Bioquell PLC – 2017 Preliminary Results

Bioquell PLC (LSE symbol:BQE), the specialist provider of biodecontamination systems and services to the international Life Sciences, Pharmaceutical and Healthcare markets, today announces its preliminary results for the year ending 31st December 2017.

Financial highlights

- Core biodecontamination business revenues up 13% to £28.5 million (2016: £25.2 million), up 9% at constant currency rates*
- Total revenues including the defence business were up 10% at £29.2 million (2016: £26.5 million), up 6% at constant currency rates*
- Gross Profit Margins improved to 52% from 48% in 2016
- Pre-exceptional EBITDA** increased 29% to £5.3 million (2016: £4.1 million)
- Profit from operations before exceptional items was up 81% to £2.9 million (2016: £1.6 million)
- Exceptional item of £0.3 million relating to profit on disposal of legacy Air Flow business (2016: exceptional items totalled a charge of £1.5 million)
- Profit before tax was £3.3 million (2016: £0.1 million)
- Basic Earnings per share 11.6p (2016: 1.3p)
- Diluted Earnings per share 10.8p (2016:1.2p)
- Cash and cash equivalents was £14.6 million (2016: £8.8 million)

* expressing revenues in both the period under review and the comparative period at constant exchange rates

** earnings before interest, tax, depreciation, amortisation and exceptional items.

Key developments

- Simplified and reduced complexity with the disposal of the legacy Air Flow service business and, subsequent to the year end, related spares business. The full benefit of increased focus on the core biodecontamination business will be felt in the year ending 31 December 2018
- Re-built US-based life sciences sales team which generated record levels of revenue in the US in 2017
- Encouraging sales growth of the Bioquell Qube aseptic workstation
- Completed large Rapid Biodecontamination Service (RBDS) contract with prestigious Middle East hospital

Ian Johnson, Executive Chairman of Bioquell PLC, said:

"I am pleased to report continued substantial improvements in the financial performance of the Company for 2017. Management continue to simplify the Group and focus on generating top line growth from the core biodecontamination business, which reached record levels for the year. The disposal of the legacy Air Flow service activity will enhance our ability to deliver excellent customer service to our core customers. We have invested in sales and marketing resource to maximise our potential in the international Life Sciences and Pharmaceutical market and on further improving financial performance through generating additional recurring revenues."

Chairman's Statement

INTRODUCTION

The Group achieved total revenues of £29.2 million (2016: £26.5 million) and continues to generate the majority of its revenues from its core Biodecontamination business. A relatively small and historically unpredictable amount is derived from the Defence sector.

For the 12 months ended 31 December 2017, the split of revenues between these businesses was:

- **Biodecontamination**: £28.5 million (2016: £25.2 million) – a 13% increase year on year and accounting for 98% of Group revenues (2016: 95%); and
- **Defence**: £0.7 million (2016: £1.3 million) – a decline of 46% and accounting for 2% of Group revenues (2016: 5%).

The Group's strategy is to focus on generating growth from the core biodecontamination business. As anticipated, defence revenues declined as a proportion of total revenues.

FINANCIAL RESULTS

Revenue	2017 £m	2016 £m	Growth %	Constant currency growth %
Biodecontamination	28.5	25.2	+13%	9%
Defence	0.7	1.3	-46%	-46%
TOTAL	29.2	26.5	10%	6%

Set out below is a table which sub-analyses the revenues of the Biodecontamination segment into the three principal product and service categories. The Group's Qube product stands apart from its other principal products and is presented separately. "Services" comprises income from rental of the Group's POD product and income from RBDS, the Group's Rapid Biodecontamination Service. "Systems" includes all of the Group's other revenue streams.

2017	Recurring revenues*	Non-recurring revenues	2017 Total
	£m	£m	£m
Systems	8.8	8.4	17.2
Qube	—	3.3	3.3
Services	3.1	4.9	8.0
Biodecontamination segment	11.9	16.6	28.5

2016	Recurring revenues*	Non-recurring revenues	2016 Total
	£m	£m	£m
Systems	7.7	8.9	16.6
Qube	—	2.5	2.5
Services	2.9	3.2	6.1
Biodecontamination segment	10.6	14.6	25.2

*Recurring revenues comprise maintenance service & spare parts, consumables, revenue from proactive RBDS engagements in hospitals and revenue from POD rentals.

