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Kromek Group PLC
11 December 2019

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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 2019.

Financial Summary

- Revenue increased by 43% to £5.3m (H1 2018/19: £3.7m)
- Product sales accounted for 82% of total revenue (H1 2018/19: 78%)
- Gross margin was 58% (H1 2018/19: 67%; FY 2018/19: 57%)
- Adjusted EBITDA* was £0.6m loss (H1 2018/19: £0.6m loss)
- Loss before tax was £2.7m (H1 2018/19: £2.1m loss)
- Gross cash and cash equivalents at 31 October 2019 were £13.4m (30 April 2019: £20.6m; 31 October 2018: £6.3m), with the key movement being planned capex of £5.5m primarily to expand production capacity to fulfil customer demand

**Adjusted EBITDA defined as earnings before interest, taxation, depreciation, amortisation and share-based payments as detailed in the Financial Review below*

Operational Summary

- Record H1 revenue driven by delivery of high value, multi-year contracts with commercial and large government customers worldwide across nuclear detection, medical imaging and security screening
- Substantial expansion programme implemented at UK headquarters to increase CZT manufacturing capacity and D3S production
- Significant commercial traction with D3S family of products:
  - Expanded sales team and rapid channel development resulting in the D3S platform now having been sold in 22 countries
  - Received and has successfully delivered orders of £2.1m from a European government-related company, a new customer, for the provision and integration of D3S-related technologies
  - Further contracts won from US government and European Commission and, post period, a national civil defence agency of a European country
- Commenced delivery on a significant $58.1m contract to provide an OEM customer with CZT detectors and associated advanced electronics for its state-of-the-art medical imaging systems
- Substantial increase in capacity in detector manufacturing and introduction of process automation resulting in increased throughput and efficiency in the US facility, which is delivering on substantial medical contracts
- 3 new patents were filed and 8 were granted during the period

Outlook

- Entered H2 2019/20 with increasing commercial momentum: Kromek signed multi-year contracts totalling c. £100m in the three years to 31 October 2019 compared with c. £50m and c. £30m for the three years to 31 October 2018 and 2017 respectively

- Unchanged outlook for FY 2019/20: on track to achieve revenue and EBITDA profit in line with market expectations

Dr Arnab Basu, CEO of Kromek, said: *"This year has seen a focus on executing on the previously-signed agreements and commencing delivery on the multi-year contracts won in recent years. This has resulted in record first half revenues. We have seen an increase in adoption of our next-generation products in the medical imaging market and an expansion of applications for our D3S platform. Consequently, our product sales have seen a year-on-year increase of 53% and account for 82% of revenues in the first half.*

"Kromek entered the second half well-positioned to report its highest ever full year revenues as delivery of high value, multi-year contracts continues to ramp up. We are delivering on contracts worth nearly £100m won over the past three fiscal years in our target markets of medical imaging, nuclear detection and security screening as customers commercially deploy their next-generation CZT-based products. Additionally, we continue to experience growing demand for our flagship products, which is expected to convert to further orders. As a result, the Group has visibility of 90% of expected revenue for FY 2019/20 based on delivery of the contracts already won and supported by a strong and increasing pipeline. The Board expects to deliver significant revenue growth and EBITDA profit for full year in line with market expectations."

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Analyst Presentation

Arnab Basu, CEO, and Derek Bulmer, CFO, will be hosting a presentation for analysts at 9.30am 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

Kromek achieved the highest first half revenue in its history at £5.3m (H1 2018/19: £3.7m), a year-on-year increase of 43%. This progress was based on Kromek continuing to execute on the high value, long-term agreements that it has been awarded across its target markets, which, over the last three fiscal years, amount to nearly £100m in orders. In particular, the Group's growth is being driven by increasing adoption of Kromek's next-generation molecular imaging single photon emission computed tomography ("SPECT") products in medical imaging and the D3S family of products in nuclear detection. It also reflects the increasing commercialisation of Kromek's technology, with product sales accounting for 82% of total revenue (H1 2018/19: 78%), representing 53% growth in value over the same period of the prior year.

