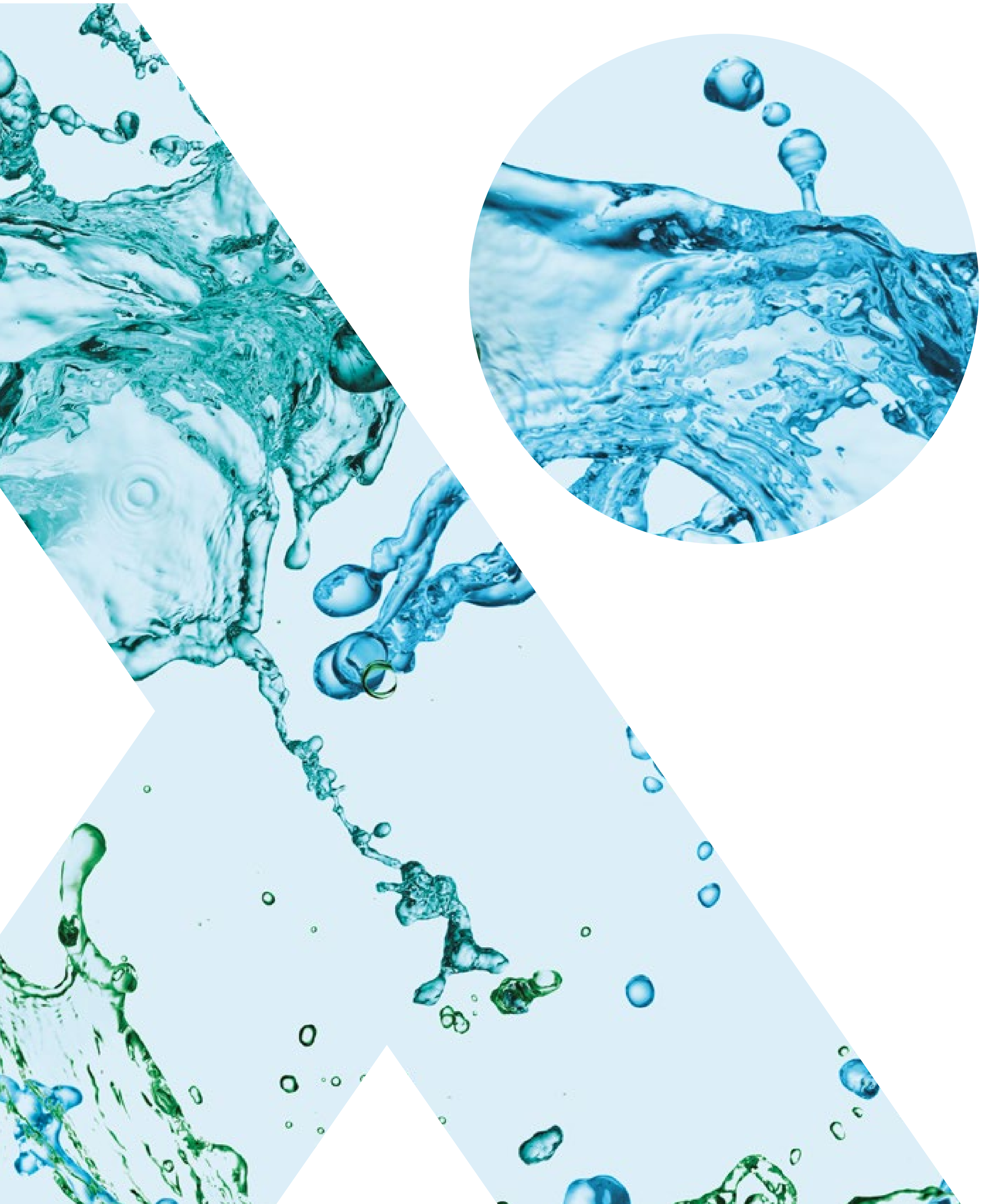
Report for the 12 month period ending
31 December 2018

XEROS
TECHNOLOGY
GROUP



Xeros Technology Group plc

Xeros develops and commercialises polymer based technologies which radically improve the sustainability, performance and economics of water intensive industries.

www.xerostech.com

Group highlights

- Significant progress commercialising technology across all targeted applications
- Development, licensing and commercialisation deals with major industry players
- Revenue increased by 62% to £3.5m (2017: £2.2m)
- Adjusted EBITDA loss reduced by 27.3% to £20.9m (2017: loss £28.7m)
- Net cash outflow from operations reduced by 18.4% to £22.1m (2017: £27.1m)

1 Adjusted EBITDA is defined as loss on ordinary activities before interest, tax, share-based payment expense, exceptional costs, depreciation and amortisation.

Cleaning Technologies

- **Domestic Laundry**
  Exclusive development and licensing agreement signed with the leading Indian appliance manufacturer

  Development agreement signed with largest Chinese washing machine OEM

  Proprietary micro particle filtration device, XFiltra™, featured on *Blue Planet UK*
- **High Performance Workwear**
  Increasing numbers of US fire departments using Xeros' technology to remove harmful contaminants from protective garments
- **Commercial Laundry**
  Exclusive licensing agreements signed with largest OEMs in China and India to manufacture and sell machines incorporating XDrum™ technology

  RSA, Dubai, and North America markets now served by channel partners
- **Tanning**
  10-year contract signed with tannery to use Xeros' technology
- **Textile**
  Successful tests with major Chinese manufacturers in texturing and colouration of garments

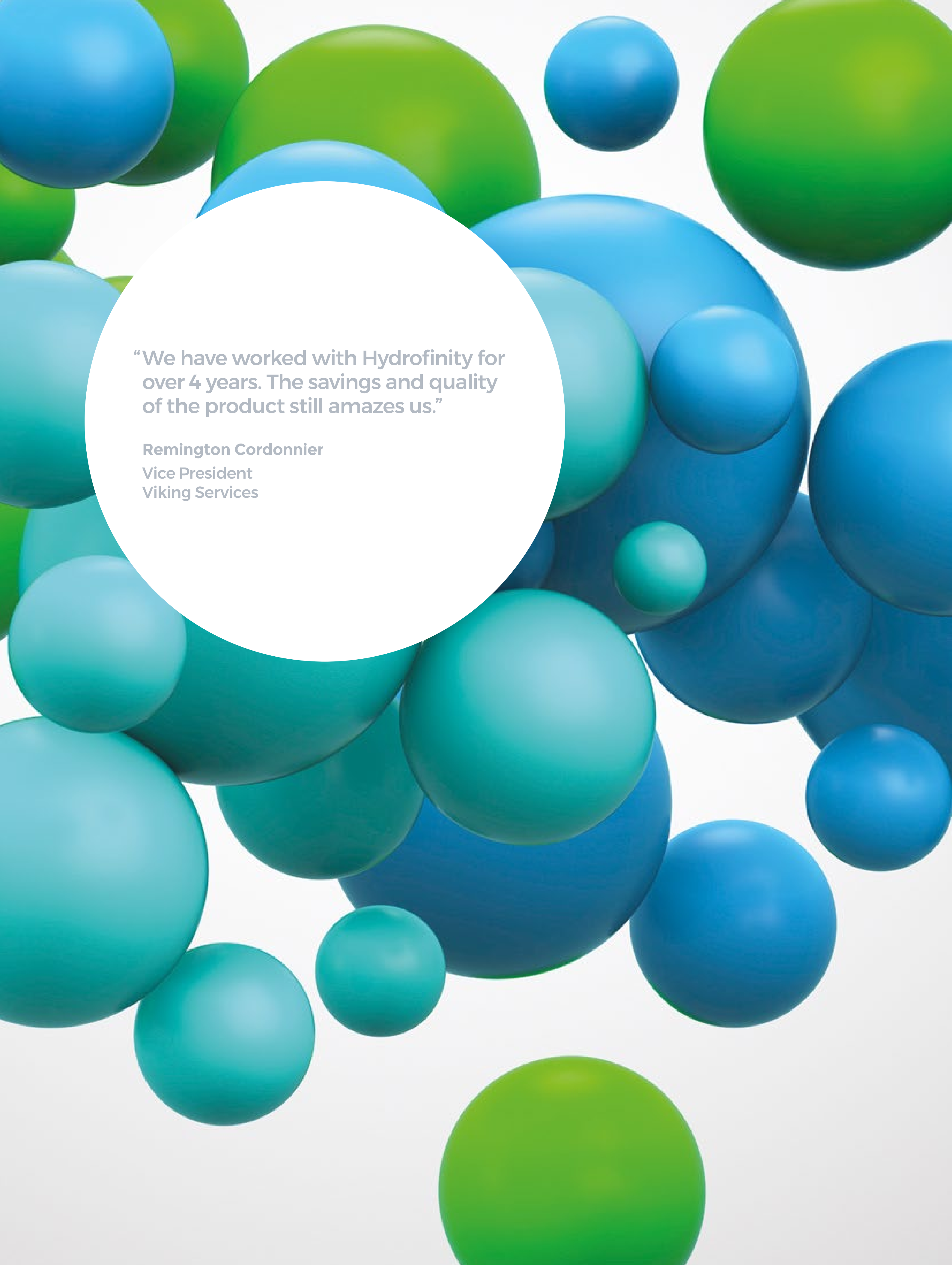
We're taking giant steps to change industry for the better.

Our game-changing technology transforms many industrial and domestic processes by radically reducing their dependence on water, chemicals and energy, while improving performance.

OUR PURPOSE

XEROS TECHNOLOGIES

> "This form of laundry helps your clothes last longer and it's good for the environment."
>
> **Mashable**



> “We have worked with Hydrofinity for over 4 years. The savings and quality of the product still amazes us.”

Remington Cordonnier
Vice President
Viking Services

David Armfield
Chairman

Dear Shareholder,

This is my first annual report statement having joined the Board in June 2018 and being appointed Chairman in January 2019. My background is as an adviser to industrial and technology companies for over 30 years and specifically for the last dozen years also as an adviser to a wide variety of young, commercialising technology focused businesses.

Having spent many years developing its technologies and more recently, the applications in which they are to be applied, Xeros has now entered the critical phase of commercialisation in its chosen markets. This has required the Board's keen focus on both the strategy it pursues for each of its technology applications and the most efficient use of its capital, towards Xeros progressing its IP-rich, asset-light licensing and royalty driven business model. The task now is to accelerate the winning of license contracts in order to generate returns on the significant investment in research and development to date.

There is increasing evidence that accelerating changes in our climate, global population growth and increasingly affluent, urban communities are putting finite water resources under extreme stress. As a result, manufacturers, customers and regulators are increasingly demanding that supply chains improve their sustainability credentials with an ever increasing focus on reducing water usage. Xeros technology seeks to drive significant reductions in the volume of water and chemicals used in a number of highly water-intensive global scale industries.

Xeros has made significant progress through 2018, meeting a number of critical milestones. As of March 2019 in commercial laundries, our first market application, we have reduced water consumption by 887 million litres, the equivalent of supplying water to 5,300 UK households for one year. This has been a vital proving ground for our whole technology platform.

Our High Performance Workwear business, Marken, is demonstrating a fundamentally different service offering for the firefighting industry, removing embedded carcinogens from uniforms and significantly extending the life of these highly technical and costly protective suits. Major contracts are now being won on the strength of Xeros' differentiated cleaning technology with end customers buying into our life-time cost reducing and performance claims, with certification bodies increasingly accepting the evidence of our claims.

The evidence of our commercial laundry business has also underpinned our opportunity in the domestic washing machine industry. We have now signed major license agreements in China and India. Our development and licensing agreement signed in April 2019 with IFB Limited, India's largest manufacturer of domestic and commercial washing machines is Xeros' first agreement addressing the domestic laundry market.

In our leather business, we signed a contract with a leading tannery in 2018 to apply our technology in the manufacture of leather for well-known shoe and auto brands with first revenues expected to come on stream in 2019.

In our textiles applications, successful tests have now been completed with a number of major Chinese garment manufacturers with discussions now progressing towards development agreements with scale trials in their production facilities. The textile industry opportunity may be very significant for Xeros with garment manufacturers always looking for ways to cut costs and improve sustainability while their customers also exert pressure for them to make step changes in the environmental sustainability of their supply chain.

The progress made in each of its current markets has put Xeros' technology firmly on the commercial map, with its technology development spend now falling rapidly and pivotal commercialisation agreements now demonstrating a new stage in the life of the business.

However, we do not underestimate the challenge of simultaneously managing the achievement of our key commercialisation milestones, keeping the balance sheet healthy, and progressing shareholder value.

In December 2018 we raised £15.8m before fees from our shareholders to strengthen the balance sheet to take us through this current year. We are rapidly reducing our cost base with shrinking demands on development expenditure and our move increasingly to a licensing business model. Our intention is to strengthen our balance sheet further this year to give us the runway to reach cash flow break-even and provide the business with the opportunity to focus all its resources on achieving the value rating that Xeros' multiple market opportunities deserves.

The Board believes the Group is close to a number of major inflection points, each of which has the capacity to generate significant value for our investors, many of whom have been supportive since the inception of Xeros in 2006. Their loyalty, combined with the continued commitment and dedication of our employees, has taken us to this point.

Finally I would like to thank the outgoing Chairman, John Samuel for his stewardship of the Board and the Company since the IPO in 2014 and I welcome David Baynes, who joined in February 2019, on to our Board.

David Armfield

Chairman

29 April 2019

"SCS Global Services is pleased to certify the Xeros 25kg commercial washing machine as an environmentally preferable product. Xeros has taken one more step to establish its position as an environmental leader in its industry."

Keith Killpack
Manager LCA Services at SCS Global

Mark Nichols
Chief Executive Officer

Xeros' technologies drastically increase the effectiveness of water in affixing or removing molecules in large scale industrial and domestic processes. The results are radical improvements in the sustainability, performance and economics of water intensive processes, dramatically reducing the consumption of water, chemistry and energy, whilst either meeting or exceeding the conventional quality standards for the materials being processed.

Strategy execution

Xeros' technologies drastically increase the effectiveness of water in affixing or removing molecules in large scale industrial and domestic processes. The results are radical improvements in the sustainability, performance and economics of water intensive processes, dramatically reducing the consumption of water, chemistry and energy, so reducing effluent, whilst either meeting or exceeding the conventional quality standards for the materials being processed.

Results achieved in tests, trials and commercial operations conducted during 2018 have reaffirmed that Xeros' technologies reduce water consumption and effluent production by up to 80%, reduce chemistry used in processes by up to 50% whilst also cutting energy consumption in cleaning applications by up to 50%.

Xeros is currently commercialising its technologies in three divisions: Cleaning Technologies with applications in domestic laundry, commercial laundry (branded "Hydrofinity") and the cleaning and restoration of high-performance workwear (branded "Marken"); Tanning Technologies (branded "Qualus") with applications in leather production; and Textile Technologies in the field of garment colouration and finishing including denim. With the addition of applications of our technology in the field of garment manufacture, Xeros' technologies offer the opportunity to improve the sustainability, cost and the life of garments for manufacturers, brands, retailers and consumers.

Xeros' strategy remains that of licensing its technologies to market incumbents and to receive a proportion of the value created by means of royalties.

Our progress in our Cleaning and Textile Technology applications has been enabled by the completion of our new XDrum™ design during 2018. The design is an effective solution for applying Xeros' XOrb™ technology in rotating drums. The new XDrum design allows OEMs to produce hybrid machines, at a low marginal cost, to dispense and retrieve our patented XOrb technologies into and from process cycles. The XDrum represents an important simplification for our application technology, substantially reducing the cost of incorporating our technology into existing proprietary machine designs, reducing complexity and thereby shortening the 'test' to 'production' cycle time.

In order to prove out and de-risk its technology ahead of licensing to market incumbents, Xeros has historically had to enter markets in its own right on a selective basis and has had to invest in operations and working capital to do so. With these ventures now proving out market acceptance and customer demand, Xeros is now reducing its physical presence in markets with associated costs also planned to reduce rapidly.

Similarly, technology development expenditure will continue to reduce having completed the vast majority of the work needed to license our technologies.

In the future, the majority of Xeros' revenue will be derived from high margin licensing agreements. During 2018, our revenue was derived from those businesses where we currently have a physical operational presence.

Total revenue from these businesses increased 61.8% to £3.5m (2017: £2.2m) with our adjusted EBITDA loss reduced by 27.3% to £20.9m (2017: loss £28.7m). In a trend which will continue as the Group migrates to its licensing model, underlying administrative expenses, after adjusting for exceptional items and the impact of foreign exchange, reduced during the year by 9.2% to £25.9m (2017: £28.5m). 2017 and 2018 represented a period of significant investment in the development of new applications with expenditure levels now reducing having materially completed this work.

Following the invention and patenting of our new XDrum design due to be launched this year to serve our Cleaning and Textile markets, we wrote down the value of our inventory of earlier design commercial washing machines and those on operating leases to customers. This resulted in a non-cash exceptional charge of £7.8m. Net cash outflow from operations reduced by 18.4% to £22.1m (2017: £27.1m).

In December 2018, Xeros raised £15.8m, before fees, with which to execute its commercialisation strategy through 2019. We expect to raise further equity to finish the year with a strong balance sheet as our commercialisation gathers momentum.

Operational Review

Cleaning Technologies

Domestic Laundry

Following the demonstration of our proprietary XDrum domestic washing machine design at the Consumer Electronics Show in Las Vegas in January 2018 and the cleaning, fabric care and sustainability benefits created by our patented XOrb technologies, Xeros conducted a structured due diligence process with a number of global appliance brands for them to study the potential adoption and commercialisation of our technologies in their machines.

