremental borrowing rate in line with the standard.

The ROU asset is subsequently depreciated using the straight line method from the commencement date to the end of the lease term.

The Group has also taken the practical expedient whereby the lease payment is combined with any associated non-lease components and accounts for them as lease components. The Group has also applied the low value and short-term expedients.

All of these leases adopted under IFRS 16 relate to property rentals; no other material leases that are above the expedient threshold are required for IFRS 16 treatment.

IFRS 9 Financial Instruments

The Group have adopted IFRS 9 Financial Instruments which is mandatory for on or after 1 January 2018. The Group does not believe that the new classification requirements have a material impact on its accounting for financial assets, financial liabilities, loans, investments in debt securities that are all managed on a fair value basis.

At the end of each reporting period, financial instruments are assessed for impairment. Any impairment charge is recognised in the profit and loss account.

This interim report for the period ending 31 October 2018 was approved by the Board of Directors on 14 January 2019.

2. Going concern

The directors are satisfied that the Group has sufficient resources and facilities to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the interim financial statements.

3. Interim report

This interim financial report will be available from the Group's website at www.kromek.com.
Restatement- as reported in the 2018 Annual report. The Directors identified that the capital of the Group and Company differed from each other. On investigation, it was identified that the difference arose from the accounting entries made as part of the Group reconstruction in the year ended 30 April 2014. A number of capital entries related to the former 'topco', Kromek Limited, had been included within the capital of the Group, including a capital redemption reserve of £1,175,000 and share premium of £20,678,000. The net impact on profit and loss, net assets and equity was £nil. These capital entries have been removed and replaced with a merger reserve of £21,853,000. Refer to the April 2018 Annual Report for more detail.

4. Business and geographical segments

Products and services from which reportable segments derive their revenues

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

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

The turnover, profit on ordinary activities and net assets of the Group are attributable to one business segment, i.e. the development of digital colour x-ray imaging enabling direct materials identification, as well as developing a number of detection products in the industrial and consumer markets. Whilst results are not measured by end market, the Group currently categorises its customers as belonging to the Nuclear, Medical or Security sectors.

Analysis by geographical area

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

	Six months ended 31 October 2018 £'000 (Unaudited)	**Six months ended 31 October 2017 £'000 (Unaudited)**	**Year ended 30 April 2018 £'000 (Audited)**
United Kingdom	**171**	172	1,253
North America	**985**	1,622	3,547
Asia	**1,875**	2,891	6,080
Europe	**630**	112	949
Australasia	**24**	5	16
Total revenue	**3,685**	4,802	11,845

4. Business and geographical segments (continued)

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

Six months ended 31 October 2018

	UK Operations £'000	USA Operations £'000	Total for Group £'000
Revenue from sales			
Revenue by segment:			
-Sale of goods and services	1,755	1,233	2,988
-Revenue from grants	100	-	100
-Revenue from contract customers	81	1,451	1,532
Total sales by segment	1,936	2,684	4,620
Removal of inter-segment sales	(569)	(366)	(935)
Total external sales	1,367	2,318	3,685
Segment result – operating loss	(1,156)	(930)	(2,086)
Net interest	85	(132)	(47)
Loss before tax	(1,071)	(1,062)	(2,133)
Tax credit	514	(34)	480
Loss for the year	(557)	(1,096)	(1,653)
Other information			
Property, plant and equipment additions	1,246	6,368	7,614
Depreciation of property, plant and equipment	228	217	445
Intangible asset additions	825	783	1,608
Amortisation of intangible assets	614	426	1,040
Balance Sheet			
Total assets	24,384	29,389	53,913
Total liabilities	(6,162)	(7,409)	(13,571)

Inter-segment sales are charged at prevailing market prices.