During the period, the Group implemented a substantial expansion programme at its UK headquarters in Sedgefield to increase its cadmium zinc telluride ("CZT") manufacturing capacity. The expansion programme, which is on track to be completed in H2 2019/20, will increase the Group's CZT manufacturing capacity in the UK by almost seven-fold and will support Kromek in delivering on existing orders as well as expand its pipeline with larger, higher-volume contracts. The Group's management believes that it will provide Kromek with the largest CZT production capacity globally and enable the facility to become a world centre for this core technology. Alongside the major relocation last year of its US operations to a new state-of-the-art facility, Kromek has significantly strengthened its foundations to enable it to deliver on the anticipated future growth of the business.

Medical Imaging

Kromek continued to deliver on its contracts and win new orders in the medical imaging markets across its key segments of SPECT, bone mineral densitometry ("BMD") and gamma probes. In particular, Kromek commenced delivery on one of its most significant contracts to date, which had been awarded in H2 2018/19, to provide an OEM customer with CZT detectors and associated advanced electronics to be used in its state-of-the-art medical imaging systems. The contract is expected to be worth a minimum of $58.1m over a seven-year period.

Also during the period, the Group advanced towards achieving clinical validation of its CZT-based SPECT detector system under the contract signed in 2014 with an established manufacturer of X-ray diagnostics and analysis equipment. The Group's management believes this system will significantly enhance the identification and management of diseases such as cancer and Parkinson's.

Kromek is collaborating with its medical imaging partners to support them in leveraging the advances in SPECT imaging, with a focus on reducing required patient dose, exam time and broadening the application of molecular imaging. This includes the Group's work with the Newcastle-upon-Tyne Hospitals NHS Foundation Trust (the "Newcastle Hospitals Trust") to transition SPECT from a purely diagnostic technique for establishing the presence of disease to a screening solution for detecting potential disease indicators. In particular, under a three-year project that commenced mid-2018, the

Group is developing, alongside the Newcastle Hospitals Trust and an OEM partner, an ultra-low dose molecular breast imaging technology based on Kromek's CZT-based SPECT detectors.

Nuclear Detection

Kromek continued to experience increasing demand for its D3S platform, which is attracting business interest across the globe - and has now been sold in 22 countries. This is supported by the expansion of the D3S sales team and distribution network, with new channels being regularly put in place.

In particular, Kromek was awarded a strategically significant contract, worth £1.1m, by a European-government related company, a new customer, for the provision of D3S-related technologies, which was subsequently extended by £1.0m to provide technology integration. The customer works with a European government to detect and protect against potential nuclear threats. Kromek has successfully delivered this contract and the Group's solutions are being actively deployed by the customer for wide-area threat monitoring.

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

- The US Government's Countering Weapons of Mass Destruction Office, which is a component within the US Department of Homeland Security, has awarded Kromek a $0.7m extension contract to add further technical innovation capability to the D3S family of products.
- The US government's Joint Program Executive Office for Chemical, Biological, Radiological and Nuclear Defense (JPEO-CBRND) awarded Kromek a $389k contract to provide D3S-related customisation for military operational transition, which will leverage the DARPA SIGMA Program sensor and technology.

The D3S platform was used in active deployments and field-tests in multiple locations of strategic importance and high risk across the US, Asia and Europe. This includes deployment under an initiative by the European Commission's Directorate-General for Migration and Home Affairs, working alongside security authorities in Belgium, Luxembourg, The Netherlands and Spain, to allow the law enforcement authorities to validate new and emerging technologies for homeland protection. Over the course of this year, the European Commission will use the D3S-ID and D3S Drone radiation detectors for the protection of public spaces across multiple European locations covering high risk venues such as airports, train stations and other public areas. Kromek was awarded a €180k contract for this programme.

Post period, Kromek won a competitive tender to provide its D3S platform to a national civil defence agency of a European country under a contract worth up to €200k. This is a new customer for the Group and also represents the first sale in this European country for Kromek's D3S platform as its reach continues to expand globally.