In January 2019, Xeros signed a non-exclusive Joint Development Agreement with Wuxi Little Swan Company Limited, a subsidiary of Midea Group, the Chinese manufacturer of home appliances. The scope of the agreement is to develop and design a prototype washing machine including Xeros' technologies which, if successful, allows for both parties to enter into commercial discussions under a separate agreement and timetable. In 2017 Wuxi Little Swan Company sold 12.4m washing machines in China giving it a 28% share of the retail market. It also exported 3.9 million washing machines.

In April 2019, the Group signed an exclusive 10-year Licensing, Development and Commercialisation agreement with IFB Limited, a major manufacturer, distributor and retailer of washing machines in India, which included an up-front payment for the use of Xeros' technology. Once machine designs are completed and tested, the agreement provides for fixed royalty percentages on net sales prices, to be paid to Xeros with agreed minimum unit sales volumes. IFB is the market leader in front loading washing machine sales in India, a market currently estimated at 1 million front loading machine sales per annum and growing at between 15% and 20% per annum.

Assuming product development and testing milestones are successfully achieved, we expect first royalty revenues from this application in 2021.

During 2018, Xeros continued the development of its proprietary XFiltra™ filtration device which is designed to prevent micro-plastics generated by washing cycles from being released into the aqua-cycle. Plastics released from clothing during washing cycles is the single largest source of primary micro-plastic pollution.

XFiltra's unique design is capable of filtering and dewatering in excess of 99% of micro-particulate matter found in domestic washing machine effluent. Our design solution to address this global problem was featured in the BBC series 'Blue Planet UK' broadcast in March 2019. The proposed business model for the commercialisation of this technology is licensing with either domestic washing machine OEMs or the pump manufacturers who supply them.

High Performance Workwear

Xeros entered the Firefighter PPE segment of this market in July 2017 with the acquisition of Marken Inc, a US market leader in the cleaning and restoration of firefighter uniforms. The acquisition has demonstrated that our technologies decontaminate PPE from substances harmful to health, whilst simultaneously increasing the life of these expensive garments.

With the objective of creating a broadly accepted platform of evidence and creating a valuable asset in its own right, Xeros subsequently purchased the specialist cleaning business of Gloves Inc in March 2018 with sites in Miami and Atlanta and also converted a Hydrofinity facility in Corona, South California which was commissioned in July 2018.

In July and September 2018, we received independent verification of the cleaning efficacy and garment life extension capabilities of our technologies from SCS Engineers Inc and Intertek Group plc respectively. Testing demonstrated the ability of Xeros' technology to remove heavy metal contamination, remove asbestos contamination to non-detectable levels and preserve the integrity of high-tech fabrics used in the manufacture of firefighter turn-out gear – meaning ensembles last longer.

The progress made in each of its current markets has put Xeros technology firmly on the commercial map

This evidence has been key to orders received and to build a strong pipeline of prospective orders for our West Coast and Atlanta sites. Xeros' strategy is to develop its network of sites to the degree necessary to prove its technology and in locations with the strongest and best quality demand for Xeros' cleaning performance.

In the French transportation sector, we increased to eight the fleet of Xeros machines with a garment fleet provider for the cleaning the PPE of SNCF and Air France workwear. Our technology being selected based on its cleaning efficacy and garment life extension.

The segments of the PPE market that can be addressed with Xeros' technologies goes beyond firefighting and transportation and includes petrochemicals, mining and military markets, many of which are becoming increasingly aware of the adverse and potentially dangerous effects of incorrectly or insufficiently cleaned workwear.

In terms of market opportunity for the US firefighter PPE market, the cleaning, inspection and repair of uniforms is valued at approximately $330m p.a. With 1.1m firefighters in the US, there are 350,000 professional firefighters based in approximately 8,000 fire crews. Nearly 40% of these professional firefighters are based within 100 miles of one of the top 10 major US metropolitan areas.

We expect the Marken business to be cash generative by the end of 2019 and whilst we plan for it to be a valuable asset in its own right, it will be the learning and evidence base which Xeros will leverage to create licensing propositions for PPE garment fleet owners on a global basis.

Commercial Laundry

During 2018, Xeros' Hydrofinity business, which addresses the Commercial Laundry market, made significant progress towards its objective of becoming a licensor of Xeros' technologies to industry incumbents.

In July 2018, the business signed an exclusive 10-year licensing agreement with Jiangsu SeaLion Technology Development Company, a subsidiary of one of the largest commercial laundry equipment companies in China, with sales and service offices in each of China's 30 provinces. The first royalty revenues are expected in 2019.

In April 2019, the division signed a similar agreement with IFB limited, one of the largest commercial laundry equipment companies in India with approximately 5,000 machine installations. First revenues are expected in 2020. These agreements will commercialise Xeros' technologies using the XDrum design and provide for the deployment of Xeros' telematics system, XConnect, with all data being recorded and stored by Xeros.

In aggregate, the Chinese and Indian markets comprise 38% of the world's population with both countries experiencing increasing water stress. We continue to develop relationships with OEMs to license and serve key markets outside of these two countries.

The Hydrofinity business has also taken major steps to reduce its physical presence in forward channels in countries around the world. In December 2018, it completed the transfer of all installation and service to its Channel Partners in the US, reducing costs whilst simultaneously improving the customer experience. These partners are also increasingly taking on the sales role including multi-year subscription packages for the use of XOrbs.

Sales, installation and servicing agreements were also established with fanute in South Africa and ElectroRak in Dubai with commercial machines shipped to these partners in late 2018, a number of which have now been commissioned. Local water-stress is one of the key drivers for these partners in selecting Xeros technology.

In November 2018, our commercial laundry technology was certified as an "Environmentally Preferred Product" following an independently conducted Life Cycle Analysis by SCS Global Services. The certification is the only one yet afforded to this industry and was based upon 20,000 wash cycles with testing criteria including water use, energy demand and carbon emissions among other environmental impacts.

The licensing agreements signed to date, and preparations for similar arrangements in the Americas and EMEA, have enabled a significant reduction in the operating costs of the Hydrofinity business. Once implemented, these license agreements also have the benefit of significantly reducing Xeros' working capital.

Tanning Technologies

In 2016, our strategic review to determine which applications we should pursue, identified retanning and dyeing of bovine hides as a viable opportunity. There being no identifiable, willing licensee at the time, we took the decision to enter the market directly to prove out and de-risk the technology. The business, once sufficiently developed, would present commercial options for Xeros including the potential for outside investment. This division is branded Qualus.

Multiple scale trials conducted with tanneries in Europe and Latin America covering the retanning and dyeing phases of the tanning process have proven that our technology works for all hide applications, including auto, fashion and shoe leather, regardless of the different drum types used in the industry. In addition, we have established that the water and chemistry savings and the resultant value created are consistent with our business case for this market.

Following the development of engineering solutions to introduce XOrbs into tannery operations, which comprise some 40 separate operations in a continuous process, Qualus entered into a 10-year contract in September 2018 with Le Farc SA de CV in Leon, Mexico. Le Farc will convert its re-tanning operations in order to use Xeros' technologies. Commissioning of the first drums to process hides with XOrbs under the agreement is expected around the middle of 2019 with conversion completed by the end of the year. Le Farc supplies major footwear and auto brands.

Trials and commercial discussions have also taken place with multiple large-scale tanners and it is our expectation that additional contracts will be signed once Xeros' technologies are demonstrated in the operational environment of Le Farc.

Future developments in this business include applying Xeros' technologies into the up-stream tanning phases of leather production which are significant in their consumption of water and bulk chemicals, including chrome.

We estimate that 300 million bovine hides are tanned globally per annum and the estimated added value created by Xeros technologies from water and chemistry savings in the retanning and dyeing process to be in the range of £0.80 per hide.

Xeros continues to consider opportunities to attract third party finance into the Qualus business with the ultimate objective of being a licensor of its technology into this industry rather than being itself a market incumbent.

Textile Technologies

During 2018, we successfully developed XDrum machines to apply our XOrb technology to wool, cotton and denim garment finishing. These processes are applied to almost every garment that is made in order to remove contaminants introduced during manufacture and to change the texture and colour of raw fabrics to meet the specifications required by clothing designers, brands, retailers and consumers.

The Xeros process significantly reduces the amount of water and chemistry used and effluent produced and, in the case of denim, also has the capacity to reduce process steps and capital costs.

Xeros has now successfully completed tests at its technology centre in Sheffield for three major Chinese garment manufacturers during which we have successfully matched product outcomes in multiple garment types using significantly less water and chemistry. Discussions are ongoing with a number of manufacturers, with the objective of moving to scale trials later in 2019 ahead of commercialisation.

Our solutions in these applications offer manufacturers the resource and pollution reductions that consumers and governments are demanding. One example being the plan for "Zero Discharge of Hazardous Chemicals by 2020" which has 23 global clothing brands as signatories. We have also begun a process of engaging with major retailers to create demand for Xeros' technologies in the forward supply chain.

We believe our strategic decision in 2016 to address this market has now been validated given the benefits that Xeros technology delivers and the proof points we have now achieved in tests. The opportunity is very significant, with 22.7 million tonnes of natural fibres processed annually for the clothing and textiles industries, a third of those in China.

Intellectual Property

Xeros' IP-rich and asset-light commercialisation model requires that we have a strong and defendable patent portfolio which provides freedom to operate for our businesses and license partners. Xeros now has in excess of 40 patent families in application or granted. The Group files its patents in countries with large potential markets and where it believes it can successfully defend its Intellectual Property.

Our core patents are filed in countries which represent 90% of global GDP. In order to have the financial capacity, should it need to defend its patent portfolio, Xeros has significant levels of patent defence and litigation insurance. We have not identified any infringements which have the capacity to materially impair the validity and enforcement of our patent and trademark portfolio.

During 2018, seven new patent families were filed to protect our inventions with the majority in the fields of the XDrum and XFiltra. Xeros does not expect historical levels of new patent filings to continue as we believe the inventions for our current portfolio are sufficient for their commercialisation. We will continue to make filings based upon their ability to secure future revenues.

Outlook

In December 2018, Xeros raised £15.8m before expenses in order to continue to execute its licensing strategy and to deliver further major value inflection points. With development completed for the majority of our applications and the net cost of our business ventures reducing, we anticipate a continued reduction in our cash burn rate with our current funding sufficient to deliver these milestones through early 2020. However, during 2019 we expect to raise further equity to finish the year with a strong balance sheet as our commercialisation gathers momentum.

Overall, the Group is trading in line with the Board's expectations.

Mark Nichols

Chief Executive Officer

29 April 2019

Paul Denney
Chief Financial Officer

Financial review

Group revenue was generated as follows:

	Year Ended 31 December 2018 £'000	Year Ended 31 December 2017 £'000
Machine sales	**1,058**	726
Service revenue	**2,474**	1,451
Consumables	**12**	13
Total revenue	**3,544**	2,190

Group revenue was up 61.8% to £3.5m in the year ended 31 December 2018 (2017: £2.2m). Of this growth, 42.2% represents organic growth and growth of 19.6% is attributable to the acquisition by Marken of the specialist firefighter cleaning business of Gloves Inc in March 2018.

Machine sales revenue represents revenue from the sale of commercial washing machines by Hydrofinity. Machine sales revenue grew by 45.7% reflecting both the increase in the number of machines placed with customers and the full year impact of the successful conversion of installed machines to fully commissioned revenue-earning machines during 2017. Machine sales revenue is 30% of Group revenue (2017: 33%).

As at 31 December 2018 Hydrofinity's total revenue generating estate of commercial washing machines increased by a net 16 machines to 397 machines. This net figure is the result of a significant focus on improving the quality of the customer portfolio as machines have been moved from poor to good credit quality customers. Whilst such a move does not increase the number of revenue-earning machines it does result in improved financial performance from the estate.

Service revenue increased by 70.5% to £2.5m. Hydrofinity's service revenue increased by 34.4% to £1.6m from (2017: £1.2m). Marken's revenue jumped by 244% to £0.9m (2017: £0.2m) reflecting the combined impact of a full year of the original Marken business, acquired in July 2017 and the contribution of the Gloves Inc business acquired in March 2018. Service revenue is 70% of Group revenue (2017: 66%).

The Group reduced its adjusted EBITDA loss by 27.3% to £20.9m (2017: loss £28.7m).

Adjusted gross profit was £0.1m (2017: loss £0.4m). Adjusted gross profit comprises a profit of £0.2m from Hydrofinity and a loss of £0.1m from Marken. The move to a gross profit for Hydrofinity reflects the reduced cost of direct sales as Hydrofinity moves sales and customer servicing activities to third party channel partners.

Adjusted gross profit/loss and adjusted EBITDA are considered the key financial performance measures of the Group as they reflect the true nature of our continuing trading activities. Adjusted gross profit is defined as gross profit before exceptional cost of sales items. Adjusted EBITDA is defined as the loss on ordinary activities before interest, tax, share-based payment expense, exceptional costs, depreciation and amortisation.

As reported last year, the Group has now completed all fundamental applications development which has resulted in core R&D spending reducing by 5.9% to £4.8m including staff and patent costs (2017: £5.1m). This includes direct R&D expense of £1.6m (2017: £1.8m), patent and intellectual property expense of £1.3m (2017: £1.2m) and £1.9m of salary costs (2017: £2.0m).

This R&D spend was all expensed as it represents Group expenditure on Textiles and Domestic laundry development, none of which yet meet the full criteria for capitalisation of these costs in accordance with IAS 38. When these business areas are deemed to have met the IAS 38 capitalisation criteria ongoing development costs will be capitalised.

Underlying administrative expenses, which include the R&D cost, decreased by 9.2% to £25.9m (2017: £28.5m), after adjusting for exceptional items and the impact of foreign exchange. Total administrative expenses reduced by 18.2% to £25.3m (2017: £30.9m).

With the announcement that Hydrofinity will be producing the next generation of machines based on the XDrum technology for sale in 2020, the existing inventory of machines has been written down to a minimal net realisable value to reflect the reduced value of the old technology machines. Therefore a non-cash exceptional charge of £5.4m has been recorded in cost of sales.

Exceptional administrative non-operating, non-cash expenses of £2.2m are included in total administrative expenses (2017: £0.2m). This includes a charge of £2.4m reflecting the impairment of Hydrofinity machines leased to customers. These machines are held as fixed assets on the Group balance sheet. In addition there is a charge of £0.1m related to the cost of placing new ordinary shares in 2018 and an exceptional credit of £0.3m from a release of a provision for potential deferred consideration for the Marken acquisition.

Administrative expenses include a foreign exchange gain of £2.8m resulting from movements in the US dollar rate (2017: loss £2.2m).

Sterling has been marginally stronger against the US dollar compared to the previous reporting period, which reduces the reported losses in 2018. However, as we continue to fund the working capital and operating costs of the US Hydrofinity and Marken businesses this stronger Sterling benefits the Group.

The Group reported an operating loss of £30.5m (2017: loss £31.3m). The loss per share was 28.24p (2017: loss 34.92p).

Xeros expects cash utilisation to reduce as the Group benefits from the impact of trading at a positive gross margin and from a reduced direct cost base resulting from the move to a full licensing business model.

Net cash outflow from operations reduced to £22.1m (2017: £27.1m) from a combination of a reduced cash used in operations, £24.5m (2017: £27.1m) and the receipt of £2.3m R&D tax credits from HMRC relating to the 2016 and 2017 periods. Cash utilisation was in line with the Board's expectations.

The Group had existing cash resources as at 31 December 2018 of £16.0m (2017: £25.1m) and remains debt free. The Group expects to raise further equity from investors in 2019.

The Group has tax losses of approximately £100.9m to offset against future taxable profits (2017: £72.5m).

Paul Denney

Chief Financial Officer

29 April 2019

Principal activity

Xeros Technology Group plc (LN: XSG) is a platform technology company that is reinventing water intensive industrial and commercial processes by reducing water and chemistry usage with its polymer technologies. Its patented technologies have the capacity to provide material economic, operational and sustainability improvements that are unattainable with traditional processes. The Group is currently exploiting its intellectual property in three areas: Cleaning Technologies, Tanning Technologies and Textile Technologies.

The Company is incorporated and domiciled in the UK.

Business model

A description of the Group's activities and how it seeks to add value are included in the Chairman's statement, Chief Executive Officer's review and Chief Financial Officer's Review on pages 7 to 14.

Business review and results

A review of the Group's performance and future prospects is included in the Chairman's statement, Chief Executive Officer's review and Chief Financial Officer's review on pages 7 to 14. The loss for the year attributable to equity holders was £29.7m (2017: £30.6m). The directors do not recommend the payment of a dividend (2017: nil).

Key performance indicators

As the Group is in the process of development and commercialisation, the directors consider the key quantitative performance indicator to be the level of cash and deposits held in the business of £16.0m (2017: £25.1m). The Board performs regular reviews of actual results against budget, and monitors cash balances on a regular basis to ensure that the business has sufficient resources to enact its current strategy. Certain qualitative measures, such as the performance of product development initiatives, are also monitored on a regular basis. The Board will continue to review the KPIs used to assess the business as it grows.

Key risks

The Board carefully considers the risks facing the Group and endeavours to minimise the impact of those risks. The key risks are as follows:

Intellectual property

The Group's success will depend in part on its ability to maintain adequate protection of its intellectual property, covering its processes and applications. The intellectual property on which the Group's business is based is a combination of patent applications and proprietary know-how. No assurance can be given that any pending patent applications or any future patent applications will result in granted patents, that any patents will be granted on a timely basis, that the scope of any patent protection will exclude competitors or provide competitive advantages to the Group, that any of the Group's patents will be held valid if challenged, or that third parties will not claim rights in, or ownership of, the patents and other proprietary rights held by the Group.