In the year, systems revenue increased by 4%, Qube revenue by 29% and services revenue by 32%.

Total recurring revenue increased by 12% and represented 42% (2016: 42%) of total segment revenue.

Revenues from total non-UK sales in the period amounted to £23.4 million (2016: £20.0 million), amounting to 80% (2016: 76%) of total revenues. The equivalent data for the biodecontamination business shows that non-UK revenues were £22.8 million (2016: £18.7 million), representing approximately 80% of this business' revenues. Virtually all defence revenues are non-UK based.

Given the large percentage of total revenue earned in currencies other than sterling, the Group monitors the level of constant currency sales growth, calculated by expressing revenues in both the period under review and the comparative period at constant exchange rates as set out in the table below. For the year as a whole biodecontamination sales grew by 9% in constant currency terms.

	Bio Div £m	Group £m
Revenue	28.5	29.2
Impact of foreign exchange movements	(1.0)	(1.1)
Constant currency revenue (at 2016 exchange rates)	27.5	28.1

Gross margin in the year was up 4% to 52% (2016: 48%). This meaningful increase in gross margin reflects a number of additional factors besides exchange rates including both the results of targeted cost-reduction programmes associated with our products and price increases for certain products.

Research & development and engineering costs

As is set out in the table below, the accounting charge for Research & Development ("R&D") costs in the period increased by 12% to £1.9 million (2016: £1.7 million). Cash R&D costs were £1.2 million in the year (2016: £1.3 million), representing a 8% decrease.

	2017 £m	2016 £m
R&D and engineering costs per income statement	2.2	1.8
Less engineering costs	(0.3)	(0.1)
R&D costs per income statement	1.9	1.7
Less amortisation expense	(0.9)	(0.9)
Plus capitalised costs	0.2	0.5
Total cash R&D expense	1.2	1.3

In the short to medium term we anticipate that R&D costs will continue at a roughly similar level. We continue to work on extensions to our product portfolio rather than on major new product development initiatives.

Engineering costs increased from £0.1 million in 2016 to £0.3 million; this increase was attributable principally to the hiring of additional headcount in the Quality department during the year.

Other Operating Expenses

Aside from research & development and engineering costs, other operating expenses increased by 10% to £12.3 million (2016: £11.2 million). Sales and marketing overheads increased by 10%, reflecting the investment during the year in strengthening the group's sales and marketing resources, particularly in North America.

As is set out in the table below, pre exceptional EBITDA (earnings before interest, tax, depreciation, amortisation and adjusting items) increased by 29% in the year to £5.3 million (2016: £4.1 million).

	2017 £m	2016 £m
Profit from operations("EBIT")	3.2	0.1
Exceptional Items	(0.3)	1.5
Depreciation	1.4	1.5
Amortisation	1.0	1.0
EBITDA	5.3	4.1

Profit before tax and exceptional items was £2.9 million (2016: £1.6 million). Profit before tax was £3.3 million (2016: £0.1 million).

The exceptional item recognised in 2017 was the gain on the disposal of the Airflow service business of £0.32 million. In 2016 there were exceptional items totalling a charge of £1.52 million, being one-off costs associated with the restructuring of the board of £0.86 million and impairments of intangible assets of £0.66 million.

Basic earnings per share were 11.6 pence (2016: 1.3 pence).

Capital expenditure continues to run significantly below the depreciation charge, reflecting the Board's belief that the substantial investments needed to support the growth of the business in the short to medium term have, in general, been made over recent years. A refurbishment programme for the Group's RBDS equipment will increase capital expenditure in 2018 above levels seen in recent years: overall capital expenditure in 2018 is expected to be approximately £2 million.