In the nuclear markets, Kromek's portfolio also includes a range of high-resolution detectors and measurement systems used for civil nuclear applications, primarily in nuclear power plants and research. During the period, this area of business continued to gain traction, receiving orders from both existing and new customers. The Group has also appointed new distributors in key geographical markets, furthering the channel development strategy on a global basis.

Security Screening

In security screening, Kromek continued to provide its OEM and government customers with components and systems for cabin and hold luggage scanning applications. This includes commencing delivery on the $2.7m expansion order, that was received at the end of the 2018/19 year, under the Group's long-term contract to provide key components for a US-based customer's security screening

system for the detection of explosives. The order expansion, which increased the total value of the contract by almost 90%, reflects the growing recognition of the strength of Kromek's detection solution and credentials as a high-quality product supplier. Kromek continues to receive increasing interest in its technologies that are able to meet the high-performance standards demanded by customers to ensure passenger safety while increasing the convenience and efficiency of the security process.

The Group also reached a key milestone with another OEM customer in the security screening market, which achieved the highest level of European liquid explosive detection certification for cabin baggage for its scanner that is based on Kromek software and detectors. This certification enables for commercial deployment of the product.

Manufacturing Facilities and R&D

During the period, Kromek implemented a substantial expansion programme at its UK headquarters in Sedgefield to increase its CZT manufacturing capacity. This included significantly increasing the number of furnaces for growing CZT as well as equipment for other stages of the manufacturing process. In addition, the Group increased the size of the work area for the building of the D3S family of products. Despite this substantial undertaking, the Group was successful in ensuring that its existing facilities remained fully functional throughout the process to enable continued production.

The expansion programme, which is on track to be completed in H2 2019/20, will increase the Group's CZT manufacturing capacity in the UK by almost seven-fold and will support Kromek in delivering on existing orders as well as expand its pipeline with larger, higher-volume contracts. The Group's management believes that it will give Kromek the largest CZT production capacity globally and establish the facility as a world centre for this core technology.

The implementation of the expansion programme also demonstrates the scalability of the Group's production as Kromek 'industrialises' the CZT manufacturing process. In addition, Kromek invested in significantly increasing process automation at its facilities in both the UK and US, which is already realising results. With greater automation, the Group will expand throughput capacity as well as improve efficiencies. These improvements are intended to be implemented in a phased manner over the course of this current financial year. Alongside the relocation last year of its US operations to a new state-of-the-art facility, Kromek has significantly strengthened its foundations to enable it to deliver on the current and anticipated future growth of the business.

Kromek continued to develop its new technology pipeline, with its R&D efforts focused on the development and enhancement of products and platform technologies that form elements of Kromek's product roadmap, particularly for near-term commercial opportunities, and to enable the Group to maintain its leading market position. Kromek worked on both externally and internally funded R&D activities, with the proportion continuing to transition away from externally funded R&D projects as its technologies are increasingly commercialised. In addition, Kromek's R&D efforts were focused on value engineering to increase cost efficiencies to enable the Group to offer competitively priced products whilst maintaining margins.

Kromek's externally funded work is primarily in the areas of medical imaging and nuclear detection. In nuclear detection, the focus is on the D3S platform to further reduce the size, weight and power consumption of detectors and increase their immunity to environmental conditions.

During the period, three new patents were filed and eight patents were granted.

Financial Review

Revenue for the six-month period ended 31 October 2019 increased by 43% to £5.3m (H1 2018/19: £3.7m), representing the Group's highest ever first half revenue. Product revenue, which increased by 53% to £4.4m (H1 2018/19: £2.9m), accounted for 82% of total revenue (H1 2018/19: 78%). R&D revenue also grew, with an increase of 16% to £1.0m (H1 2018/19: £0.8m).