There can be no assurance that others have not developed or will not develop similar products, duplicate any of the Group's products or design around any patent applications held by the Group. Others may hold or receive patents which contain claims having a scope that covers products developed by the Group (whether or not patents are issued to the Group). In addition, no assurance can be given that others will not independently develop or otherwise acquire substantially equivalent techniques or otherwise gain access to the Group's unpatented proprietary technology or disclose such technology or that the Group can ultimately protect meaningful rights to such unpatented technology.

Any claims made against the Group's intellectual property rights, even without merit, could be time consuming and expensive to defend and could have a materially detrimental effect on the Group's resources.

Third party intellectual property

Although the Board believes that the Group's current products, products in development and processes do not infringe the intellectual property rights of any third parties, it is impossible to be aware of all third party intellectual property. No assurance can be given that third parties will not in the future claim rights in or ownership of the patents and other proprietary rights from time to time held by the Group.

Research and development risk

The Group is involved in complex scientific areas and new product development. There is no guarantee that the Group will be successful in its research and product development. Some of the Group's technology and intellectual property portfolio is at an early stage of commercial development. The Group may not be able to develop and exploit its technology sufficiently to enable it to develop commercial and marketable products. Furthermore, the Group may not be able to develop new applications or identify additional specific market needs that can be addressed by the Group's technology.

Risk of competing technology

There is a risk that technological advances in competing technology and/or the lower cost of such technology may impede the commercial exploitation of the Group's technology.

Acceptance of the Group's products

The success of the Group will depend on the market's acceptance of, and attribution of value to, its core technology and the benefits of incorporating the same into various applications. There can be no guarantee that this acceptance will be forthcoming, that an acceptable value will be placed upon such technology or that the Group's core technology will succeed as an alternative to other applications.

Commercialisation risk

The Group has, and will continue to, enter into arrangements with third parties in respect of the development, production and commercialisation of products based on its technology. The Group's negotiating position in agreeing terms of either joint development, distribution, service or supply arrangements may be affected by its size and limited cash resources relative to potential development partners with substantial cash resources and established levels of commercial success. An inability to enter into or renew such arrangements on favourable terms, if at all, or disagreements between the Group and any of its potential partners could lead to delays in the Group's commercialisation strategy.

Early stage of operations

Whilst the Group has made initial limited product sales, it is still at an early stage of development. There are a number of operational, strategic and financial risks associated with such early stage companies. In particular, the Group's future growth and prospects will depend on its ability to develop products and services for applications which have sufficient commercial appeal, to manage growth and to continue to develop operational, financial and quality control systems on a timely basis, whilst at the same time maintaining effective cost controls. Any failure to develop operational, financial and management information and quality control systems in line with the Group's growth could have a material adverse effect on its business, financial condition and results of operations.

The Group is currently loss making and there can be no certainty that the Group will achieve increased or sustained revenues, profitability or positive cash flow from its operating activities within the timeframe expected by the Board or at all. The development of the Group's revenues is difficult to predict and there is no guarantee that it will generate any material revenues in the foreseeable future. The successful commercialisation of the Group's technology may rely, in part, on the ability of the Group to raise further finance. While the Group has been successful to date in raising funds as required, there can be no guarantee that a future fundraise will be successful. The Group has a limited operating history upon which its performance and prospects can be evaluated.

Competition risk

Given the potentially disruptive nature of the Group's technology in relation to established markets, the Group may face significant competition and negative commentary from organisations which have greater capital resources than it and/or which have a product offering competitive to that of the Group, to the detriment of the Group.

Supply chain risk

The Group is dependent on a limited number of key suppliers in relation to the production of its polymer bead cleaning system (which includes the production of the machines used in the system). Should any such key supplier cease to deal with the Group for any reason and/or materially and adversely change the terms upon which it deals with the Group, difficulties may be experienced by the Group in sourcing alternative suppliers on acceptable terms.

Dependence on key executives and personnel and the ability to attract and retain appropriately qualified personnel

The Group's future success is substantially dependent on the continued services and performance of its executive Directors and senior management and its ability to attract and retain suitably skilled and experienced personnel. The Group cannot give assurances that members of the senior management team and the executive Directors will continue to remain within the Group. Finding and hiring any such replacements could be costly and might require the Group to grant significant equity awards or other incentive compensation, which could adversely impact its financial results.

Reduction in government support for environmental-focused technologies

Most states in the US offer energy incentive programs to help offset energy costs, with the Federal Energy Management Program's Energy Incentive Program providing information to Federal agencies about the availability of energy-efficiency and renewable-energy project funding for public purpose programs on a state-by-state basis. These public purpose programs are administered by utilities, state agencies, or other third parties and paid for by utility ratepayers. The Group's existing and prospective customers in the US are potentially able to benefit from attractive incentives to install Xeros washing machines as a result of these incentive programs. In the event that the federal government reviews, reduces or withdraws its energy efficiency and renewable-energy project funding, the Group's ability to sign up new customers who would be able to benefit from incentives to install Xeros washing machines could be adversely affected.

Brexit

The Board expects future revenues from the commercialisation of its technology in the EU to effectively be in the form of royalties on its intellectual property. The international patent laws that apply to the protection of intellectual property are not affected by the status of the UK's membership of the EU and therefore the Board do not view Brexit as posing a material risk to the Group's future revenues.

Foreign exchange risk

Given the international nature of its business, the Group is exposed to foreign exchange risk arising from the normal conduct of its activities. The Board regularly reviews this foreign exchange risk and all forward currency purchases of foreign currency are reviewed and approved within the framework of an agreed risk policy.

Future developments

Future developments are described in the Chairman's statement, Chief Executive Officer's review and Chief Financial Officer's review on pages 7 to 14.

On behalf of the Board

Mark Nichols
Chief Executive Officer

29 April 2019

Directors’ report

The Directors hereby present their annual report and audited consolidated and parent company financial statements for the year ended 31 December 2018.

Share capital and funding

Full details of the Group and Company’s share capital movements during the year are given in note 19 of the financial statements.

Directors and their interests

The following directors held office during the period and up to the date of signing this report:

John Samuel	resigned 12 February 2019
David Armfield	appointed 5 June 2018
Mark Nichols	
Paul Denney	
Julian Viggars	resigned 23 May 2018
Dr Richard Ellis	
Stephen Taylor	resigned 19 September 2018
David Baynes	appointed 12 February 2019

Directors’ interests in the shares of the Company, including family interests are included in the Directors’ Remuneration Report on pages 19 to 21.

Directors’ indemnity insurance

The Group has maintained insurance throughout the year for its directors and officers against the consequences of actions brought against them in relation to their duties for the Group.

Profile of the current directors

David Armfield, Chairman

David joined Xeros in July 2018. His background is in corporate finance, having previously worked for Lehman Brothers as its Co-Head of European Industrial Coverage. He has also served as a partner at PwC, including a stint as the firm’s National Head of Industrial Products. He is the Founding Partner and Director of Kinetix Critchleys Corporate Finance, which provides advisory services to companies in the Clean Technology and Resource Efficiency industries.

Mark Nichols, Chief Executive Officer

Mark joined Xeros as Chief Executive Officer in September 2015. Mark’s background is in business development, finance and operations with Global enterprises including Total, Laing O’Rourke and BOC. During his career he has lived and worked in the US, Asia and Europe. Prior to joining Xeros, Mark led a number of technology start-ups in the cleantech arena.

Paul Denney, Chief Financial Officer and Company Secretary

Paul joined Xeros as Chief Financial Officer in October 2016. He established his career in financial management with US-based IT outsourcing business, Electronic Data Systems Inc. (now part of Hewlett Packard), working in the UK, Spain and Latin America. His two most significant recent roles were within high growth environments at Experian plc and at Callcredit Information Group. Paul is a qualified accountant and has an MBA from the London Business School.

David Baynes, Non-Executive Director

David joined Xeros in February 2019. He was appointed to the Board of IP Group plc in March 2014 following the acquisition of Fusion IP plc, where he was Chief Executive Officer and one of the founders. David has been a board director of Fusion IP plc since 2004, having been a director of Fusion IP Trading since 2003. Previously David worked at Celsis International plc from its incorporation to its flotation on the full list of the London Stock Exchange in July 1993; Toad plc (now 21st Century Technology plc, which he also co-founded where he was responsible for taking the company from start-up to a full listing on the London Stock Exchange. David was also CFO of Codemasters Limited, which at the time was the UK’s largest privately held games company. David is chair of the Audit Committee.

Richard Ellis, Non-Executive Director

Richard joined the board in October 2014. Richard was the global head of Research and Development for Reckitt Benckiser and prior to that held positions with Unilever. He has experience of both the consumer and industrial cleaning markets and has worked in the UK, Netherlands, USA and Australia. He has a BSc and PhD in Chemistry from the University of Manchester.

Substantial shareholders

As at 29 March 2019, shareholders holding more than 3% of the share capital of Xeros Technology Group plc were:

Name of shareholder	Number of shares	% of voting rights
Woodford Investment Management LLP	102,085,961	39.7
IP Group plc	45,090,693	17.5
Invesco Asset Management Limited	21,225,348	8.3
Entrepreneurs Fund LP	19,256,524	7.5
Baillie Gifford & Co	15,090,101	5.9
Oceanwood Capital	9,164,268	3.6
Cannacord Genuity	7,850,000	3.1

Employment policies

The Group supports employment of disabled people where possible through recruitment, by retention of those who become disabled and generally through training, career development and promotion.

The Group is committed to keeping employees as fully-informed as possible with regard to the Group's performance and prospects and seeks their views, wherever possible, on matters which affect them as employees.

Statement as to disclosure of information to the auditor

The Directors who were in office on the date of approval of these financial statements have confirmed that, as far as they are aware, that there is no relevant audit information of which the auditor is unaware. Each of the Directors have confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

Auditor

The board will put Grant Thornton UK LLP forward to be re-appointed as auditor by the shareholders and a resolution concerning their appointment will be put to the forthcoming AGM of the Company.

On behalf of the Board

Mark Nichols

Chief Executive Officer

29 April 2019

Unit 2, Evolution
Advanced Manufacturing Park
Whittle Way, Catcliffe
Rotherham
S60 5BL

It is the Company's policy that Executive Directors should have contracts with an indefinite term providing for a maximum of six months' notice. In the event of early termination, the Directors' contracts provide for compensation up to a maximum of basic salary for the notice period.

Non-executive Directors are employed on letters of appointment which may be terminated on not less than one months' notice.

Companies with securities listed on AIM do not need to comply with the UKLA Listing Rules. The Remuneration Committee is however committed to maintaining high standards of corporate governance and disclosure and has applied the guidelines as far as practical given the current size and development of the Company.

Remuneration Committee

The Remuneration Committee consists of David Armfield as Chairman, Richard Ellis and David Baynes.

The Remuneration Committee will review and make recommendations in respect of the Directors' remuneration and benefits packages, including share options, and the terms of their appointment. The remuneration committee will also make recommendations to the Board concerning the allocation of share options to employees under the share incentive schemes. The Remuneration Committee will meet at least once a year.

The main elements of the remuneration packages for Executive Directors and senior management are:

Basic annual salary (including directors' fees)

The base salary is reviewed annually from the beginning of each calendar year. The review process is undertaken by the Remuneration Committee and takes into account several factors, including the current position and development of the Group, individual contribution and market salaries for comparable organisations.

Discretionary annual bonus and Deferred Annual Bonus Plan

All Executive Directors and senior managers are eligible for a discretionary annual bonus which is paid in accordance with a bonus scheme developed by the Remuneration Committee. This takes into account individual contribution, business performance and commercial progress, along with financial results.

The Group has a Deferred Annual Bonus plan (the "DAB Plan"). Under the terms of the DAB Plan directors and senior managers will be given the opportunity to defer up to 50% of any gross cash annual bonus in exchange for a nominal cost share option over ordinary shares in the Company (the "Deferred Award"), which can be exercised after 3 years (or earlier if the participant ceases employment). The number of ordinary shares comprising the Deferred Award (i.e. subject to the option) will be calculated by dividing the amount of the cash bonus deferred by the closing market value of the ordinary shares of the Company on the dealing day immediately prior to the date of grant of the award. By participating in the DAB Plan directors and senior managers will be entitled to receive a matching award at no additional cost (the "Matching Award"). The Matching Award will also be a nominal cost option over ordinary shares in the Company. The number of ordinary shares comprising the Matching Award will be equivalent to two times the number of ordinary shares received in the Deferred Award. Participants will not be entitled to receive the Matching Award until the vesting date is reached which is three years from the date of grant of the award. The vesting of a Matching Award will be subject to performance conditions which will be determined by the Remuneration Committee. The first awards under the DAB Plan took place early in 2015 following confirmation of bonuses for the calendar year 2014 and further awards were made in early 2016 following confirmation of bonuses for the calendar year 2015, in early 2017 following confirmation of bonuses for the calendar year 2016 and in early 2018 following confirmation of bonuses for the calendar year 2017.

Share incentive schemes

The Group operates share option plans, under which certain directors' and senior management have been granted options to subscribe for ordinary shares. All options are equity settled. The options are subject to service and performance conditions, have an exercise price of between 0.15 pence and 305.00 pence and the vesting period is generally 1-3 years. If the options remain unexercised after a period of 10 years from the date of grant, the options expire. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Remuneration Policy for Non-Executive Directors

Remuneration for Non-Executive Directors is set by the Chairman and the Executive Members of the Board. Non-Executives do not participate in bonus schemes.

Directors' remuneration

The remuneration of the main Board Directors' of Xeros Technology Group plc who served from 1 January 2018 (or date of appointment if later) to 31 December 2018 (or date of resignation if earlier) was:

	Salary and fees £'000	Bonus Payments £'000	Benefits £'000	Total Year ended 31 December 2018 £'000	Total Year ended 31 December 2017 £'000
John Samuel (note 1)	**62**	**–**	**–**	**62**	62
Mark Nichols (note 2)	**280**	**18**	**2**	**300**	334
Paul Denney (note 2)	**197**	**15**	**1**	**213**	261
Julian Viggars (note 3)	**12**	**–**	**–**	**12**	30
Dr Richard Ellis	**30**	**–**	**–**	**30**	30
Stephen Taylor (note 4)	**22**	**–**	**–**	**22**	26
David Armfield (note 5)	**18**	**–**	**–**	**18**	–
Total	**621**	**13**	**3**	**657**	743

Note 1: John Samuel resigned as a director on 12 February 2019.

Note 2: In addition to the remuneration above, certain directors hold employee share scheme interests in the company. Fair value share-based payment charges recognised in the consolidated statement of profit or loss and other comprehensive income attributable to these directors are: Mark Nichols £404,967 (2016: £397,286) and Paul Denney £253,634 (2016: £214,426).

Note 3: Julian Viggars resigned as a director on 23 May 2018.

Note 4: Stephen Taylor was appointed as a director on 13 February 2017 resigned as a director on 19 September 2018.

Note 5: David Armfield was appointed as a director on 5 June 2018.

Directors' shareholdings

The interests of the Directors holding office at 31 December 2018 in the shares of the Company, including family interests were:

	Ordinary shares of 0.15p each	
	2018 Number	2018 %
John Samuel	1,477,188	0.6
Mark Nichols	500,000	0.2
Paul Denney	500,000	0.2
David Armfield	–	–
Dr Richard Ellis	–	–

Directors' interests in share options

Directors' interests in share options, for directors who held office at any point during the period, granted under either the Xeros Technology Group plc Enterprise Management Incentive Share Option Scheme or the Xeros Technology Group plc Unapproved Share Option Scheme, to acquire ordinary shares of 0.15 pence each in the Company at 31 December 2018 were:

	At 1 January 2018	Granted during the period	Exercised during the period	Forfeited/ lapsed during the period	At 31 December 2018	Exercise price
John Samuel (note 1)	81,300	–	–	–	81,300	0.15p
Mark Nichols (note 2)	1,250,000	–	–	–	1,250,000	225.0p
Mark Nichols (note 3)	48,471	–	–	–	48,471	0.15p
Mark Nichols (note 4)	250,000	–	–	–	250,000	210.0p
Mark Nichols (note 5)	–	500,000	–	–	500,000	225.0p
Mark Nichols (note 6)	–	4,504	–	–	4,504	0.15p
Paul Denney (note 4)	500,000	–	–	–	500,000	210.0p
Paul Denney (note 5)	–	300,000	–	–	300,000	225.0p

Note 1: There were employment period and performance conditions in relation to the 81,300 options granted on 25 March 2014 which allowed for vesting in three equal proportions on or after the Company's share price reaching 184.5 pence per share, 246 pence per share and 307.5 pence per share. As at the 31 July 2015 the performance conditions had been met.

Note 2: There were employment conditions in relation to 1,000,000 options granted on 12 November 2015 which allowed for vesting in 3 annual instalments between 14 September 2016 and 14 September 2018, and a further 250,000 options granted on 16 December 2015 which allowed for vesting in 3 annual instalments between 16 December 2016 and 16 December 2018.

Note 3: There were employment conditions in relation to 34,188 options granted on 20 January 2016 which allowed for vesting on 20 January 2019 and a further 14,283 options granted on 27 January 2017 which allowed for vesting on 27 January 2020.

Note 4: There were employment conditions in relation to 750,000 options granted on 25 January 2017 which allowed for vesting in 3 annual instalments between 25 January 2018 and 25 January 2020.

Note 5: There were employment conditions in relation to 800,000 options granted on 18 January 2018 which allowed for vesting in 3 annual instalments between 18 January 2019 and 18 January 2021.

Note 6: There are no performance conditions attached to 4,504 options grated on 26 January 2018 which vested immediately upon grant.