In the year, purchases of tangible fixed assets totalled £0.8 million (2016: £0.7 million). Depreciation in the period was £1.4 million (2016: £1.5 million).

Balance sheet

Intangible fixed assets decreased to £6.8 million (2016: £7.6 million) as a result of the level of capitalised R&D expenditure during the year (£0.2m) being less than the amortisation charge of £0.9 million

Tangible fixed assets decreased to £3.9 million (2016: £4.6 million) as a result of depreciation (£1.4 million) exceeding capital expenditure (£0.8 million) during the year.

Inventory increased by some £0.4 million to £3.2 million, principally as a result of higher levels of raw materials inventory in our UK factory. These higher levels were largely the result of a strategic decision to hold higher levels of certain long lead time items in order to reduce quoted lead times for certain manufactured products.

Receivables fell by £1.0 million to £5.8 million, principally as a result of the phasing of revenue in the last months of 2017 compared to the last months of 2016.

Cash and cash equivalents increased by £5.8 million to £14.6 million, reflecting the profitability of the group in the year, the relatively low level of capital expenditure and capitalisation of development costs compared to the aggregate of depreciation and amortisation (as discussed above) and a slightly lower level of working capital at the end of 2017 compared to the end of 2016. The Group spent £0.3 million on share buybacks during 2017, and received a similar amount in proceeds from shares issued pursuant to the exercise of share options.

Current liabilities totalled £6.9 million (2016: £5.9 million). This increase was partly down to higher current tax liabilities, the result of improved group profitability, and partly down to a higher level of provisions at the year end as a need was identified to upgrade the in-field population of two unit types within the product range to optimise their performance, and satisfy the Group's obligations to the relevant customers.

The Group is considering returning further cash to shareholders by way of share buybacks during the course of 2018 in lieu of paying a dividend.

BUSINESS ACTIVITIES

Biodecontamination

The biodecontamination business provides products and services to Life science research laboratories, pharmaceutical manufacturers and healthcare organisations including hospitals. We serve customers globally via direct sales offices and a network of distributors. The Company provides *Services,* which includes RBDS and POD; *Systems,* which includes hydrogen peroxide vapour (HPV) equipment, consumables and service packages; and *Isolators*, which includes the Qube aseptic workstation.

A range of equipment is available to meet customer requirements including portable and fixed systems. The customer may choose to carry out the biodecontamination of facilities by purchasing systems or utilise Bioquell's Rapid Biodecontamination Service (RBDS).

Defence

MDH Defence is a 50 year-old legacy business within the Group. Revenues have historically been difficult to forecast with the vast majority of business derived from large overseas defence contracts.

In recent years revenues have declined and in 2017 were £0.7 million, accounting for just 2% of Group revenues. The Board has decided to conduct a review of strategic options for this non-core activity.

EMPLOYEES

On behalf of the Board I would like to thank all employees within the Group for their hard work and commitment during 2017.

BOARD CHANGES

In April 2017, Tony Bourne, a non-Executive Director, resigned from the Board after 8 years of service. On behalf of the Board I would like to thank Tony for his contribution to the Company.

OUTLOOK AND PROSPECTS

The Board believes that by continuing to simplify and reduce the complexity of the Group we will realise our objective to build a world class biodecontamination business. As we exited 2017 the financial performance of our core biodecontamination business was much improved as can be seen in the financial information set out above. There are a number of different drivers of growth which are positively affecting our business, including the need for customers to achieve and maintain regulatory compliance, the increasing threat posed by antibiotic resistance and continuing growth in research and small scale production associated with cell-based healthcare products.

We remain focussed on improving the financial performance of the Company through further efficiency measures and generating top line growth.

The business has started 2018 in line with expectations and the board remains confident in delivering further growth in revenue and profits.

Prior to publication, the information contained within this announcement was deemed to constitute inside information under the Market Abuse Regulations (EU) No. 596/2104 ("MAR").

Ian Johnson
Chairman
Bioquell PLC

7th March, 2018

Strategic report

This report should be read in conjunction with the Chairman's statement which provides information on the financial performance of the Group in 2017.