Revenue Mix	**H1 2019/20**		**H1 2018/19**		**Full year 2018/19**	
	£'000	**% share**	**£'000**	**% share**	**£'000**	**% share**
Product	4,382	*82%*	2,865	*78%*	12,060	*83%*
R&D	951	*18%*	820	*22%*	2,457	*17%*
Total	**5,333**		**3,685**		**14,517**	

Gross margin for the period was 58% compared with 57% for FY 2018/19, reflecting a similar revenue mix. The gross margin in H1 2018/19 of 67% was due to the higher proportion of R&D revenue. As noted at the time, this was disproportionately high due to the US factory relocation throughout that period. Gross profit increased by 25% to £3.1m (H1 2018/19: £2.5m), reflecting the increase in revenue.

Operating costs increased by £0.8m to £5.4m (H1 2018/19: £4.6m) due to the planned recruitment of new staff and marketing costs to drive the growth of the D3S platform. The Group was also impacted by the weakness of the GBP£, which created foreign exchange pressures on the conversion of the Group's US cost base. The higher operating costs offset the increase in gross profit, resulting in a greater loss before tax at £2.7m (H1 2018/19: £2.1m). However, there was a neutral impact on the adjusted EBITDA loss for the period, which was £0.6m (H1 2018/19 £0.6m loss). Adjusted EBITDA is calculated as per the following table:

	H1 2019/20 (Unaudited)	**H1 2018/19 (Unaudited)**	**Full Year 2018/19 (Audited)**
	£'000	**£'000**	**£'000**
Loss before tax	**(2,653)**	**(2,133)**	**(1,270)**
EBITDA adjustments:-			
Net interest	311	47	364
Depreciation	544	445	879
Amortisation	1,087	1,040	1,806
Share-based payments	100	48	195
Adjusted EBITDA*	(611)	(553)	1,974

**Adjusted EBITDA is defined as earnings before interest, taxation, depreciation, amortisation, other income and share-based payments. 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 as a result of revenue growth. Share-based payments are added back when calculating the Group's adjusted EBITDA as this is currently an expense with a zero direct cash impact on financial performance.*

Investment in product development was £1.8m for the six-month period ended 31 October 2019 (H1 2018/19: £1.5m). The increase relates to product development being temporarily suspended in the US operations during the prior period due to the relocation of the US facility. The product development expenditure in H1 2019/20 was in near-term product development, reflecting the continued commitment to invest in the future growth of the business with new and enhanced products that can be commercially marketed. Amortisation of such development activity in the period was £0.7m (H1 2018/19: £0.7m).

Cash and cash equivalents at:

- 31 October 2019 were £13.4m (including £5.0m utilised on the revolving credit facility ("RCF"))
- 30 April 2019 were £20.6m (including £3.0m utilised on the RCF)

- 31 October 2018 were £6.3m (including £3.0m utilised on the RCF)

The net decrease in cash and cash equivalents in the six months ended 31 October 2019 was primarily due to the planned capital expenditure of £5.5m, of which £4.8m relates to investment in the expansion of the Group's UK manufacturing facilities to ensure future contract delivery. Other key movements in cash were the result of an EBITDA loss of £0.6m; investment in development costs and other intangibles of £1.9m; net movement in loans and interest net of money market funds of £1.0m; widening of working capital of £1.1m; receipt of R&D tax credit of £0.9m.

As noted in the FY 2018/19 results announcement on 27 June 2019, 59% of the balance of trade and other receivables related to the build of amounts recoverable on contract ("AROC"), the majority of which is concentrated with one customer. This reflects the Group's revenue recognition in line with IFRS 15 on long-term contracts and the position was accumulated over the 12-24 months prior to 30 April 2019.

With the exception of fluctuations in foreign exchange, the proportion of AROC has remained static, with no further increase in the position and no additional contract related costs incurred at the end of October 2019. Whilst the Group's management did not expect to see a significant unwind of this particular AROC balance in this 6-month period given the delivery plan agreed with the customer for product, there has been a delay in an expected payment. However, the Group's management continues to be in active and regular discussions with the customer regarding firm shipments of completed products and payments, and continues to believe that the recovery of the AROC will be achieved within the 18-month period previously communicated in the FY 2018/19 report.