On behalf of the Board

David Armfield

Chairman of the Remuneration Committee

29 April 2019

Corporate governance report

Corporate governance

In April 2018, the Quoted Companies Alliance released a new version of its Code for Small and Mid-sized quoted companies (the 'Code'). The Board fully supports the underlying principles contained within the Code, has reviewed the Code in detail and supports its adoption. The responsibility for ensuring compliance and accurate reporting of Corporate Governance resides with the Board. Corporate Governance will be continually monitored and reviewed by the Board at least annually, as part of the Annual Report and Accounts process each year.

The Board set out their view on compliance with the corporate governance principles as detailed in the Code below:

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

The Group's strategy is to develop into an IP-rich, capital-light licenser of polymer-based water saving solutions to multiple scale industries, all of which deploy the same Xeros core technologies. Given the scale of the markets in which the Group operates, the strategy is to commercialise the Xeros technology with partners who already have strong international market positions and who also demonstrate a strategic intent to deliver increased levels of sustainability. The strategic report in this Annual Report and Accounts sets out this strategy in more detail.

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

The Group remains committed to an ongoing dialogue with shareholders to ensure that its strategy, direction and performance are clearly understood. Understanding the opinion of analysts and investors in the Group, and, as result, helping our business be better understood, is a crucial objective for the Group and the Group actively seeks to engage in this area.

Private shareholders

The AGM is the key forum for dialogue between retail shareholders and the Board. The Notice of Meeting is sent to shareholders at least 21 days before the meeting. The chairs of the Board and the Executive Directors routinely attend the AGM and are available to answer questions raised by shareholders. For each vote, the number of proxy votes received for, against and withheld is announced at the meeting. The results of the AGM are subsequently published on the Group's website.

Institutional shareholders

The Directors seek to build long-term relationships with institutional shareholders. These relationships are primarily managed by the Chief Executive Officer and the Chief Financial Officers. This process includes presentations to institutional shareholders and analysts following the release of the full-year and interim results, alongside other meetings as appropriate.

The Board as a whole is updated on these relationships, including any views or concerns held by shareholders, by the Executive Directors on a regular basis. Analyst reports are also circulated to the Board as and when they are produced.

In addition, David Baynes, a Director of one of the Group's major shareholders, has recently joined the Board.

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

The Board believes that the long-term success of the Groups is reliant on good relationships with a wide variety of stakeholders, both internal and external to the Group. The Board is regularly updated on key stakeholder engagement by the Executive team and through other members of senior management, who manage stakeholder relationships where appropriate.

Employees

The Group is committed to employee engagement, as the knowledge, skill and application of its employees is the defining factor in the long-term success of the Group. The Group takes the employee value proposition seriously, engaging with employees to establish what is important to them, through direct feedback and ongoing dialogue. The annual performance review cycle is key to the Group, ensuring that staff are given the necessary support in their development throughout the year, as well as allowing the senior management team to get feedback at a one to one level.

Suppliers

The Group has relationships with key suppliers which are managed closely by relevant senior management to ensure ongoing supply of products which are crucial to the Group. The Board are actively updated on supplier relationships on a regular basis.

Customers

As the medium and long-term strategy of the business evolves into the IP-rich, capital-light licenser of polymer-based water saving solutions, relationships with customers become longer-term and more co-operative. These key customers relationships are managed by the appropriate members of the Group's senior management, with Board support where necessary. The Board are updated on key customer relationships on a regular basis.

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

The Group has established a framework of internal controls which the Directors believe to be appropriate for the size and operations of the Group. This framework is reviewed by the Executive team, the Audit Committee and the Board on an ongoing basis.

The Board is responsible for reviewing and approving overall Group strategy, approving Group budgets and determines the financial structure of the Group. Monthly results, including variances and commentary are reported to the Board on a regular basis.

The Audit Committee assists the Board in discharging its duties regarding the financial statements, accounting policies and the maintenance of proper internal business, and operational and financial controls.

The Board has ultimate responsibility for the Group's system of internal control and the effectiveness thereof. Any such system can only mitigate partially against the risk of material misstatement or loss to the Group. The Board consider that the internal control environment in place within the Group is appropriate for the size, complexity and risk profile of the Group.

Principle Five: Maintain the Board as a well-functioning, balanced team led by the chair

The Board comprises the Non-Executive Chairman, two Executive Directors and two Non-Executive Directors. The Board believes that the Non-Executive Chairman and one of the Non-Executive Directors are classified as independent.

The Board believes that the make-up of the Directors currently provides a balance between independence and knowledge of the Group which allows them to discharge their responsibilities effectively, alongside the relevant Board committees. The Board are expected to commit time for a minimum of eight Board meetings a year, alongside adequate preparation time. Other meetings and commitments may be required as appropriate.

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

The Board believes that the current make-up of Directors offers a well balanced mix of skills in areas relevant to the long-term strategy of the Group. This belief is gained through a knowledge and understanding of the backgrounds of the Board, alongside the understanding of the needs of the Xeros Group. Details of the Directors, their backgrounds and the skills and expertise they bring to Xeros can be found elsewhere within this Annual Report and Accounts. The Board keep their skills up to date through regular updates from professional advisors.

The Board consider succession planning through the work of the nomination committee, considering the long-term benefits an appointee and how their skills fit in to the existing skills possessed by the Board. The continuous improvement process the Board undergo ensures that they are aware of the areas in which they would like to strengthen, and it is through this lens that Director Recruitment is performed. Executive Director and Senior Management succession planning is informed through the annual review cycle.

Principle Seven: Evaluate board performance based on clear and relevant objectives, seeking continuous improvement

The Board has introduced a formal evaluation procedure, to be performed at least annually. While the procedure has been formally adopted by the Board, no evaluation has taken place as at the date of this report. The Board expect that the first evaluation will take place during 2019.

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

The Xeros Group exists to provide solutions to global environmental challenges of water scarcity and pollution. The Board believes that Xeros technology provides genuine solutions to these challenges and prides itself on the impact that the Group can make in these critical areas. It is through this lens that the Group promotes a corporate culture based on ethical values and behaviours.

This process is led by the Board, through actions such as committing resources to projects with an ethical and societally beneficial purpose and setting a tone at the top which encourages these within the wider Group.

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

The Board meets at least eight times a year in accordance with its meeting calendar. This meeting calendar is established each year to align with the Group's financial calendar, ensuring a spread across the financial year alongside meetings at key times during the year. This calendar can also be supplemented with additional meetings as and when required.

The Board and the associated committees receive appropriate information in a timely manner prior to each meeting.

Roles of the Board, Chairman and Chief Executive Officer

The Board is responsible for the long-term success of the Group. There is a formal schedule of matters which are reserved for the Board. These matters reserved for the Board include:

- The overall strategy for the Group
- The structure and capital of the Group
- The financial reporting and control environment of the Group
- The Group's internal control framework
- Major contracts for the Group
- Shareholder communications
- The delegation of authority and other key Group policies

There is clear distinction between the roles of the Chairman and the Chief Executive Officer. The Chairman is responsible for providing leadership to the Board and ensuring that the long-term strategic focus of the Group is in the best interest of shareholders. The Chief Executive Officer is responsible for implementing the strategy as agreed by the Board and managing the direction of the Group through the Executive and wider senior management teams.

Board committees

The Board has established three subcommittees – the Audit, Remuneration and Nomination committees – which exist to support the Board in its objectives.

The Board believes the current governance structure is appropriate for the current size and scope of the Group. The Board remains committed to good corporate governance and will evolve the governance policies and procedures in place as the nature and scope of the Group evolves.

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

The Group communicates with shareholders through the Annual Report and Accounts, full-year and half-year announcements, and AGM and meetings with institutional shareholders. More detailed corporate information, including all announcements and presentations can be seen on the Xeros website. The Board are provided with updates on these communications by the Executive team and through the Group's brokers as appropriate. The Group maintains an open dialogue with other key stakeholders, including Group employees.

The Board

The Board currently comprises two Executive Directors and three Non-Executive Directors.

Audit Committee

The Audit Committee consists of David Baynes as Chairman and David Armfield. The Audit Committee will, inter alia, determine and examine matters relating to the financial affairs of the Company including the terms of engagement of the Company's auditor and, in consultation with the auditor, the scope of the audit. It will receive and review reports from management and the Company's auditor relating to the annual accounts and the accounting and the internal control systems in use throughout the Group. The Audit Committee will meet at least twice a year.

Nominations Committee

The Nominations Committee consists of David Armfield as Chairman, David Baynes and Richard Ellis. The Nominations Committee will monitor the size and composition of the Board and the other Board Committees, be responsible for identifying suitable candidates for board membership and monitor the performance and suitability of the current Board on an ongoing basis. The Nominations Committee will meet at least once a year.

Internal Control

The Board is responsible for maintaining a sound system of internal control. The Board's measures are designed to manage, not eliminate risk, and such a system provides reasonable but not absolute assurance against material misstatement or loss. Whilst, as a small AIM listed company, the Company is not required to comply with the full provisions of the "Internal Control Guidance for Directors on the Combined Code" (The Turnbull Report), the Board considers that the internal controls do meet many of those requirements and are adequate given the size of the Company.

Some key features of the internal control system are:

(i) Management accounts information, budgets, forecasts and business risk issues are regularly reviewed by the Board who meet at least seven times per year;

(ii) The Company has operational, accounting and employment policies in place;

(iii) The Board actively identifies and evaluates the risks inherent in the business and ensures that appropriate controls and procedures are in place to manage these risks;

(iv) There is a clearly defined organisational structure, and

(v) There are well-established financial reporting and control systems.

Going Concern

At 31 December 2018, the Group had £16.0m of cash and cash equivalents. At this stage in its development the Group is reliant on equity share funding. When making their going concern assessment the directors assess available and committed funds against all non-discretionary expenditure, and related cash flows, as forecast for the period ended 30 April 2020. Committed funds are those the Group will use to meet obligations that exist as of the 31 December 2018. These forecasts include a number of assumptions which are sensitised, including the possibility of a fundraise taking place in the period, or the level of ongoing discretionary spend if a fundraise is not executed or is not successful. While there is uncertainty around the funding of the Group and the pathway to break-even, the directors consider that this uncertainty is not material and that plans in place should enable the Group to continue in operational existence for the foreseeable future. As such, the Directors believe that it remains appropriate to prepare the financial statements on a going concern basis.

Note 16 to this financial information includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and its exposure to credit, liquidity and market risk. The Directors have considered their obligation, in relation to the assessment of the going concern of the Group and each statutory entity within it and have reviewed the current budget cash forecasts and assumptions as well as the main risk factors facing the Group.

Statement of Directors' responsibilities

Statement of Directors' responsibilities in respect of the Annual Report and the financial statements

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. In compliance with this the Directors have prepared the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law, including FRS101 'Reduced Disclosure Framework'). Under company law the Directors must not approve the financial statements unless they are satisfied that they show a true and fair view of the state of affairs and profit or loss of the company and the group for that period. In preparing these financial statements, the Directors are required to:

a. select suitable accounting policies and then apply them consistently;
b. make judgements and accounting estimates that are reasonable and prudent;
c. state whether applicable IFRSs as adopted by the European Union or United Kingdom Generally Accepted Accounting Practice have been followed, subject to any material departures disclosed and explained in the financial statements;
d. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditor's report to the members of Xeros Technology Group plc

Opinion

Our opinion on the financial statements is unmodified

We have audited the financial statements of Xeros Technology Group plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2018 which comprise the Consolidated statement of profit or loss and other comprehensive income, the Consolidated statement of changes in equity, the Consolidated statement of financial position, the Consolidated statement of cash flows, the Company statement of financial position, the Company statement of cash flows and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosures Framework' (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2018 and of the group's loss for the period then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Overview of our audit approach

- Overall materiality: £1,256,000, which represented 5% of the group's expected loss before tax when planning our audit.
- The key audit matters were identified as revenue recognition and the carrying value of investments in subsidiaries and the carrying value of intercompany receivables.
- We have assessed the significance of the components within the group and performed a combination of comprehensive audits, targeted audit procedures and analytical procedures based on that assessment.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter – Group

The recognition of revenue

There is a risk that revenue may be misstated due to the improper recognition of revenue.

The Group offers an integrated service and care package. This package includes the transfer of equipment and an ongoing commitment to service and support. Where appropriate, the Group accounts for sales under these packages as finance leases. As part of determining the appropriate revenue recognition policy for such packages, the Group is required to allocate the total contract revenue between the various contract elements which requires judgement.

There is therefore a risk that revenue is not recognised in line with the lease agreement and that the split of the product and the aftercare is not performed appropriately.

We therefore identified revenue recognition as a significant risk, which was one of the most significant assessed risks of material misstatement.

How the matter was addressed in the audit – Group

Our audit work included, but was not restricted to:

- obtaining an understanding of the relevant business and controls in place around the recording of revenue, which were corroborated through a walkthrough;
- evaluation of the revenue recognition policies for compliance with IAS 17 'Leases' and IFRS 15 'Revenue from contracts with customers' as applicable;
- testing a sample of revenue transactions in respect of leases and agreeing them to supporting documentation, including lease agreements and cash receipts where necessary to vouch that income has been appropriately recognised in accordance with the Group's revenue recognition policies.

The group's accounting policy on revenue recognition including the key sources of estimation uncertainty is shown in note 2 to the financial statements in the Accounting policies section on page 35 and related disclosures are included in note 1.

Key observations

Based on our audit work, we have found that revenues were accounted for in line with the Group's accounting policies, IAS 17 'Leases' and IFRS 15 'Revenue from contracts with customers'.

Key Audit Matter – Parent

Recoverability of the carrying value of investments in, and intercompany receivables due from, subsidiaries

The parent company balance sheet includes investments in trading subsidiaries of £9.7m (2017: £9.1m) and receivables from those subsidiaries of £36.9m (2017: £63.6m).

There is a risk that the carrying value of investments and intercompany receivables may be overstated. The process for assessing whether impairment exist under both International Accounting Standard (IAS) 36 Impairment of Assets and International Financial Reporting Standard (IFRS) 9 Financial Instruments is complex.

The group's subsidiaries are currently loss making and due to the group still being in the development stage of activities management's assessment of any potential impairment is inherently subjective. Assumptions involved in the forecasting and discounting future cash flows associated with such impairment assessments can be highly judgemental and can significantly impact the results of the impairment review.

Given the nature of the business, management have assessed the recoverability with reference to both external valuations and forecast performance.

How the matter was addressed in the audit – Parent

Our audit work included, but was not restricted to:

- validating the integrity of the impairment models through testing of the mathematical accuracy;
- understanding the underlying process used by management to determine the discount rates, and working with our internal valuation specialists to assess them;
- obtaining third party evidence to support the long-term value in current markets; and
- assessing the adequacy of the disclosure included within the financial statements for compliance with IAS 36 'Impairment of assets' and IFRS 9 'Financial Instruments' as appropriate.

From the work performed we identified that changes in the group's strategic plans were not fully reflected within management's assessment of impairment. As a result of this challenge an impairment of £49m has been recognised by management.

The company's accounting policy on valuation of investments is shown in note C1 in the Accounting policies section to the financial statements on page 66 and related disclosures detailing the adjustments are included in note C5 on page 68.

Key observations

Based on our audit work, we have concluded that the valuation of non-current assets is accounted for in line with the parent company's accounting policies and IAS 36 'Impairment of assets'.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

Materiality was determined as follows:

Materiality measure	Group	Parent
Financial statements as a whole	£1,256,000 which was 5% of the expected loss before tax at the time of planning our audit. This benchmark is considered the most appropriate because the group is still in the development stage. This is our first year as auditors and therefore no comparison has been made to the prior year materiality.	£275,000 which is based on 0.5% of total assets, capped for component materiality purposes. This benchmark is considered the most appropriate as the parent company is primarily a holding company and its major activities relate to its investments in subsidiary undertakings. This is our first year as auditors and therefore no comparison has been made to the prior year materiality.
Performance materiality used to drive the extent of our testing	60% of financial statement materiality.	60% of financial statement materiality.
Communication of misstatements to the audit committee	£62,800 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£13,750 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

An overview of the scope of our audit

Our audit approach was a risk-based approach founded on a thorough understanding of the group's business, its environment and risk profile and in particular included:

- Documenting the processes and controls covering all of the significant risks.
- The group has components in the UK, US and China. We have assessed the risk of material misstatement for each of these components to conclude which components are in scope for a comprehensive audit approach.
- A comprehensive audit approach includes a combination of transactional testing and analytical procedures.
- The audit was performed such that we had appropriate oversight of the component auditor. This included briefing the component audit team, directing the risk assessment and fraud discussions and evaluating and reviewing the work performed by the component auditor for the purpose of the group audit.
- For those components where a comprehensive audit was not performed, we have carried out a combination of targeted audit procedures and analytical procedures.

Other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

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

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

Matters on which we are required to report under the Companies Act 2006

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 25, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

Mark Overfield BSc FCA

Senior Statutory Auditor

for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Leeds

29 April 2019

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December 2018

	Notes	Year ended 31 December 2018 £'000	Year ended 31 December 2017* £'000
Revenue	3	**3,544**	2,190
Cost of sales		**(3,396)**	(2,638)
Adjusted gross profit/(loss)**		**148**	(448)
Exceptional cost of sales	5	**(5,396)**	–
Gross loss		**(5,248)**	(448)
Administrative expenses	7	**(25,266)**	(30,894)
Adjusted EBITDA***		**(20,850)**	(28,669)
Exceptional cost of sales	5	**(5,396)**	–
Share based payment expense	22	**(1,090)**	(1,865)
Exceptional administrative expenses	7	**(2,186)**	(195)
Amortisation of intangible fixed assets	11	**(194)**	(39)
Depreciation of tangible fixed assets	12	**(798)**	(574)
Operating loss		**(30,514)**	(31,342)
Net finance income/(expense)	8	**134**	(574)
Loss before taxation		**(30,380)**	(31,916)
Taxation	9	**1,012**	1,305
Loss after tax		**(29,368)**	(30,611)
Other comprehensive income/(expense)			
Items that are or may be reclassified to profit or loss:			
Foreign currency translation differences – foreign operations		**(2,458)**	1,727
Total comprehensive expense for the period		**(31,826)**	(28,884)
Loss per share			
Basic and diluted on loss from continuing operations	10	**(28.24)p**	(34.92)p

* The Group has applied IFRS 15 in 2018 using the cumulative effect method. Under this method, the comparative information is not restated. See note 4 for further details.