The Group has two operating segments for accounting purposes. The principal segment is the biodecontamination business. The business model of this segment incorporates the sale of equipment and related consumables and equipment servicing and the provision of biodecontamination services to the international Life Sciences, Pharmaceutical & Healthcare sectors. The second segment is the defence business, MDH Defence, which sells CBRN filtration equipment to a number of major overseas defence contractors.

The Group has developed a world-class range of technologies for the markets it serves. The primary strategic objective is to increase the Group's revenues and profits from its core biodecontamination business via improved and more effective selling of its market-leading range of products & services.

The Board currently considers it appropriate to monitor progress on its strategy by reference to three key performance indicators ("KPIs"): revenues (including constant currency revenues), earnings before interest, tax, depreciation and amortisation ("EBITDA") and pre-tax profit. These are adjusted for exceptional costs where such costs or credits are identified in order to improve comparability of underlying performance across periods. As the business develops the Board will consider adding, as appropriate, further KPIs to monitor progress against a broader range of objectives. KPIs are monitored monthly and also reviewed on a year to date and trailing twelve months basis. In other sections of this report we comment on results and trends on certain metrics which are not considered to be KPIs but remain ways in which we measure performance. For example our Corporate Social Responsibility statement includes consideration of Health and Safety performance and certain employee metrics.

Key strategic drivers

Microorganisms – bacteria, viruses and fungi – are ubiquitous and can be the cause of significant problems for individuals, companies and organisations around the world. Bioquell's strategy is to generate revenues from the provision of cost-effective technology-based solutions for microbiological contamination control and eradication.

Historically our product offerings for Life Sciences, Pharmaceuticals and Healthcare were based solely around the Group's specialist hydrogen peroxide vapour decontamination technology; however, over recent years we have added a number of complementary products and services which enable us to offer a broader range of solutions to our customers, most of whom operate in highly and increasingly regulated environments. Examples of such products include the Qube, a novel modular aseptic work station incorporating Hydrogen Peroxide Vapour technology and the Pod, an Infection Control Enclosure sold or leased to hospitals.

The QUBE is used to provide an aseptic environment for a range of applications including: sterility testing; the production of toxic, intravenous oncology drugs; and the production of small-scale cell-based healthcare products. Over time we expect the range of specialist applications for the QUBE to increase.

Life Sciences and Pharmaceuticals sector

The principal drivers of growth for Bioquell's biodecontamination business in this market sector include:

- an increasingly complex, onerous and rapidly expanding international regulatory environment relating to the safe production of biologically-sensitive therapeutic products;
- demand for cost effective, fast-to-deploy aseptic environments;
- improved methods and technology for the swift and aseptic transfer of heat-sensitive materials into clean-rooms;
- interest by customers in the use of technology to achieve cost reductions – specifically by replacing manual cleaning with no-touch automated cleaning;
- growth in research activities and small-scale production associated with cell-based healthcare products; and

- demand for the mitigation of risks and liabilities associated with complex, and often biologically-sensitive, therapies historically prepared in hospital pharmacies.

Bioquell is proactively positioning itself to take advantage of the opportunities arising as a result of the drivers noted above and intends to grow revenues by expanding its global life science sales and marketing team with particular focus in the USA. In the medium term, Bioquell's target is to generate similar levels of revenues from EMEA, Asia Pacific and the Americas, reflecting the relative sizes of the available market in these geographical areas.

Bioquell is also able to deliver technologies other than Hydrogen Peroxide Vapour decontamination systems and services. For example, the Bioquell QUBE comprises a novel, modular aseptic work-station incorporating Hydrogen Peroxide Vapour technology.

The current level of recurring revenues in the group is 42% (2016: 42%). We are working to increase this level by proactively selling service packages to customers at the time they purchase new equipment, and by converting longstanding customers onto upgraded equipment which uses only Bioquell's own consumables.

Changes to regulations

There are an increasing number of regulations affecting the markets into which we sell. Such regulations can cover both decontamination equipment and/or the associated consumables. Typically we find more onerous regulation tends to help increase demand for Bioquell's high quality decontamination technology as our clients remain focussed on attaining - and retaining - regulatory compliance.