Outlook

Kromek entered the second half of 2019/20 well-positioned to report its highest ever full year revenues as the Group continues to ramp up delivery of its high value multi-year contracts.

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. Kromek is at the early stages of delivering contracts worth approximately £100m won over the past three fiscal years (compared with c. £50m and c. £30m for the three years to 31 October 2018 and 2017 respectively) in its target markets in medical imaging, nuclear detection and security screening, including the seven-year medical imaging contract expected to total $58.1m awarded in January 2019. Over the next few years, these multi-year contracts are expected to provide an ever-increasing order book at the beginning of each year as customers commercially deploy their next-generation CZT-based products. Additionally, Kromek continues to experience growing demand for its flagship products, which is expected to convert to further orders.

As a result of this, the Group has visibility of 90% of expected revenue for FY 2019/20 based on delivery of the contracts already won and supported by a strong and increasing pipeline. The Board expects to deliver significant revenue growth and EBITDA profit for full year in line with market expectations.

Consolidated condensed income statement
For the six months ended 31 October 2019

	Note	Six months ended 31 October 2019 £'000 (Unaudited)	Six months ended 31 October 2018 £'000 (Unaudited)	Year ended 30 April 2019 £'000 (Audited)
Continuing operations				
Revenue	4	5,333	3,685	14,517
Cost of sales		(2,240)	(1,205)	(6,208)
Gross profit		3,093	2,480	8,309
Distribution costs		(190)	(78)	(184)
Administrative expenses (including operating expenses)		(5,245)	(4,488)	(9,031)
Operating loss		(2,342)	(2,086)	(906)
Finance income		45	129	155
Finance costs		(356)	(176)	(519)
Loss before tax		(2,653)	(2,133)	(1,270)
Tax	5	389	480	987
Loss from continuing operations		(2,264)	(1,653)	(283)
Losses per share				
-basic (p)	7	(0.7)	(0.6)	(0.1)
-diluted (p)		(0.7)	(0.6)	(0.1)

Consolidated condensed statement of comprehensive income
For the six months ended 31 October 2019

	Six months ended 31 October 2019 £'000 (Unaudited)	Six months ended 31 October 2018 £'000 (Unaudited)	Year ended 30 April 2019 £'000 (Audited)
Loss for the period	(2,264)	(1,653)	(283)

Items that may be recycled to the income statement			
Exchange gains/(losses) on translation of foreign operations	(35)	1,689	1,218
Total comprehensive gain/(loss) for the period	(2,299)	36	935

Consolidated condensed statement of financial position
As at 31 October 2019

	Note	31 October 2019 £'000	31 October 2018 £'000	30 April 2019 £'000
Non-current assets		**(Unaudited)**	**(Unaudited)**	**(Audited)**
Goodwill		**1,275**	1,275	1,275
Other intangible assets		**18,986**	17,760	18,165
Investments - Long term cash deposits		**-**	1,250	1,250
Property, plant and equipment	8	**11,365**	5,864	6,252
Right-of-use asset		**3,809**	4,488	3,975
		35,435	30,637	30,917
Current assets				
Inventories		**4,014**	3,307	3,227
Trade and other receivables		**20,823**	13,115	19,997
Current tax assets		**515**	514	987
Cash and bank balances		**13,437**	6,340	20,616
		38,789	23,276	44,827
Total assets		**74,224**	53,913	75,744
Current liabilities				
Trade and other payables		**(5,369)**	(3,197)	(4,884)
Lease obligation		**(270)**	(310)	(273)
Borrowings		**(3,607)**	(3,105)	(3,133)
Provisions for liabilities		**-**	(281)	-
		(9,246)	(6,893)	(8,290)
Net current assets		**29,543**	16,383	36,537
Non-current liabilities				
Finance lease liabilities		**(3,815)**	(4,289)	(3,938)