** Adjusted gross profit/loss comprises gross profit/loss before exceptional cost of sales items.

*** Adjusted EBITDA comprises loss on ordinary activities before interest, tax, share-based payment expense, exceptional costs, depreciation and amortisation.

Consolidated statement of changes in equity
For the year ended 31 December 2018

	Share capital £'000	Share premium £'000	Merger reserve £'000	Foreign currency translation reserve £'000	Retained earnings deficit £'000	Total £'000
At 31 December 2016	129	66,280	15,443	(1,742)	(41,433)	38,677
Loss for the year	–	–	–	–	(30,611)	(30,611)
Other comprehensive expense	–	–	–	1,727	–	1,727
Loss and total comprehensive expense for the period	–	–	–	1,727	(30,611)	(28,884)
Transactions with owners, recorded directly in equity:						
Issue of shares	17	24,983	–	–	–	25,000
Exercise of share options	3	493	–	–	–	496
Costs of share issues	–	(1,374)	–	–	–	(1,374)
Share based payment expense	–	–	–	–	1,865	1,865
Total contributions by and distributions to owners	20	24,102	–	–	1,865	25,987
At 31 December 2017	149	90,382	15,443	(15)	(70,179)	35,780
Impact of change in accounting policy*	–	–	–	–	(111)	(111)
Adjusted balance 31 December 2017	**149**	**90,382**	**15,443**	**(15)**	**(70,290)**	**35,669**
Loss for the year	–	–	–	–	(29,368)	(29,368)
Other comprehensive expense	–	–	–	(2,458)	–	(2,458)
Loss and total comprehensive expense for the year	–	–	–	(2,458)	(29,368)	(31,826)
Transactions with owners, recorded directly in equity:						
Issue of shares following placing and open offer	237	15,549	–	–	–	15,786
Exercise of share options	–	7	–	–	–	7
Costs of share issues	–	(754)	–	–	–	(754)
Share based payment expense	–	–	–	–	1,090	1,090
Total contributions by and distributions to owners	237	14,802	–	–	1,090	16,129
At 31 December 2018	**386**	**105,184**	**15,443**	**(2,473)**	**(98,568)**	**19,972**

* The Group has applied IFRS 15 in 2018 using the cumulative effect method. Under this method, the comparative information is not restated. See note 4 for further details.

Consolidated statement of financial position

For the year ended 31 December 2018

	Notes	At 31 December 2018 £'000	At 31 December 2017 £'000
Assets			
Non-current assets			
Intangible assets	11	**1,290**	654
Property, plant and equipment	12	**1,954**	3,516
Trade and other receivables	14	**1,292**	1,104
Total non-current assets		**4,536**	5,274
Current assets			
Inventories	13	**945**	6,392
Trade and other receivables	14	**2,402**	2,235
Current tax asset	9	**–**	1,306
Cash and cash equivalents	15	**16,001**	25,149
Total current assets		**19,348**	35,082
Total assets		**23,884**	40,356
Liabilities			
Non-current liabilities			
Deferred consideration	17	**–**	(185)
Deferred tax	18	**(38)**	(38)
Total non-current liabilities		**(38)**	(223)
Current liabilities			
Trade and other payables	17	**(3,874)**	(4,353)
Total current liabilities		**(3,874)**	(4,353)
Total liabilities		**(3,912)**	(4,576)
Net assets		**19,972**	35,780
Equity			
Share capital	19	**386**	149
Share premium	19	**105,184**	90,382
Merger reserve	19	**15,443**	15,443
Foreign currency translation reserve	20	**(2,473)**	(15)
Accumulated losses	20	**(98,568)**	(70,179)
Total equity		**19,972**	35,780

Approved by the Board of Directors and authorised for issue on 29 April 2019.

David Armfield
Chairman

Paul Denney
Chief Financial Officer

Company number: 08684474

Consolidated statement of cash flows
For the year ended 31 December 2018

	Notes	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Operating activities			
Loss before tax		**(30,514)**	(31,916)
Adjustment for non-cash items:			
Amortisation of intangible assets	11	**194**	39
Depreciation of property, plant and equipment		**790**	574
Share based payment	22	**1,090**	1,865
Decrease/(increase) in inventories		**5,783**	(2,218)
Increase in trade and other receivables		**(3)**	(26)
(Decrease)/increase in trade and other payables		**(3,781)**	3,983
Release of deferred consideration		**(398)**	
Impairment of fixed assets		**2,523**	
Finance income		**(135)**	(131)
Finance expense		**–**	705
Cash used in operations		**(24,451)**	(27,125)
Tax (payments)/receipts		**2,318**	(2)
Net cash outflow from operations		**(22,133)**	(27,127)
Investing activities			
Finance income		**134**	131
Acquisition of subsidiary undertaking	24	**(642)**	(577)
Cash withdrawn from/(placed on) deposits with more than 3 months maturity		**–**	9,959
Purchases of property, plant and equipment		**(1,392)**	(271)
Net cash inflow/(outflow) from investing activities		**(1,900)**	9,242
Financing activities			
Proceeds from issue of share capital, net of costs	19	**14,916**	24,122
Net cash inflow from financing activities		**14,916**	24,122
(Decrease)/increase in cash and cash equivalents		**(9,117)**	6,237
Cash and cash equivalents at start of year/period		**25,149**	18,975
Effect of exchange rate fluctuations on cash held		**(31)**	(63)
Cash and cash equivalents at end of year/period	15	**16,001**	25,149

Notes to the consolidated financial statements
For the year ended 31 December 2018

1) Basis of preparation

Xeros Technology Group plc is a public limited company domiciled in the United Kingdom. The financial statements of Xeros Technology Group plc are audited consolidated financial statements for the year ended 31 December 2018. These include comparatives for the year ended 31 December 2017. The level of rounding for financial information is the nearest thousand pounds.

The Company's registered office is Unit 2, Evolution, Advanced Manufacturing Park, Whittle Way, Catcliffe, Rotherham, S60 5BL.

The consolidated financial statements have been prepared under the historical cost convention in accordance with International Financial Reporting Standards as adopted by the European Union (EU IFRS).

Business combinations and basis of consolidation

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are deconsolidated from the date control ceases.

Intercompany transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated.

Where the acquisition is treated as a business combination, the purchase method of accounting is used to account for the acquisition of subsidiaries by the Group.

The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Acquisition costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of the acquisition is less than the fair value of net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

All intra-group balances and transactions, including unrealised profits arising from intra-group transactions, are eliminated fully on consolidation.

Going Concern

At 31 December 2018, the Group had £16.0m of cash and cash equivalents. At this stage in its development the Group is loss making and incurs operating cash outflows. It is therefore reliant on equity share funding to continue its development operations and may require a further capital injection to meet forecast spend (both discretionary and non discretionary) over the next 12 months to April 2020. As with all such businesses, the group is reliant on cyclical equity funding while developing technologies, with a long term view to commercialising those technologies to enable them to provide a return to the shareholders. Whilst there is no guarantee that further equity funding will be made available, the directors believe that given past history of successful share placings, and the consistent development progress across the project portfolio, the required cash can be raised in line with the above.

When making their going concern assessment the directors assess available and committed funds against all non-discretionary expenditure, and related cash flows, as forecast for the period ended 30 April 2020. These forecasts indicate that the Group is able to settle its liabilities as they fall due in the forecast period. In these forecasts the directors have considered appropriate sensitivities such as the level of discretionary expenditure included and the ability to raise additional funds as described above. Given the funding status of the Group there is uncertainty over the long-term financing of the Group but the Directors do not believe that this uncertainty is material. Accordingly, the directors consider that this should enable the Group to continue in operational existence for the foreseeable future and the Directors believe that it remains appropriate to prepare the financial statements on a going concern basis.

Note 16 to this financial information includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and its exposure to credit, liquidity and market risk. The Directors have considered their obligation, in relation to the assessment of the going concern of the Group and each statutory entity within it and have reviewed the current budget cash forecasts and assumptions as well as the main risk factors facing the Group.

2) Significant accounting policies

The principal accounting policies applied are set out below.

Revenue recognition

The Group has applied IFRS 15 using the cumulative effect method and therefore the comparative information has not been restated and continues to be reported under IAS 18. The introduction of IFRS 15 has had no material impact on the reported results of the Group.

Revenue on machines sales is recognised once the machine has been installed at the customer site in line with the contract agreed. Service revenue is recognised in line with the profile of the delivery of the service to the customer and consumable revenue is recognised when the product is delivered to the customer.

When assessing the revenue recognition against IFRS15, the Group assess the contract against the five steps of IFRS15. This process includes the assessment of the performance obligations within the contract and the allocation of contract revenue across these performance obligations once identified. This is particularly relevant where customer contracts are agreed with multiple elements, such as those sales where a machine is sold in a bundle with an ongoing service contract, is split according to the amount of consideration expected to be received for the transfer of the relevant goods or services to the customer. This consideration is calculated using cost data and an appropriate margin.

Revenue is shown net of Value Added Tax or Sales Tax as appropriate.

In comparative periods, revenue is venue is recognised at the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of business and is shown net of Value Added Tax.

The difference between the amount of income recognised and the amount invoiced on a particular contract is included in the statement of financial position as deferred income. Amounts included in deferred income due within one year are expected to be recognised within one year and are included within current liabilities.

Foreign currencies

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purposes of the consolidated financial statements, the results and the financial position of each Group entity are expressed in Pounds Sterling, which is the functional currency of the Company and the presentational currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined.

Non-monetary items that are measured in terms of historical cost in foreign currency are not retranslated.

The assets and liabilities of foreign operations are translated using exchange rates at the balance sheet date. The components of shareholders' equity are started at historical value. An average exchange rate for the period is used to translate the results and cash flows of foreign operations.

Exchange differences arising on translating the results and net assets of foreign operations are taken to the translation reserve in equity until the disposal of the investment. The gain or loss in the statement of profit or loss and other comprehensive income on the disposal of foreign operations includes the release of the translation reserve relating to the operation that is being sold.

Exceptional items

One off items with a material effect on results are disclosed separately on the face of the Consolidated Statement of Profit and Loss and Other Comprehensive Income. The Directors apply judgement in assessing the particular items which, by virtue of their scale and nature, should be classified as exceptional items. The Directors consider that separate disclosure of these items is relevant to an understanding of the Group's financial performance.

2) Significant accounting policies continued

Research and development

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Development costs are only capitalised when the related products meet the recognition criteria of an internally generated intangible asset, the key criteria being as follows:

- it is probable that the future economic benefits that are attributable to the asset will flow to the Group;
- the project is technically and commercially feasible;
- the Group intends to and has sufficient resources to complete the project;
- the Group has the ability to use or sell the asset; and
- the cost of the asset can be measured reliably.

Such intangible assets are amortised on a straight-line basis from the point at which the assets are ready for use over the period of the expected benefit and are reviewed for an indication of impairment at each reporting date. Other development costs are charged against profit or loss as incurred since the criteria for their recognition as an asset are not met.

The costs of an internally generated intangible asset comprise all directly attributable costs necessary to create, produce and prepare the asset to be capable of operating in the manner intended by management. Directly attributable costs include employee costs incurred on technical development, testing and certification, materials consumed and any relevant third-party cost. The costs of internally generated developments are recognised as intangible assets and are subsequently measured in the same way as externally acquired intangible assets. However, until completion of the development project, the assets are subject to impairment testing only.

No development costs to date have been capitalised as intangible assets as it is deemed that the probability of future economic benefit is currently uncertain.

Leases

As a lessee

At the current time, the Group only partakes of lease arrangements where all of the risks and rewards incidental to ownership are not transferred to the Group (an 'operating lease'), the total rentals payable under the lease are charged to the consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognised as a reduction in the rental expense over the lease term.

As a lessor

As the Group transfers substantially all the risks and benefits of ownership of the asset, the arrangement is classified as a finance lease and a receivable is recognised for the initial direct costs of the lease and the present value of the minimum lease payments. As payments fall due, finance income is recognised in the income statement so as to achieve a constant rate of return on the remaining net investment in the lease. Assets held for rentals to customers under operating leases are recorded as fixed assets and are depreciated on a straight-line basis to their estimated residual values over their estimated useful lives. Operating lease income is recognised within revenue on a straight-line basis over the term of the rental period. Depreciation on machines leased to customers which are held in fixed assets is charged to administrative expenses as it is not directly related to sales.

The Group has assessed the impact of the introduction of IFRS16 on the Group's financial reporting and does not believe that, had the new standard been in effect for the year ended 31 December 2018, there would have been a material impact on either the reported loss for the year or on the Group's net assets as at 31 December 2018.

2) Significant accounting policies continued

Intangible assets and goodwill

Recognition and measurement

Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses.

Other intangible assets, including customer relationships and brands, that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses.

Amortisation

Amortisation is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives and is generally recognised in profit or loss. Goodwill is not amortised. The estimated useful lives for current and comparative periods are as follows:

Customer lists	– 5 years
Brands	– 5 years
Software	– 3 years

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate. Assets considered to have indefinite useful economic lives, such as goodwill, are tested annually for impairment.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment losses. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation is charged so as to write off the costs of assets over their estimated useful lives, on the following basis:

Leasehold improvements	– over the term of the lease on a straight-line basis
Plant and machinery	– 20% on cost on a straight-line basis
Fixtures and fittings	– 20% on cost on a straight-line basis
Computer equipment	– 33% on cost on a straight-line basis
Vehicles	– 20% on cost on a straight-line basis

The gain or loss arising on the disposal of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the statement of profit or loss and other comprehensive income.

Impairment of non-current assets

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level at which management monitors goodwill. Cash-generating units to which goodwill has been allocated are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the assets or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow evaluation.

Inventories

Inventories are valued at the lower of cost and net realisable value. Cost incurred in bringing each product to its present location and condition is accounted for as follows:

Raw materials, work in progress and finished goods – Purchase cost on a first-in, first-out basis.

Net realisable value is the estimated selling price in the ordinary course of business.

2) Significant accounting policies continued

Share based payments

Certain employees and consultants (including Directors and senior executives) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions"). This policy applies to all schemes, including the Deferred Annual Bonus scheme open to certain management personnel.

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined by using an appropriate pricing model. The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date"). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance and/or service conditions are satisfied. Where the terms of an equity-settled award are modified, the minimum expense recognised is the expense as if the terms had not been modified. An additional expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Financial assets and liabilities

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group becomes party to the contractual provisions of the instrument. Financial assets are de-recognised when the contractual rights to the cash flows from the financial asset expire or when the contractual rights to those assets are transferred. Financial liabilities are de-recognised when the obligation specified in the contract is discharged, cancelled or expired.

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- amortised cost
- fair value through profit or loss (FVTPL)
- fair value through other comprehensive income (FVOCI)

In the periods presented the Group does not have any financial assets categorised as FVTPL or FVOCI.

After initial recognition, these are measured at amortised cost using the effective interest rate method. Discounting is omitted where the effect is immaterial. All of the Group's financial assets fall into this category.

Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost less provision for impairment. Appropriate provisions for estimated irrecoverable amounts are recognised in the statement of profit or loss and other comprehensive income when there is objective evidence that the assets are impaired.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Investments – bank deposits

Comprise bank deposits maturing more than three months after the balance sheet date.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

2) Significant accounting policies continued

Financial assets and liabilities continued

Trade and other payables

Trade payables are initially measured at their fair value and are subsequently measured at their amortised cost using the effective interest rate method; this method allocates interest expense over the relevant period by applying the "effective interest rate" to the carrying amount of the liability.

Impairment of financial assets

The Group accounts for impairment of financial assets using the expected credit loss model as required by IFRS 9. The Group considers a broad range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

Taxation

The tax expense/(credit) represents the sum of the tax currently payable or recoverable and the movement in deferred tax assets and liabilities.

Current tax is based upon taxable profit/(loss) for the year. Taxable profit/(loss) differs from net profit/(loss) as reported in the statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

The Group's liability for current tax is calculated by using tax rates that have been enacted or substantively enacted by the reporting date.

Credit is taken in the accounting period for research and development tax credits, which have been claimed from HM Revenue and Customs, in respect of qualifying research and development costs incurred. Research and development tax credits are recognised on an accruals basis with reference to the level of certainty regarding acceptance of the claims by HMRC.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based upon tax rates that have been enacted or substantively enacted by the reporting date. Deferred tax is charged or credited in the statement of profit or loss and other comprehensive income, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the profit nor the accounting period.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Critical accounting estimates and areas of judgement

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and assumptions that have the most significant effects on the carrying amounts of the assets and liabilities in the financial information are discussed below:

Revenue recognition

The Group offers an integrated service and care package. This package includes the transfer of equipment and an ongoing commitment to service and support. Where appropriate, the Group accounts for the sales under these packages as finance leases. As part of determining the appropriate revenue recognition policy for such packages, the Group is required to allocated the total contract revenue between the various contract elements in line with IFRS 15. Due to the unique nature of the product and the stage of development of the Group, such assessment is based on limited historical information and requires a level of judgement. These judgements may be revised in future years.