Healthcare sector

Bioquell's healthcare strategy is to provide technology-based solutions which help hospitals reduce their hospital acquired infection ("HAI") rates and combat the significant issues associated with antibiotic resistance. For example, the Bioquell POD enables hospitals to convert multi-bed, open-plan units at high risk of the spread of HAIs into single-occupancy rooms. PODs can be decontaminated using Bioquell's Hydrogen Peroxide Vapour technology.

Defence sector

We manufacture specialist chemical, biological, radiological and nuclear ("CBRN") filtration systems and environmental control equipment for military vehicles and fixed facilities. Interest in our CBRN products has been helped over the last few years by increased levels of conflict in the Middle East as well as instability in Eastern Europe.

Principal challenges

We are seeking to grow the Group's revenues by promoting the use of Bioquell's technology to solve microorganism-related problems for highly regulated customers in the Life Sciences and Pharmaceutical sectors. Microorganism-related problems are becoming more challenging, largely due to increasing drug resistance. Many new, on-patent biotech drugs are highly susceptible to bioburden contamination and are governed by increasingly complex regulations.

In implementing our strategy we encounter a number of challenges, including the international nature of our markets, highly conservative customers (who may be reluctant to adopt new technology), large competitors (with better established sales footprints and customer relationships), an increasingly fragmented and heterogeneous Life Sciences sector as well as hospitals which are often reluctant to discuss – and therefore act on - the costs and clinical impact of HAIs.

Brexit

The Bioquell Group derives some 30% of its revenue from trading with other EU countries, roughly half of which is derived from the cross-border shipment of capital equipment from the UK to the EU. At the time of writing, there appears to be no imminent threat to this trade given the suggestion of a transition period of some 21 months after the date of the UK's departure from the EU in March 2019. No issues have been identified specific to Bioquell's business which would lead to its being affected any differently from other UK based exporters to the EU after this transition period expires.

Conclusion: the Bioquell Group

The Group has a robust strategy in place to generate high margin revenues from customers in three large, growing and highly regulated sectors: Life Sciences, Pharmaceuticals & Healthcare.

Sales into the Life Sciences and Pharmaceuticals sectors currently remain key to the profitability of the Group - and we have taken clear and robust steps to re-focus the sales and marketing efforts of the Group onto what are by far the Group's largest markets.

On behalf of the Board

Ian Johnson

Executive Chairman

7 March 2018

Risks and uncertainties

The Group faces a number of risks and uncertainties associated with its activities. It has put in place formal risk-review structures and mechanisms to help assess and monitor such risks and uncertainties; and, as appropriate, has taken steps to mitigate the identified risks and/or uncertainties to the extent practicable. However, it is not possible to identify or anticipate all risks and uncertainties; nor is it possible to mitigate all such identified risks and uncertainties.

Set out below is a summary of the principal risks and uncertainties which the Board believes the Group faces, over and above those which are inherent with carrying out commercial activities. The description of these principal risks and uncertainties should be read in conjunction with, and considered taking into account of, the description of the activities of the Group set out elsewhere in this document and on the Group's websites.

The Board has undertaken a robust assessment of the principal risks facing the Group including those that would threaten its business model, future performance, solvency or liquidity.

A summary of how the Group seeks to mitigate some or all of these principal risks and uncertainties is also set out in the table below.