Borrowings		**(2,156)**	(2,389)	(2,313)
Total liabilities		**(15,217)**	(13,571)	(14,541)
Net assets		**59,007**	40,342	61,203
Equity				
Share capital	10	**3,447**	2,605	3,446
Share premium account		**61,602**	42,626	61,600
Capital redemption reserve		**21,853**	21,853	21,853
Translation reserve		**914**	1,420	949
Retained earnings		**(28,809)**	(28,162)	(26,645)
Total equity		**59,007**	40,342	61,203

Consolidated condensed statement of changes in equity
For the six months ended 31 October 2019

	Equity attributable to equity holders of the Group					
	Share Capital £'000	**Share Premium Account £'000**	**Merger Reserve £'000**	**Translation Reserve £'000**	**Retained Earnings £'000**	**Total £'000**
Balance at 1 May 2019	**3,446**	**61,600**	**21,853**	**949**	**(26,645)**	**61,203**
Loss for the period	-	-	-	-	(2,264)	**(2,264)**
Other comprehensive income for the period	-	-	-	(35)	-	**(35)**
Total comprehensive gain for the period	-	-	-	(35)	(2,264)	**(2,299)**
Transactions with shareholders recorded in equity						
Issue of share capital net of expenses	1	-	-	-	-	**1**
Premium on shares issued less expenses	-	2	-	-	-	**2**
Credit to equity for equity-settled share-based payments	-	-	-	-	100	**100**
Balance at 31 October 2019	**3,447**	**61,602**	**21,853**	**914**	**(28,809)**	**59,007**

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 loss 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 2018	2,604	42,625	21,853	(269)	(26,557)	**40,256**
Loss for the year	-	-	-	-	(283)	**(283)**
Other comprehensive income for the period	-	-	-	1,218	-	**1,218**
Total comprehensive loss for the year	-	-	-	1,218	(283)	**935**
Transactions with shareholders recorded in equity						
Issue of share capital net of expenses	842	18,975	-	-	-	**19,817**
Credit to equity for equity-settled share-based payments	-	-	-	-	195	**195**
Balance at 30 April 2019	**3,446**	**61,600**	**21,853**	**949**	**(26,645)**	**61,203**

Consolidated condensed statement of cash flows
For the six months ended 31 October 2019

	Note	Six months ended 31 October 2019 £'000 (Unaudited)	Six months ended 31 October 2018 £'000 (Unaudited)	Year ended 30 April 2019 £'000 (Audited)
Net cash used in operating activities	9	**(876)**	(1,940)	(4,777)
Investing activities				
Investment in long term cash deposits		**1,250**	-	-
Interest received		**45**	129	155
Purchases of property, plant and equipment		**(5,459)**	(2,957)	(3,644)
Purchases of patents and trademarks		**(111)**	(104)	(210)
Capitalisation of research and development costs		**(1,738)**	(1,503)	(2,731)
Net cash used in investing activities		**(6,013)**	(4,435)	(6,430)
Financing activities				
Loans received		**2,000**	2,495	2,557
Proceeds on issue of shares		**2**	2	19,817
Interest paid		**(233)**	(176)	(293)
Payment of loan and borrowings		**(1,683)**		(111)
Finance lease repayments		**(265)**	(58)	(486)
Net cash (used in)/generated from financing activities		**(179)**	2,263	21,484
Net decrease/(increase) in cash and cash equivalents		**(7,068)**	(4,112)	10,277
Cash and cash equivalents at beginning of period		**20,616**	9,488	9,488
Effect of foreign exchange rate changes		**(111)**	964	851
Cash and cash equivalents at end of period		**13,437**	6,340	20,616

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 2019; 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 2019 have been filed with the Registrar of Companies and are available on the Group's website www.kromek.com.

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.