2) Significant accounting policies continued

Critical accounting estimates and areas of judgement continued

Research and development costs

Careful judgement by the Directors is applied when deciding whether the recognition requirements for capitalising development costs have been met. This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems. Judgements are based on the information available at each reporting date which includes the progress with testing and certification and progress on, for example, establishment of commercial arrangements with third parties. Specifically, the Directors consider production scale evidence of commercial operation of the Group's technology. In addition, all internal activities related to research and development of new products are continuously monitored by the Directors. To date, no development costs have been capitalised.

Accounting standards and interpretations not applied

At the date of authorisation of these financial statements, the following IFRSs, IASs and Interpretations were in issue but not yet effective. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated:

IFRS 16	Leases	1 January 2019
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019
IFRS 9 (amended October 2017)	Prepayment Features with Negative Compensation	1 January 2019

The Directors are implementing IFRS16 for the year ended 31 December 2019. Had IFRS16 been in place for the year ended 31 December 2018, the Directors do not consider that there would have been a material impact on the results reported.

3) Segmental reporting

The financial information by segment detailed below is frequently reviewed by the Chief Executive Officer, who has been identified as the Chief Operating Decision Maker ("CODM"). The segments are distinct due to the markets they serve. The all other activities segment contains supporting functions and activities in respect of applications that have not yet been fully commercialised.

The Hotel & Lodging segment was rebranded as Hydrofinity and the High Performance Workwear segment was rebranded as Marken during 2018.

For the year ended 31 December 2018:

	Hydrofinity £'000	Marken £'000	All Other Activities £'000	Total £'000
Machine sales	1,058	–	–	1,058
Service Income	1,616	858	–	2,474
Consumables	12	–	–	12
Total revenue	2,686	858	–	3,544
Adjusted gross profit/(loss)	181	(33)	–	148
Gross loss	(5,215)	(33)	–	(5,248)
Adjusted EBITDA	(5,027)	(1,808)	(14,015)	(20,850)
Operating loss	(12,656)	(1,933)	(15,925)	(30,514)
Net finance income	93	–	41	134
Loss before tax	(12,563)	(1,933)	(15,884)	(30,380)
Segmental net assets	2,324	1,897	15,397	19,618
Other segmental information:				
Capital expenditure	–	473	924	1,397
Depreciation	323	85	390	798
Amortisation	–	194	–	194

3) Segmental reporting continued

For the year ended 31 December 2017:

	Hydrofinity £'000	Marken £'000	All Other Activities £'000	Total £'000
Revenue	1,941	249	–	2,190
Gross loss	(374)	(74)	–	(448)
Adjusted EBITDA	(10,854)	(453)	(17,362)	(28,669)
Operating loss	(11,260)	(499)	(19,583)	(31,342)
Net finance income/(expense)	80	–	(654)	(574)
Loss before tax	(11,180)	(499)	(20,237)	(31,916)
Segmental net assets	9,928	87	25,765	35,780
Other segmental information:				
Capital expenditure	–	–	271	271
Depreciation	253	7	314	574
Amortisation	–	39	–	39

An analysis of revenues by type is set out below:

	Year ended 31 December 2018 £'000	Year Ended 31 December 2017 £'000
Sale of goods	**438**	738
Rendering of services	**3,106**	1,452
	3,544	2,190

During the year ended 31 December 2018 the Group had no customers who individually generated more than 10% of revenue.

During the year ended 31 December 2017 the Group had no customers who individually generated more than 10% of revenue.

3) Segmental reporting continued

An analysis of revenues by geographic location of customers is set out below:

	Year ended 31 December 2018 £'000	Year Ended 31 December 2017 £'000
Europe	**416**	361
North America	**3,128**	1,829
	3,544	2,190

An analysis of non-current assets by location is set out below:

	31 December 2018 £'000	31 December 2017 £'000
Europe	**672**	1,529
North America	**3,509**	3,745
	4,181	5,274

4) Changes in accounting policies

Except for the changes below, the Group has consistently applied the accounting policies to all periods presented in these consolidated financial statements.

The Group has adopted IFRS 15 *Revenue from Contracts with Customers* with a date of initial application of 1 January 2018. As a result, the Group has changed its accounting policy for revenue recognition as detailed below.

The Group has applied IFRS 15 using the cumulative effect method – i.e. by recognising the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of equity at 1 January 2018. Therefore, the comparative information has not been restated and continues to be reported under IAS 18. The details of significant changes and the quantitative impact of the changes are set out below.

Sales of machines and service as bundled packages

For bundled packages, where a machine and a service contract a sold together, the overall contract value was previously split based on the relative fair values of the elements. Under IFRS 15, revenue is split based on the amount of consideration expected to be received for the transfer of the relevant goods or services to the customer. This consideration is calculated using cost data and an appropriate margin.

Impacts on financial statements

Had the Group not applied IFRS15 in this financial period, there would have been no material difference to the reported results.

The Group has also adopted IFRS 9 in these financial statements, with effect from 1 January 2018. IFRS 9 'Financial Instruments' replaced IAS 39 'Financial Instruments: Recognition and Measurement'. It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an 'expected credit loss' model for the impairment of financial assets. When adopting IFRS 9, the Group has applied transitional relief and opted not to restate prior periods. No differences arose on the transition to IFRS 9.

5) Loss from operations

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Loss from operations is stated after charging to cost of sales:		
Exceptional write down of inventory	**5,396**	–
Loss from operations is stated after charging to administrative expenses:		
Foreign exchange losses	**(2,786)**	2,178
Depreciation of plant and equipment (note 12)	**769**	574
Amortisation of intangible assets (note 11)	**194**	39
Operating lease rentals – land and buildings	**431**	271
Staff costs (excluding share-based payment charge)	**10,658**	11,740
Research and development	**1,565**	1,859
Auditors remuneration:		
– Audit of these financial statements	**19**	19
– Audit of financial statements of subsidiaries of the company	**25**	21
– All other services	**–**	6
Total auditor's remuneration	**44**	46

The exceptional write down of inventory relates to provisions made against the value of inventory held by the Group. The value of this inventory has fallen as the technology used within the Group's products and inventory develops. The provision is made in accordance with IAS2.

Current year audit fees relate to services provided by the current auditor, Grant Thornton. Prior year audit fees relate to the previous auditor, KPMG. Other services in the prior period related to interim review work, tax advice and advice in respect of the Group's overseas subsidiary.

6) Staff numbers and costs

	Year ended 31 December 2018 Number	Year ended 31 December 2017 Number
The average monthly number of persons (including directors) employed by the Group during the year was:		
Directors	5	6
Operational staff	149	140
	160	146
	£'000	£'000
The aggregate remuneration, including directors, comprised:		
Wages and salaries	**9,709**	10,637
Social security costs	**775**	987
Pension contributions	**174**	116
Share based expense (note 22)	**1,090**	1,865
	11,748	13,605
Directors' remuneration comprised:		
Emoluments for qualifying services	**657**	743

Directors' emoluments disclosed above include £300,000 paid to the highest paid director (Year ended 31 December 2017: £334,000). There are no pension benefits for directors. Please see Directors' Remuneration Report on pages 15 to 17 for further information on directors' emoluments.

7) Expenses by nature

The administrative expenses charge by nature is as follows:

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Staff costs, recruitment and other HR	**11,370**	12,617
Share-based payment expense	**1,090**	1,865
Premises and establishment costs	**1,025**	586
Research and development costs	**1,565**	1,859
Patent and IP costs	**1,265**	1,176
Engineering and operational costs	**895**	1,978
Legal, professional and consultancy fees	**2,749**	2,978
IT, telecoms and office costs	**1,027**	725
Depreciation charge	**798**	377
Amortisation charge	**194**	39
Travelling, subsistence and entertaining	**1,999**	2,221
Advertising, conferences and exhibitions	**905**	1,234
Bad debt expense	**533**	412
Other expenses	**451**	434
Foreign exchange losses/(gains)	**(2,786)**	2,198
Less: grants receivable	**–**	–
Total operating administrative expenses	**23,080**	30,699
Non-operating administrative exceptional items:		
Costs of placing of ordinary shares	**114**	195
Exceptional write off of obsolete inventory	**5,396**	–
Exceptional impairment of Property Plant & Equipment	**2,390**	–
Release of deferred consideration	**(318)**	–
Total administrative expenses	**25,266**	30,894

The exceptional impairment to property plant and equipment relate to the write off of machines leased to customers across the Group as the technology used in the Group's products develops. These write offs are made in accordance with IAS16.

The exceptional release of deferred consideration relates to the release of deferred consideration on acquisitions which management no longer believe will become payable.

8) Net finance income/(expense)

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Bank interest receivable	**41**	51
(Loss)/gain from forward foreign currency contracts	**–**	(705)
Finance income from lease receivables	**93**	80
Net finance income/(expense)	**134**	(574)

9) Taxation

Tax on loss on ordinary activities

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Current tax:		
UK Tax credits received in respect of prior periods	**(1,035)**	(1,306)
Foreign taxes paid	**23**	2
	(1,012)	(1,304)
Deferred tax:		
Origination and reversal of temporary timing differences	**–**	(1)
Tax credit on loss on ordinary activities	**(1,012)**	(1,305)

The credit for the year/period can be reconciled to the loss before tax per the statement of profit or loss and other comprehensive income as follows:

Factors affecting the current tax charges

The tax assessed for the year varies from the main company rate of corporation tax as explained below:

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
The tax assessed for the period varies from the main company rate of corporation tax as explained below:		
Loss on ordinary activities before tax	**(30,380)**	(31,916)
Tax at the standard rate of corporation tax 19% (2017: 19.25%)	**(5,772)**	(6,144)
Effects of:		
Expenses not deductible for tax purposes	**229**	418
Research and development tax credits receivable	**(1,035)**	(1,306)
Unutilised tax losses for which no deferred tax asset is recognised	**5,544**	6,649
Employee share acquisition adjustment	**(1)**	(924)
Foreign taxes paid	**23**	2
Change in tax rates	**–**	–
Tax credit for the year/period	**(1,012)**	(1,305)

The Group accounts for Research and Development tax credits where there is certainty regarding HMRC approval. The Group has received a tax credit in respect of the year ended 31 December 2017. There is no certainty regarding the claim for the year ended 31 December 2018 and as such no relevant credit or asset is recognised.

10) Loss per share (basic and diluted)

Basic loss per share is calculated by dividing the loss attributable to equity holders of the parent by the weighted average number of ordinary shares in issue during the year. Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares in issue during the period to assume conversion of all dilutive potential ordinary shares.

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Total loss attributable to the equity holders of the parent	**(29,368)**	(30,611)

	No.	No.
Weighted average number of ordinary shares in issue during the year	**103,990,542**	87,671,769
Loss per share		
Basic and diluted on loss for the year	**(28.24)p**	(34.92)p

Adjusted earnings per share has been calculated so as to exclude the effect of exceptional costs including related tax charges and credits. Adjusted earnings used in the calculation of basic and diluted earnings per share reconciles to basic earnings as follows:

Basic earnings	**(29,722)**	(30,611)
Exceptional costs	**7,935**	195
Adjusted earnings	**(21,787)**	(30,416)
Adjusted loss per share		
Basic and diluted on loss for the year	**(20.95)p**	(34.69)p

The weighted average number of shares in issue throughout the period is as follows:

	Year ended 31 December 2018	Year ended 31 December 2017
Issued ordinary shares at 1 January 2018/1 January 2017	**99,169,956**	86,021,911
Effect of shares issued for cash	**4,820,586**	1,649,858
Weighted average number of shares at 31 December	**103,990,542**	87,671,769

The Company has issued employee options over 8,120,803 (31 December 2017: 7,658,146) ordinary shares which are potentially dilutive. There is however, no dilutive effect of these issued options as there is a loss for each of the periods concerned.

11) Intangible assets and goodwill

	Goodwill £'000	Customer relationships £'000	Brand £'000	Software £'000	Total £'000
Cost					
At 31 December 2016	–	–	–	–	–
Acquisitions through business combinations	133	246	326	–	705
Foreign currency differences	(2)	(4)	(6)	–	(12)
As at 31 December 2017	131	242	320	–	693
Acquisitions through business combinations	314	404	–	18	736
Foreign currency differences	26	56	19	2	103
At 31 December 2018	471	702	339	20	1,532
Accumulated amortisation and impairment losses					
31 December 2016	–	–	–		–
Amortisation charge for the year	–	39	–		39
Foreign currency differences	–	–	–		–
31 December 2017	–	39	–		39
Amortisation charge for the year	–	97	91	5	194
Foreign currency differences	–	6	5	–	11
At 31 December 2018	–	142	96	5	243
Net book value					
At 31 December 2018	471	561	243	15	1,290
At 31 December 2017	131	203	321	–	654
At 31 December 2016	–	–	–	–	–

11) Intangible assets and goodwill continued

Amortisation

The amortisation of intangible assets is included within administrative expenses in the consolidated statement of profit or loss and other comprehensive income.

Impairment testing for CGUs containing goodwill

For the purposes of impairment testing, goodwill has been allocated to the Group's CGUs (operating divisions) as follows:

	2018 £'000	2017 £'000
Hydrofinity	–	–
High Performance Workwear	471	131
	471	131

High Performance Workwear

The recoverable amount of this CGU is based on fair value less costs of disposal, estimated using discounted cash flows.

The key assumptions used in the estimation of the recoverable amount are set out below. The values assigned to the key assumptions represent management's assessment of future trends in the relevant industry and have been based on historical data from both external and internal sources.

	2018 %	2017 %
Discount rate	15%	15%
Terminal value growth rate	1%	1%
Budget EBITDA growth rate (average of next five years)	–	5%

All goodwill relates to the purchase of the trade and assets of MarKen PPE and of Gloves Inc. Goodwill arising on acquisition represents excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired. The goodwill arising from the acquisition consists largely of the synergies expected from combining the MarKen PPE and Gloves Inc businesses with the proprietary Xeros technology and the workforce acquired.

The Group tests annually for impairment, or more frequently if there are indications that goodwill might be impaired. This impairment test compares the net assets of the business against the future cash flows from the division.

The forecast used in impairment testing is approved by management and the Board of Directors and is based on a bottom up assessment of costs and uses the known and estimated sales pipeline.

12) Property, plant and equipment

	Leasehold improvements £'000	Plant and equipment £'000	Computer equipment £'000	Fixtures and fittings £'000	Motor vehicles £'000	Total £'000
Cost						
At 31 December 2016	842	962	277	149	–	2,230
Arising on acquisitions	–	12	11	11	3	37
Additions	71	81	69	34	–	255
Transfers from/to inventory	–	2,270	–	–	–	2,270
Foreign currency differences	(20)	(64)	(12)	(5)	–	(101)
At 31 December 2017	**893**	**3,261**	**345**	**189**	**3**	**4,691**
Arising on acquisitions	**–**	**16**	**1**	**1**	**11**	**29**
Additions	**806**	**407**	**142**	**21**	**21**	**1,397**
Transfers from/to inventory	**–**	**64**	**–**	**–**	**–**	**64**
Foreign currency differences	**56**	**225**	**16**	**7**	**2**	**306**
At 31 December 2018	**1,755**	**3,973**	**504**	**218**	**37**	**6,487**
Depreciation						
At 31 December 2016	306	152	111	73	–	642
Charge for the period	206	259	75	23	–	574
Transfers from/to inventory	–	(5)	–	–	–	(5)
Foreign currency differences	(15)	(14)	(6)	(1)	–	(36)
At 31 December 2017	**497**	**392**	**191**	**95**	**–**	**1,175**
Charge for the year	**200**	**404**	**123**	**32**	**10**	**769**
Impairment recognised in the year	**–**	**2,390**	**–**	**–**	**–**	**2,390**
Transfers from/to inventory	**–**	**–**	**–**	**–**	**–**	**–**
Foreign currency differences	**19**	**168**	**10**	**2**	**–**	**199**
At 31 December 2018	**716**	**3,354**	**324**	**129**	**10**	**4,533**
Net book value						
At 31 December 2018	**1,039**	**619**	**180**	**89**	**27**	**1,954**
At 31 December 2017	396	2,869	154	94	3	3,516
At 31 December 2016	536	810	166	76	–	1,588

During the year an impairment has been made in respect of assets with a prior book value of £2,528,000 which were previously included within plant and equipment which the Group leases (as lessor) to customers under a number of operating lease agreements. Following the impairment these assets are now held at nil value. In the prior year assets leased to customers had a value of £2,582,000 and were reported within plant and equipment.

When an operating lease is agreed with a customer, the assets to which the operating lease relates are, if necessary, transferred from inventory into property, plant and equipment for the duration of the lease. Depreciation is charged on these assets in line with their useful economic lives.

13) Inventories

	31 December 2018 £'000	31 December 2017 £'000
Finished goods	**945**	6,392

In the year ended 31 December 2018, changes in finished goods recognised as cost of sales amounted to £1,408,000 (year ended 31 December 2017: £742,000).

14) Trade and other receivables

	31 December 2018 £'000	31 December 2017 £'000
Due within 12 months		
Trade debtors	**458**	345
Other receivables	**1,354**	856
Prepayments and accrued income	**590**	1,034
	2,402	2,235
Due after more than 12 months		
Other receivables	**1,292**	1,104

There is no material difference between the lease receivables amounts included in other receivables noted above, the minimum lease payments or gross investment in the lease as defined by IAS 17.

The minimum lease payment is receivable as follows:

	31 December 2018 £'000	31 December 2017 £'000
Not later than one year	**317**	252
Later than one year not later than five years	**1,088**	917
Later than five years	**234**	187
	1,639	1,356

Contractual payment terms with the Group's customers are typically 30 to 60 days. The Directors considered the carrying value of trade receivables at 31 December 2018 and made a provision of £639,000 (31 December 2017: £270,000) for potential impairment losses arising from balances which were considered to be past due. The Directors believe that the carrying value of trade and other receivables represents their fair value. In determining the recoverability of trade receivables the Directors consider any change in the credit quality of the receivable from the date credit was granted up to the reporting date. For details on credit risk management policies, refer to note 16.