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

4. Business and geographical segments (continued)

Six months ended 31 October 2017

	UK Operations	USA Operations	Total for Group
	£'000	**£'000**	**£'000**
Revenue from sales			
Revenue by segment:			
-Sale of goods and services	1,029	1,735	2,764
-Revenue from grants	32	-	32
-Revenue from contract customers	103	2,644	2,747
Total sales by segment	1,164	4,379	5,543
Removal of inter-segment sales	(246)	(495)	(741)
Total external sales	918	3,884	4,802
Segment result – operating loss	(2,120)	398	(1,722)
Net interest	(125)	-	(125)
Loss before tax	(2,245)	398	(1,847)
Tax credit	691	-	691
Loss for the period	(1,554)	398	(1,156)
Other information			
Property, plant and equipment additions	17	83	100
Depreciation of property, plant and equipment	149	260	409
Intangible asset additions	790	1,216	2,006
Amortisation of intangible assets	563	394	957
Balance Sheet			
Total assets	31,059	16,352	47,411
Total liabilities	(5,315)	(1,007)	(6,322)

The accounting policies of the reportable segments are the same as the Group's accounting policies. Segment profit represents the profit earned by each segment without allocation of the share of profits of associates, central administration costs including directors' salaries, investment revenue and finance costs, and income tax expense. This is the measure reported to the Group's Chief Executive for the purpose of resource allocation and assessment of segment performance.

5. Tax

The Group has recognised R&D tax credits of £514k for the six months ended 31 October 2018 (six months ended 31 October 2017: £691k). This has been offset by a £34k US tax charge.

6. Dividends

The directors do not recommend the payment of a dividend (six months ended 31 October 2017: £nil).

7. Losses per share

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

Losses

	Six months ended 31 October 2018 £'000 (Unaudited)	Six months ended 31 October 2017 £'000 (Unaudited)	Year ended 30 April 2018 £'000 (Audited)
Losses for the purposes of basic earnings per share being net profit attributable to owners of the Group	**(1,653)**	(1,156)	(1,104)

	Six months ended 31 October 2018 '000 (Unaudited)	Six months ended 31 October 2017 '000 (Unaudited)	Year ended 30 April 2018 '000 (Audited)
Number of shares			
Weighted average number of ordinary shares for the purposes of basic losses per share	**260,500**	259,745	260,162
Effect of dilutive potential ordinary shares:			
Share options and warrants	**2,944**	4,393	2,606
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**263,444**	264,138	262,768
Basic (p)	**(0.6)**	(0.4)	(0.4)
Diluted (p)	**(0.6)**	(0.4)	(0.4)

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

8. Property, plant and equipment

During the six months ended 31 October 2018, the Group acquired property, plant and equipment with a cost of £7,614k (six months ended 31 October 2017: £100k). Of this £7,614k, £4,521k relates to ROU accounted for under IFRS 16 and £2,528k relates to tenancy improvements finance by a loan with the landlord.

9. Notes to the cash flow statement

	Six months ended 31 October 2018 £'000 (Unaudited)	Six months ended 31 October 2017 £'000 (Unaudited)	Year ended 30 April 2018 £'000 (Audited)
Loss for the period	**(1,653)**	(1,156)	(1,104)
Adjustments for:			
Finance income	**(129)**	(9)	(35)
Finance costs	**176**	134	227
Income tax credit	**(480)**	(691)	(1,429)
Depreciation of property, plant and equipment	**445**	409	787
Amortisation of intangible assets	**1,040**	957	1,907
Share-based payment expense	**48**	46	131
Operating cash flows before movements in working capital	**(553)**	(310)	480
(Increase)/decrease in inventories	**(293)**	507	191
Increase in receivables	**(1,781)**	(1,648)	(5,330)
Decrease in payables	**(303)**	(1,415)	(1,067)
(Decrease)/increase in provisions	**(143)**	-	255
Cash used in operations	**(3,073)**	(2,886)	(5,471)
Income taxes received	**1,133**	858	858
Net cash used in operating activities	**(1,940)**	(2,008)	(4,613)

10. Share capital

During the period, 115,000 ordinary shares (six months ended 31 October 2017: 1,300,000) were issued because of the exercise of employee share options.

11. Events after the balance sheet date

There are no significant or disclosable post-balance sheet events.