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 2019 £'000 (Unaudited)	Six months ended 31 October 2018 £'000 (Unaudited)	Year ended 30 April 2019 £'000 (Audited)
United Kingdom	**1,916**	171	2,267
North America	**2,362**	985	4,869
Asia	**113**	1,875	5,452
Europe	**940**	630	1,905
Australasia	**2**	24	24
Total revenue	**5,333**	3,685	14,517

4. Business and geographical segments (continued)

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

Six months ended 31 October 2019

	UK Operations	USA Operations	Total for Group
	£'000	£'000	£'000
Revenue from sales			
Revenue by segment:			
-Sale of goods and services	2,867	2,770	5,637
-Revenue from grants	508	-	508
-Revenue from contract customers	310	30	340
Total sales by segment	3,685	2,800	6,485
Removal of inter-segment sales	(642)	(510)	(1,152)
Total external sales	3,043	2,290	5,333
Segment result - operating loss	(573)	(1,769)	(2,342)
Net interest	(163)	(148)	(311)
Loss before tax	(736)	(1,917)	(2,653)
Tax credit	389	-	389
Loss for the period	(347)	(1,917)	(2,264)
Other information			
Property, plant and equipment additions	4,963	496	5,459
Depreciation of property, plant and equipment	221	323	544
Intangible asset additions	1,044	805	1,849
Amortisation of intangible assets	573	514	1,087
Balance Sheet			
Total assets	38,059	36,182	74,241
Total liabilities	(9,536)	(5,698)	(15,234)

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 2018

	UK Operations	USA Operations	Total for Group
	£'000	£'000	£'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 period	(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)

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 £389k for the six months ended 31 October 2019 (six months ended 31 October 2018: £514k, offset by a £34k US tax charge).

6. Dividends

The directors do not recommend the payment of a dividend (six months ended 31 October 2018: £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 2019 £'000 (Unaudited)	Six months ended 31 October 2018 £'000 (Unaudited)	Year ended 30 April 2019 £'000 (Audited)
Losses for the purposes of basic earnings per share being net profit attributable to owners of the Group	**(2,264)**	(1,653)	(283)

	Six months ended 31 October 2019 Thousands (Unaudited)	Six months ended 31 October 2018 Thousands (Unaudited)	Year ended 30 April 2019 Thousands (Audited)
Number of shares			
Weighted average number of ordinary shares for the purposes of basic losses per share	**344,642**	260,500	275,073
Effect of dilutive potential ordinary shares:			
Share options and warrants	**1,573**	2,944	2,581
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**346,215**	263,444	277,655
Basic (p)	**(0.7)**	(0.6)	(0.1)
Diluted (p)	**(0.7)**	(0.6)	(0.1)

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 2019, the Group acquired property, plant and equipment with a cost of £5,459k (six months ended 31 October 2018: £7,614k, of which £4,521k related to ROU accounted for under IFRS 16 and £2,528k related to tenancy improvements financed by a loan with the landlord). Of this £5,459k, £4,834k relates to assets under construction.

9. Notes to the cash flow statement

	Six months ended 31 October 2019 £'000 (Unaudited)	Six months ended 31 October 2018 £'000 (Unaudited)	Year ended 30 April 2019 £'000 (Audited)

Loss for the period	**(2,264)**	**(1,653)**	(283)
Adjustments for:			
Finance income	**(45)**	**(129)**	(155)
Finance costs	**356**	**176**	519
Income tax credit	**(389)**	**(480)**	(987)
Depreciation of property, plant and equipment	**544**	**445**	879
Amortisation of intangible assets	**1,087**	**1,040**	1,806
Share-based payment expense	**100**	**48**	195
Operating cash flows before movements in working capital	**(611)**	**(553)**	1,974
Increase in inventories	**(787)**	**(293)**	(213)
Increase in receivables	**(826)**	**(1,781)**	(8,663)
Decrease/(increase) in payables	**485**	**(303)**	1,384
Decrease in provisions	**-**	**(143)**	(424)
Cash used in operations	**(1,739)**	**(3,073)**	(5,942)
Income taxes received	**863**	**1,133**	1,165
Net cash used in operating activities	**(876)**	**(1,940)**	(4,777)

10. Share capital

During the period, 12,000 ordinary shares (six months ended 31 October 2018: 115,000) 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.

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