Other receivables of £1,292,000 (31 December 2017: £1,104,000) due after more than one year comprise the long-term portion of finance leases where the Group acts as lessor.

15) Cash and cash equivalents

	31 December 2018 £'000	31 December 2017 £'000
A+	**15,851**	11
A	**41**	–
BBB+	**107**	25,138
Held outside banking institutions	**2**	–
Cash and cash equivalents	**16,001**	25,149

The above has been split by the Fitch rating system and gives an analysis of the long-term credit rating of the financial institutions where cash balances are held.

All of the Group's cash and cash equivalents at 31 December 2018 are at floating interest rates. Balances are denominated in UK Sterling (£), US Dollars ($) and Euros (€) as follows:

	31 December 2018 £'000	31 December 2017 £'000
Denominated in Pound Sterling	**15,597**	24,095
Denominated in US Dollars	**127**	752
Denominated in Euros	**277**	302
Cash and cash equivalents	**16,001**	25,149

The Directors consider that the carrying value of cash and cash equivalents approximates to their fair value. For details of credit risk management policies, refer to note 16.

16) Financial instruments

The Group's principal financial instruments comprise short-term receivables and payables and cash and cash equivalents. The Group does not trade in financial instruments but uses derivative financial instruments in the form of forward foreign currency contracts to help manage its foreign currency exposure and to enable the Group to manage its working capital requirements.

(a) Fair Values of Financial Assets and Financial Liabilities

Derivative Financial Instruments – Fair Value Hierarchy

The following hierarchy classifies each class of financial asset or liability depending on the valuation technique applied in determining its fair value:

Level 1: The fair value is calculated based on quoted prices traded in active markets for identical assets or liabilities.

Level 2: The fair value is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Level 3: The fair value is based on inputs for the asset or liability that are not based on observable market data (unobservable inputs).

In these financial statements, all of the forward foreign exchange contracts are considered to be Level 2 in the fair value hierarchy. There have been no transfers between categories in the current or preceding year. The fair value of financial instruments held at fair value have been determined based on available market information at the balance sheet date.

16) Financial instruments continued

(b) Credit risk

Financial Risk Management

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

The Group is exposed to credit risk in respect of trade and lease receivable balances such that, if one or more customers or a counterparty to a financial instrument encounters financial difficulties, this could materially and adversely affect the Group's financial results. The Group attempts to mitigate credit risk by assessing the credit rating of new customers and financial counterparties prior to entering into contracts and by entering into contracts with customers on agreed credit terms.

The Group is potentially exposed to credit risk in respect of its bank deposits in the event of failure of the respective banks. The Group attempts to mitigate this risk by spreading its cash deposits across different banks and through ongoing monitoring of the credit ratings of those banks. Further details are set out in note 15. At 31 December 2018, the Directors were not aware of any factors affecting the recoverability of the Group's bank balances.

Exposure to Credit Risk

At 31 December 2018, the Group had net trade receivables outstanding of £458,000 (2017: £345,000). The Directors have considered the recoverability of outstanding balances at 31 December 2018 and have made provisions for bad and doubtful debts amounting to £639,000 (2017: £270,000). The Group had lease receivable balances outstanding of £1,639,000 (2017: £1,356,000) after the deduction of provisions amounting to £145,000 (2017: £108,000).

The concentration of credit risk for trade and other receivables and lease receivables at the balance sheet date by geographic region was:

	31 December 2018 £'000	31 December 2017 £'000
United Kingdom	**1,527**	1,029
United States of America	**2,167**	2,310
	3,694	3,339

(c) Liquidity Risk

Financial Risk Management

Liquidity risk arises from the Group's management of working capital. It is the risk that the Group will encounter difficulty in meeting its future obligations as they fall due. The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, it seeks to maintain cash balances to meet its expected cash requirements.

The following are the contractual maturities of financial liabilities:

Non-derivative financial liabilities	**31 December 2018 £'000**	31 December 2017 £'000
Due within one year		
Trade and other payables	**1,812**	1,661

16) Financial instruments continued

d) Market Risk

Financial Risk Management

Market risk is the risk that changes in market prices, such as interest rates or foreign exchange rates will affect the Group's income. The objective of market risk management is to manage and control market risk exposures within acceptable parameters. Market interest rate risk arises from the Group's holding of cash and cash equivalent balances and from cash held on term deposit accounts (see note 15). The Board make ad hoc decisions at their regular Board meetings, as to whether to hold funds in instant access accounts or longer-term deposits. All accounts are held with reputable banks. These policies are considered to be appropriate to the current stage of development of the Group and will be kept under review in future years.

Foreign Currency Risk

The Group is exposed to currency risk on sales and purchases and cash held in bank accounts that are denominated in a currency other than the respective functional currencies of Group entities, primarily Pound Sterling (GBP), the US Dollars (USD) and the Euro (EUR). The Group's policy is to reduce currency exposure on sales and purchasing through forward foreign currency contracts where appropriate.

The Group had no forward currency contracts in place as at either 31 December 2018 or 31 December 2017.

The Group's overall exposure to foreign currency risk is as follows. This is based on the carrying amount for monetary financial instruments.

At 31 December 2018	Sterling £'000	US Dollar £'000	Euro £'000	Total £'000
Cash and cash equivalents	15,596	128	277	16,001
Trade and other receivables	1,527	2,167	–	3,694
Trade and other payables	(1,013)	(244)	–	(1,257)
Balance sheet exposure	16,110	2,051	277	18,438
Net exposure	–	2,051	277	2,437

At 31 December 2017	Sterling £'000	US Dollar £'000	Euro £'000	Total £'000
Cash and cash equivalents	24,095	752	302	25,149
Income tax receivable	1,306	–	–	1,306
Trade and other receivables	1,029	2,309	–	3,338
Trade and other payables	(774)	(873)	(14)	(1,661)
Balance sheet exposure	25,656	2,188	288	28,132
Net exposure	–	2,188	288	28,132

16) Financial instruments continued

d) Market Risk continued

Sensitivity Analysis

A 10% weakening of the following currencies against the £ sterling at 31 December 2018 would have increased equity and profit or loss by the amounts shown below. The calculation assumes that the change occurred at the balance sheet date and had been applied to the risk exposure existing at that date.

This analysis assumes that all other variables, in particular, other exchange rates and interest rates remain constant. The analysis is performed on the same basis for the period ended 31 December 2017.

	Equity		Profit or Loss	
	31 December 2018 £'000	31 December 2017 £'000	**31 December 2018 £'000**	31 December 2017 £'000
US Dollars	**(205)**	(219)	**(205)**	(219)
Euros	**(28)**	(29)	**(28)**	(29)

A 10% strengthening of the above currencies against the Pound Sterling at 31 December 2018 would have had the equal but opposite effect on the above currencies to the amounts shown above on the basis that all other variables remain constant.

Interest Rate Risk

At the balance sheet date the interest rate profile of the Group's interest-bearing financial instruments was:

	31 December 2018 £'000	31 December 2017 £'000
Fixed rate instruments		
Financial assets	**–**	–
Financial liabilities	**–**	–
	–	–
Variable rate instruments		
Financial assets	**16,001**	25,149
Financial liabilities	**–**	–
	16,001	25,149

Based on the Group's above balances at 31 December 2018, if interest rates had been 5 per cent higher, then the impact on the results for the year would be a reduction in the loss for the period of approximately £800,000 with a corresponding increase in the Group's net assets. If the interest rate had reduced to zero per cent, then the impact on the results for the period would be an increase in the loss for the year of £41,000 with a corresponding decrease in the Group's net assets.

(e) Capital Management

The Group's capital is made up of share capital, share premium and retained losses, totalling £6,648,000 at 31 December 2018 (31 December 2017: £20,352,000).

The Group's objectives when managing capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The capital structure of the Group consists of shareholders' equity as set out in the consolidated statement of changes in equity. All working capital requirements are financed from existing cash resources. There are no externally imposed capital requirements. Financing decisions are made by the Board of Directors based on forecasts of the expected timing and level of capital and operating expenditure required to meet the Group's commitments and development plans.

17) Trade and other payables

	31 December 2018 £'000	31 December 2017 £'000
Trade payables	**1,257**	1,223
Taxes and social security	**164**	126
Other creditors	**555**	438
Accruals and deferred income	**1,897**	2,566
Contingent consideration	**–**	185
	3,874	4,538
Current	**3,874**	4,353
Non-current	**–**	185
	3,874	4,538

Trade payables, split by the currency they will be settled are shown below:

	31 December 2018 £'000	31 December 2017 £'000
Sterling	**1,013**	639
US Dollars	**244**	570
Euros	**–**	14
Trade payables	**1,257**	1,223

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. They are non-interest bearing and are normally settled on 30 to 45 day terms. The Directors consider that the carrying value of trade and other payables approximate their fair value. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe and no interest has been charged by any suppliers as a result of late payment of invoices during the period.

18) Deferred tax

	31 December 2018 £'000	31 December 2017 £'000
Accelerated depreciation for tax purposes	**38**	38
Deferred tax credit/(expense) for the period	**–**	(1)

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
At beginning of year	**38**	39
Tax expense	**–**	(1)
At end of year	**38**	38

As at 31 December 2018, the Group had unrecognised deferred tax assets totalling approximately £17,981,000 (31 December 2017: £12,968,000), which primarily relate to losses and the IFRS 2 share-based payment charge. The Group has not recognised this as an asset in the Statement of Financial Position due to the uncertainty in the timing of its crystallisation.

19) Share capital

	Number	Share capital £'000	Share premium £'000	Merger reserve £'000	Total £'000
Total Ordinary shares of 0.15p each as at 31 December 2016	86,021,911	129	66,280	15,443	81,852
Issue of ordinary shares following placing	11,111,112	17	24,983	–	25,000
Issue of ordinary shares on exercise of share options	2,036,933	3	493	–	496
Costs of share issues	–	–	(1,374)	–	(1,374)
Total Ordinary shares of 0.15p each as at 31 December 2017	99,169,956	149	90,382	15,443	105,974
Issue of ordinary shares following placing and open offer	157,861,209	237	15,549	–	15,786
Issue of ordinary shares on exercise of share options	4,554	–	7	–	7
Costs of share issues	–	–	(754)	–	(754)
Total Ordinary shares of 0.15p each as at 31 December 2018	257,035,719	386	105,184	15,443	121,013

As permitted by the provisions of the Companies Act 2006, the Company does not have an upper limit to its authorised share capital.

The following is a summary of the changes in the issued share capital of the Company during the period ended 31 December 2018:

(a) 451 Ordinary Shares were allotted at a price of 160.05 pence per share, for total cash consideration of £724, upon the exercise of share options granted in the Company's share option schemes.

(b) 434 Ordinary Shares were allotted at a price of 182.5 pence per share, for total cash consideration of £792, upon the exercise of share options granted in the Company's share option schemes.

(c) 795 Ordinary Shares were allotted at a price of 210 pence per share, for total cash consideration of £1,670, upon the exercise of share options granted in the Company's share option schemes.

(d) 4,103 Ordinary Shares were allotted at a price of 160.5 pence per share, for total cash consideration of £6,585, upon the exercise of share options granted in the Company's share option schemes.

(e) 448 Ordinary Shares were allotted at a price of 182.5 pence per share, for total cash consideration of £818, upon the exercise of share options granted in the Company's share option schemes.

(f) 1,755 Ordinary Shares were allotted at a price of 210 pence per share, for total cash consideration of £3,686, upon the exercise of share options granted in the Company's share option schemes.

(g) 157,861,209 Ordinary Shares were allotted at a price of 10 pence per share, for total cash consideration of £15,786,121, upon the placing and open offer of the Company's shares in December 2018.

At 31 December 2018, the Company had only one class of share, being Ordinary Shares of 0.15p each.

The Group's Share Capital reserve represents the nominal value of the shares in issue. The Group's Share Premium Reserve represents the premium the Group received on issue of its shares. The Merger Reserve arose on the combination of companies within the Group prior to the flotation on AIM.

20) Movement in accumulated losses and foreign currency translation reserve

	Accumulated losses £'000	Foreign currency translation reserve £'000
At 31 December 2016	(41,433)	(1,742)
Loss for the period	(30,611)	–
Other comprehensive expense – Foreign currency		
Translation differences – foreign operation	–	1,727
Shared based payment charge	1,865	–
At 31 December 2017	**(70,179)**	**(15)**
Impact of change in accounting policies	(111)	–
Adjusted balance 31 December 2018	(70,290)	(15)
Loss for the year	(26,979)	–
Other comprehensive income – Foreign currency		
Translation differences – foreign operation	–	(2,319)
Shared based payment charge	1,090	–
At 31 December 2018	**(96,179)**	**(2,334)**

The Group's accumulated losses reserve represents the accumulation of losses of the Group since inception. The foreign currency translation reserve represents the cumulative differences recognised on the translation of the net assets of the Group's overseas subsidiaries.

21) Commitments

Operating lease commitments

The Group leases premises under non-cancellable operating lease agreements. The future aggregate minimum lease and service charge payments under non-cancellable operating leases are as follows:

	31 December 2018 £'000	31 December 2017 £'000
Land and buildings:		
Amounts due within one year	**471**	377
Amounts due between one and five years	**562**	686
	1,033	1,063

On 19 October 2014, the Group entered into a five-year lease arrangement in respect of a property. The Group has an annual rent commitment of £17,185 on this lease. This lease expires on 18 October 2019. On the same date the Group entered into a five-year lease arrangement in respect of another property. The Group has an annual rent commitment of £25,487 on this lease. This lease also expires on 18 October 2019.

On 13 February 2015, the Group entered into an arrangement assigning to it a 10-year lease in respect of a property. The lease commenced on 2 April 2012 and expires on 1 April 2022. The Group has an annual rent commitment of £75,250 on this lease.

On 30 November 2017, the Group entered into a three-year lease arrangement in respect of a property. The Group has an annual rent commitment of $246,668 on the lease. The lease expires on 31 December 2020. The lease contains an option which allows the Group to extend the lease term by five years.

In addition, the Group has operating lease commitments in respect of its premises in the USA for its subsidiary, Xeros High Performance Workwear Inc. These are short term rentals with an annual rent charge of approximately £170,000.

21) Commitments continued

The new accounting standard IFRS 16 'Leases', is effective for years commencing on or after 1 January 2019. A disclosure of the potential impact of IFRS 16 is shown below. The actual figures will be impacted by the discount rates used, as well as decisions on the use of expedients and exemptions, along with any additional lease information that comes to light in the year. A notional discount rates of 5% has been used to show the users of the financial statements the potential impact of IFRS 16. The actual rates used may differ. The modified retrospective approach has been used and the right of use asset has been valued retrospectively using the assumed transition discount rates.

Operating leases that were active at 1 January 2019 have been incorporated into the potential impact analysis below. Changes that occur in the year will impact the actual figures that will appear in the 2019 accounts following transition to IFRS 16.

Additionally, the assumption has been made that, wherever possible, the low value item exemption for leases assets with a value of less that £4,000 and the short remaining term expedient for those with less that 12 months left will be utilised.

The potential impact of the transition to IFRS 16 is:

- At 1 January 2019: Assets of £1,587,000, Liabilities of £1,702,000 and estimated impact on reserves of £115,000
- At 31 December 2019: Assets of £1,296,000, Liabilities of £1,443,000 and estimated impact on EBITDA of £414,000

22) Share based payments

Share options

The Company has share option plans (The Xeros Technology Group plc Unapproved Share Option Scheme and The Xeros Technology Group plc Enterprise Management Incentive Share Option Scheme) under which it grants options over ordinary shares to certain Directors, employees and consultants of the Group. Options under these plans are exercisable at a range of exercise prices ranging from the nominal value of the Company's shares to the market price of the Company's shares on the date of the grant. The vesting period for shares is usually over a period of three years. The options are settled in equity once exercised. If the options remain unexercised for a period after 10 years from the date of grant, the options expire. Options are forfeited if the employee leaves the Group before the options vest.

The number and weighted average exercise prices of share options are as follows:

	Number of share interests				
	EMI options	Unapproved options	Deferred Annual Bonus plan	Total	Weighted average exercise price per share (£)
At 31 December 2016	2,086,357	4,423,584	177,822	6,687,763	1.032
Granted in the period	–	3,167,832	74,907	3,242,739	2.223
Exercised in the year	(1,105,716)	(950,139)	(15,384)	(2,071,239)	(0.273)
Forfeited/lapsed in the year	(4,220)	(1,96,897)	–	(201,117)	(1.956)
At 31 December 2017	976,421	6,444,380	237,345	7,658,146	1.719
Granted in the period	–	2,436,832	25,900	2,462,732	2.166
Exercised in the period	(451)	(7,535)	–	(7,986)	(1.787)
Forfeited/lapsed in the period	(17,518)	(1,868,320)	(106,971)	(1,992,809)	(1.752)
At 31 December 2018	958,452	7,005,357	156,274	8,120,083	1.839

There were 5,339,849 share options outstanding at 31 December 2018 which were eligible to be exercised. The remaining options were not eligible to be exercised as these are subject to employment period and market-based vesting conditions, some of which had not been met at 31 December 2018. Options have a range of exercise prices from 0.15 pence per share to 310.0 pence per share and have a weighted average contractual life of 8.07 years (31 December 2017: 7.91 years).

22) Share based payments continued

Options granted in the period	Unapproved options granted in January 2018	DAB options granted in January 2018	Options granted in September 2018
Dividend yield	0%	0%	0%
Expected volatility*	40.00%	40.00%	40.00%
Risk free interest rate (%)	1.50%	1.50%	1.50%
Expected vesting life of options (years)	10	10	10
Weighted average share price (pence)	225.0	222.0	76.5
Fair value of an option (pence per share)	115.2	221.9	39.2

* Expected volatility is based upon the Company's historical share price.

Any share options which are not exercised within 10 years from the date of grant will expire.

A charge has been recognised in the consolidated statement of profit or loss and other comprehensive income for each period as follows:

	31 December 2018 £'000	31 December 2017 £'000
Share options	**1,090**	1,865

23) Related party transactions

During the year, the Group entered into transactions, in the ordinary course of business, with other related parties. Those transactions with directors are disclosed below. Transactions entered into, along with trading balances outstanding at each period end with other related parties, are as follows:

Related party	Relationship	**Purchases from related party 31 December 2018 £'000**	**Amounts owed to related party 31 December 2018 £'000**	Purchases from related party 31 December 2017 £'000	Amounts owed to related party 31 December 2017 £'000
Enterprise Ventures Limited	Fund manager for certain shareholders (note 1)	**12**	**–**	30	–
Top Technology Ventures Limited	Corporate finance advisor for certain shareholders (note 2)	**–**	**–**	260	260

Note 1: Enterprise Ventures Limited provided the services of Julian Viggars, who was a director of the Company until 23 May 2018 and invoiced the Group for associated director's fees.

Note 2: Top Technology Ventures Limited provided corporate finance services on behalf of the IP Group shareholders for the new equity issue in December 2017.

Terms and conditions of transactions with related parties

Purchases between related parties are made on an arm's length basis. Outstanding balances are unsecured, interest free and cash settlement is expected within 60 days of invoice.

23) Related party transactions continued

Transactions with Key Management Personnel

The Company's key management personnel comprise only the Directors of the Company. During the period, the Company entered into the following transactions in which the Directors had an interest:

Directors' remuneration:

Remuneration received by the Directors from the Company is set out below. Further detail is provided within the Directors' Remuneration Report:

	Year ended 31 December 2018 £'000	Year Ended 31 December 2017 £'000
Short-term employment benefits*	**657**	743

* In addition, certain directors hold share options in the Company for which a fair value share based charge of £658,601 has been recognised in the consolidated statement of profit or loss and other comprehensive income (Year ended 31 December 2017: £321,639).

The highest paid Director in the year received total remuneration of £300,000 (Year ended 31 December 2017: £334,000). During the year ended 31 December 2018, the Company entered into numerous transactions with its subsidiary companies which net off on consolidation – these have not been shown above.

24) Acquisition of subsidiary

On 22 March 2018, Xeros High Performance Workwear Inc., a subsidiary of the Group, acquired 100% of the trade and net assets of the High Performance Workwear division of Gloves Inc., a company incorporated in the USA. The trade and assets acquired are those of a provider of cleaning, inspection and repair services for firefighter personal protective equipment with facilities in Atlanta and Miami, USA.

During the year ended 31 December 2018, the trade and assets purchased from Gloves Inc. contributed revenue of £430,000 and a loss of £87,000 to the consolidated results of the Group. If the acquisition had taken place on 1 January 2017, management estimates that consolidated revenue would have been £4,117,000 and consolidated loss before taxation would have been £(30,850,000). In determining those amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same as if the acquisition had occurred on 1 January 2018.

Consideration transferred

The following table summarises the acquisition date fair value of each major class of consideration transferred.

	£'000
Cash	569
Deferred consideration	73
Contingent consideration	213
Total consideration transferred	**855**

Deferred consideration

The Group agreed to pay the sellers and additional £73,000 based on an adjustment to the purchase price as a result of working capital targets defined in the acquisition agreement.

Contingent consideration

The Group has agreed to pay the sellers additional consideration up to a maximum of $300,000 (£213,000 at the date of acquisition) during a one-year period following acquisition. This is based on an earn-out calculation which requires the company to achieve sales revenue targets in the twelve months following acquisition. The Group has released this creditor at year end as management no longer believe that the revenue targets will be met.

Acquisition-related costs

The Group incurred acquisition-related costs of £80,000 on legal fees and due diligence expenses. These costs have been included in administrative expenses in the consolidated statement of profit and loss and other comprehensive income

24) Acquisition of subsidiary continued

Identifiable assets acquired and liabilities assumed

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition.

	£'000
Property, plant and equipment	28
Intangible assets	422
Trade and other receivables	93
Trade and other payables	(2)
Total identifiable net assets acquired	**541**

Measurement of fair values

All assets and liabilities acquired are recognised at fair value. For trade and other receivables and trade and other payables, fair value was deemed to be equivalent to book value. Estimates were made in respect of property, plant and equipment and intangible assets based upon management's assessment of the value in use of the assets to the Xeros Group.

The intangible assets acquired with the trade and assets comprise £404,000 in relation to non-contractual customer relationships and £18,000 in relation to bespoke computer software acquired.

Goodwill

Goodwill arising from the acquisition has been recognised as follows:

	£'000
Consideration transferred	855
Fair value of identifiable net assets	(541)
Goodwill	**314**

The goodwill arising from the acquisition consists largely of the synergies expected from combining the Gloves Inc. business with the proprietary Xeros technology and the workforce acquired.

Company statement of changes in equity

For the year ended 31 December 2018

Attributable to the equity holders of the Company	Share capital £'000	Share premium £'000	Merger reserve £'000	Retained earnings reserve £'000	Total £'000
At 31 December 2016	**129**	**66,280**	**6,625**	**266**	**73,300**
Total expense and other comprehensive loss for the period	–	–	–	(1,842)	(1,842)
Transactions with owners, recorded directly in equity:					
Issue of placing shares	17	24,983	–	–	25,000
Exercise of share options	3	493	–	–	496
Costs of share issues	–	(1,374)	–	–	(1,374)
Share based payment expense	–	–	–	643	643
Share based payment expense in respect of services provided to subsidiary undertaking	–	–	–	1,222	1,222
Total contributions by and distributions to owners	20	24,102	–	1,865	25,987
At 31 December 2017	**149**	**90,382**	**6,625**	**289**	**97,445**
Total expense and other comprehensive loss for the period	–	–	–	(50,598)	(50,598)
Transactions with owners, recorded directly in equity:					
Issue of placing and open offer shares	237	15,549	–	–	15,786
Exercise of share options	–	7	–	–	7
Costs of share issues	–	(754)	–	–	(754)
Share based payment expense	–	–	–		643
Share based payment expense in respect of services provided to subsidiary undertaking	–	–	–	1,094	1,094
Total contributions by and distributions to owners	237	14,802	–	1,094	16,133
At 31 December 2018	**386**	**105,184**	**6,625**	**(49,215)**	**62,980**

Company statement of financial position
For the year ended 31 December 2018

	Notes	At 31 December 2018 £'000	At 31 December 2017 £'000
Assets			
Non-current assets			
Investments	C3	**9,561**	9,137
Total non-current assets		**9,561**	9,137
Current assets			
Trade and other receivables	C4	**755**	79
Intercompany loan balance	C5	**38,694**	65,021
Cash and cash equivalents		**14,917**	23,849
Total current assets		**54,366**	88,949
Total assets		**63,927**	98,086
Liabilities			
Current liabilities			
Trade and other payables	C6	**(947)**	(641)
Total liabilities		**(947)**	(641)
Net assets		**62,980**	97,445
Equity			
Share capital	20	**385**	149
Share premium	20	**105,184**	90,382
Merger reserve		**6,625**	6,625
Retained earnings		**(49,215)**	289
Total equity		**62,980**	97,445

The Company reported a loss for the year ended 31 December 2017 of £50,598,000 (2017: £1,842,000). The accounting policies and notes on pages 66 to 68 form part of these Financial Statements.

Approved by the Board of Directors and authorised for issue on 29 April 2019.

David Armfield
Chairman

Paul Denney
Chief Financial Officer

Company number: 08684474

Company statement of cash flows
As at 31 December 2018

	Notes	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Operating activities			
Loss before tax		**(50,598)**	(1,842)
Adjustment for non-cash items:			
Share based payment		**671**	643
Provision made for intercompany receivables	C4	**48,771**	(18)
Increase in trade and other payables	C6	**306**	363
Net cash outflow from operations		**(1,526)**	(854)
Investing activities			
Increase in intercompany loans	C5	**(22,444)**	(4,480)
Net cash outflow from investing activities		**(22,444)**	(4,480)
Financing activities			
Proceeds from issue of share capital, net of costs		**15,038**	24,122
Net cash inflow from financing activities		**15,038**	24,122
Increase/(decrease) in cash and cash equivalents		**(8,932)**	18,788
Cash and cash equivalents at start of year/period		**23,849**	5,061
Cash and cash equivalents at end of year/period		**14,917**	23,849

Notes to the Company information

For the year ended 31 December 2018

C1. Basis of preparation and accounting policies

Xeros Technology Group plc is registered in England and Wales as a public limited company. The address of its registered office is Unit 2, Evolution, Advanced Manufacturing Park, Whittle Way, Catcliffe, Rotherham, South Yorkshire, S60 5BL.

The principal activity of Xeros Technology Group plc (together the 'Group') is that of platform technology company that is reinventing water intensive industrial and commercial processes by reducing water and chemistry usage with its polymer technologies. The principal activity of the Company is that of a holding company.

The separate financial statement of the Company have been prepared in accordance with the Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101), on the going concern basis under the historical cost convention, and in accordance with the Companies Act 2006 and applicable Accounting Standards in the UK. The principal accounting policies are consistent with those set out in the financial statements of the Group.

The following exemptions from the requirements in IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- The following paragraphs of IAS 1 "Presentation of Financial Statements"
  - 16 (statement of compliance with all IFRS); and
  - 134-136 (capital management disclosures)
- IFRS 9 "Financial Instruments: Disclosures";
- IAS 24 (paragraphs 17 and 18a) "Related Party Disclosures" (key management compensation); and
- IAS 24 "Related Party Disclosures" – the requirement to disclosure related party transactions between two or more members of a group.

As the Group financial statements include the equivalent disclosures, the Company has taken the exemptions available under FRS 101 in respect of the following disclosures:

- IFRS 2 "Share-Based Payments" in respect of Group settled equity share-based payments; and
- Certain disclosures required by IFRS 13 "Fair Value Measurement" and disclosures required by IFRS 7 "Financial Instruments: Disclosures"

Critical accounting estimates and areas of judgement

Estimates and judgements are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and assumptions that have the most significant effects on the carrying amounts of the assets and liabilities in the financial information are discussed below:

Carrying value of investments and intercompany loan balances

Xeros Technology Group has significant balances held as investments in subsidiaries and intercompany loan balances. The Directors consider the valuation and recoverability of these balances based on the potential future cash flows from utilisation of the Xeros technology. The Directors consider all available evidence in making their judgements on the recoverability of these balances, including internal forecasts and valuations performed by third parties. In the year the Directors have made a provision in respect of loans receivable by Xeros Limited from Xeros Inc, and taken a commensurate charge in the financial statements of Xeros Technology Group plc. The Directors believe that the Group's new strategy and business model may impact the ability of Xeros Inc to repay these loans. The Group does not in any case expect the intercompany loans to be repaid within the next twelve months.

C2. Company results

The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the parent company's statement of profit or loss and other comprehensive income. The parent company's result for the year ended 31 December 2018 was a loss of £1,827,000 (year ended 31 December 2017: loss of £1,842,000).

The audit fee for the company is set out in note 4 of the Group's financial statements.

C3. Investment in subsidiary companies

At 31 December 2018, the Company held the following investments in subsidiaries;

Undertaking	Sector	Share of issued capital and voting rights 2018
Xeros Limited	Research, development and commercialisation of polymer technology alternatives to traditional aqueous based technologies	**100%**
Xeros Inc*	Commercialisation of polymer technology alternatives to traditional aqueous based technologies	**100%**
Xeros High Performance Workwear Inc*	Commercialisation of polymer technology alternatives to traditional aqueous based technologies in cleaning specialist personal protective equipment	**100%**
Xeros Environmental Protection Technology (Shanghai) Co. Ltd*	Commercialisation of polymer technology alternatives to traditional aqueous based technologies	**100%**

* Held through Xeros Limited.

Xeros Limited, is incorporated in England and Wales as a private limited company under registered number 05933013. Its registered office is Unit 2, Evolution, Advanced Manufacturing Park, Whittle Way, Catcliffe, Rotherham, S60 5BL.

Xeros Inc. is incorporated in Delaware, USA. Its registered office is 195 Dupont Drive, Providence, Rhode Island, 02907, USA.

Xeros High Performance Workwear Inc's registered office is Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware, 19801, USA.

Xeros Environmental Protection Technology (Shanghai) Co. Ltd.'s registered office is 15F, HSBC Building, Pudong, Shanghai, 200120, China.

Cost and net book value	£'000
At 31 December 2016	**7,915**
Additions	**1,222**
At 31 December 2017	**9,137**
Additions	**424**
At 31 December 2018	**9,561**

Additions comprise amounts in respect of the IFRS 2 share-based payment contribution relating to options granted to employees of the Company's subsidiaries.

C4. Trade and other receivables

	31 December 2018 £'000	31 December 2017 £'000
Prepayments and accrued income	**31**	42
Other debtors	**725**	37
	755	79

C5. Intercompany loans

	31 December 2018 £'000	31 December 2017 £'000
Intercompany loan	**38,694**	65,021

Loans comprise a loan of £36,894,000 (31 December 2017: £63,648,000) to Xeros Limited and a loan of £1,800,000 (31 December 2017: £1,373,000) to Xeros Inc. No interest was payable on these loans. All intercompany loans are repayable on demand. During the year a provision was made of £48,771,000 against loans receivable from Xeros Limited, as a result of provisions made in Xeros Limited against loans receivable from Xeros Inc.

C6. Trade and other payables

	31 December 2018 £'000	31 December 2017 £'000
Trade payables	**141**	–
Social security and other taxes	**27**	18
Accruals	**779**	623
	947	641

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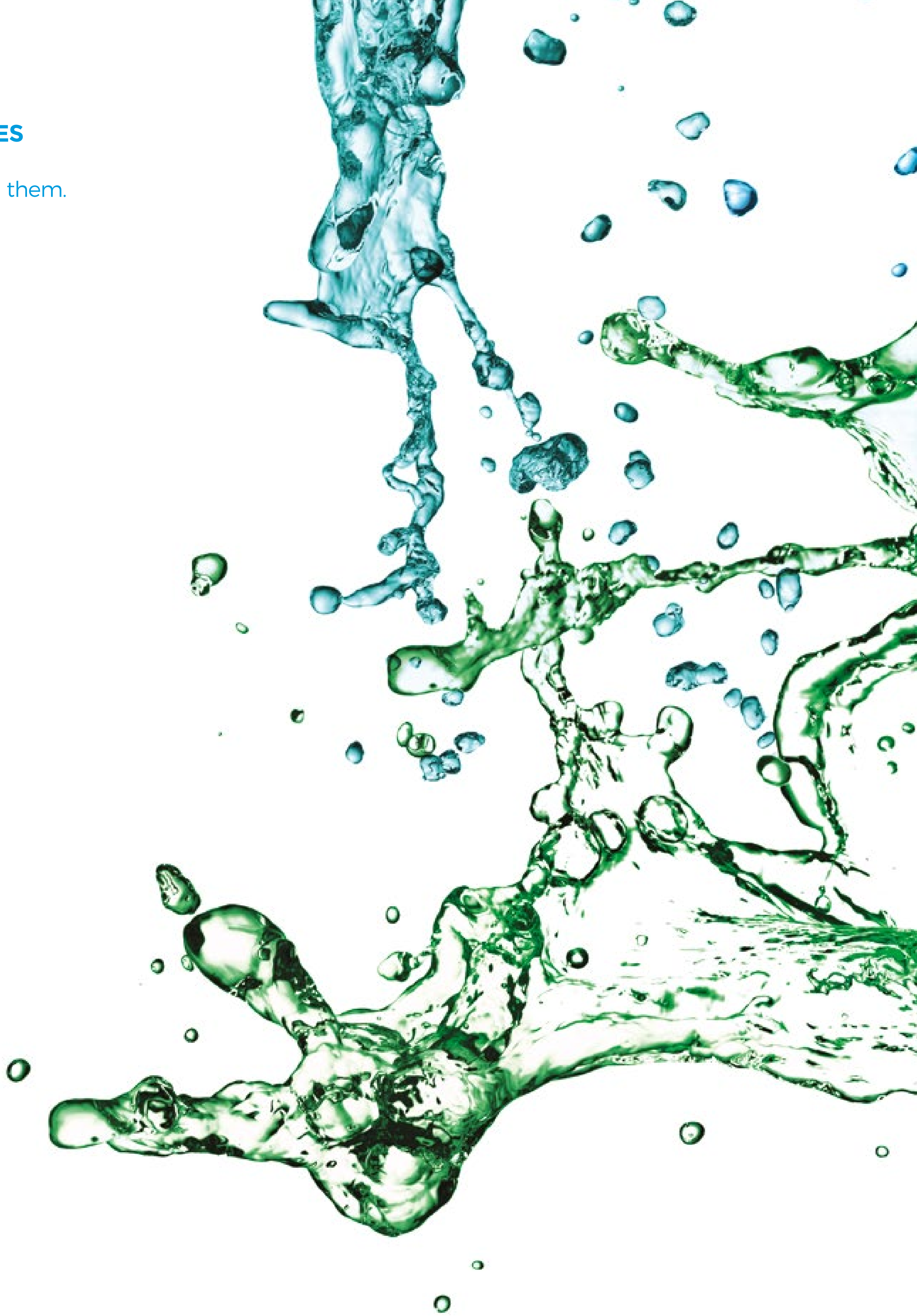

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