Risk and/or uncertainty	**Mitigation**
Commercial. In order to prosper the Group needs to sell its products and services to sufficient customers at an appropriate margin. This requires good marketing and effective selling of attractive products & services into the Group's markets.	*The Group is spending more time talking with actual and prospective customers to try and anticipate market trends – and is working with customers to develop new products and services attractive to such customers. Management noted in 2016 that the Group's sales resources in both the Americas and Asia needed strengthening and has been taking steps to address this.*
Competition. Some of the Group's competitors are substantially larger than the Group and have, among other things, greater financial, selling and political lobbying resources. Accordingly there is a risk that the Group's business could be adversely affected by actions undertaken by these large competitors.	*The Group monitors the activities of existing, new and potential competitors closely and is constantly reviewing and, as appropriate, refining its strategies, business models, sales and marketing activities, execution plans and new product development depending on, among other things, competitor activities.*
Regulatory. The Group operates in a number of countries and sectors which are highly regulated. These regulations affect both the group's customers and the group's products. There is a risk that the relevant regulations, could be changed and such changes could significantly adversely affect the Group's business in a specific country or sector.	*The Group endeavours to work closely and establish a dialogue, either directly or through its third party distribution partners and/or clients, with the relevant regulators in the territories in which it operates.*
Political. As an entity which has a highly international business, the Group is exposed to uncertainties arising from political events such as the Brexit vote, specifically in so far as these impact cross border trading arrangements.	*There are no circumstances specific to the Group or its end user markets which renders it particularly susceptible to such political uncertainties. The Group seeks to analyse as quickly as it possible can the implications for its business of any new political or trade-related changes arising from events such as Brexit.*
Technological. The Group is dependent on its technology – and products and services – continuing to be efficacious, cost effective and attractive to the marketplace. There is the risk that new technologies, products or services are developed by competitors which perform better, are easier to use or are more cost effective than those of the Group.	*The Group provides focussed products and services within its markets and accordingly is able to monitor relevant technological developments carefully – whether by competitors or third party research organisations, including universities. The Group takes into account such technological developments when reviewing and adjusting its commercial strategy and its product development roadmap.*
Financial. The Group has a number of international subsidiaries and trades with companies located throughout the world. The international nature of many of its business activities results in elevated financial risk, including, but not limited to: foreign exchange exposure, credit risk and cash collection/retention/ management (together "Key Financial Risks").	*The Group has standardised, detailed monthly management reporting packs which all of its subsidiaries are required to complete. These submissions are reviewed centrally and the key points discussed at regular subsidiary or divisional management meetings. As appropriate, foreign exchange hedging is undertaken centrally. In addition, there are detailed delegated management authority levels which cover, among other things, Key Financial Risks.*

Reliance on suppliers. Due to the complexity of many of its manufactured products, the Group is dependent on a number of key suppliers. These suppliers could supply components late, supply poor quality components, refuse to supply or cease trading. Such disruptions to the Group's supply chain could cause major issues to the trading activities of the Group.	*The Group seeks to work closely and in partnership with its key suppliers. It also has a key supplier review/audit programme which helps the Group make strategic decisions about working more closely with a given supplier or, if appropriate, take the decision to identify an alternative supplier.*
Reliance on customers within a given sector. Although the Group is not significantly dependent upon one single customer, changes within a sector or sub-sector could adversely affect the trading performance of the Group	*The Group monitors carefully the revenue it generates from any single customer (or customer group) and if appropriate takes proactive steps to reduce the proportion of such revenues within the subsidiary or division – or seeks to sell other product lines to such customers in order to diversify this risk.*
Retention of and Dependence on key employees. As with any group of its size, the Group is dependent on certain key employees. Their sudden or unexpected departure from the Group can have a disruptive effect upon the Group's activities.	*The Group has in place a number of measures which are designed to optimise key employee retention including, but not limited to ensuring that their work is stimulating and interesting; their remuneration is competitive; and the work place environment and culture is attractive.* *The Group actively seeks ways in which the Group can reduce its dependence upon key employees by developing other employees' skills or, where necessary, hiring in supplementary employees with the necessary skill sets. Additionally, the Group's remuneration structure is designed so as to foster employee loyalty.*
Cybersecurity. Cybersecurity threats come from a wide variety of sources and may target a wide range of different systems for diverse purposes. This makes such risks notably difficult to mitigate. Besides business disruption risk, there is also a threat to the Group's own and third party sensitive data which may, in the ordinary course of business, be held on the Group's systems.	*The Group has had a third party carry out an assessment of the Group's principal systems and their vulnerability to attack; key findings of this review have been actioned and this review will be performed at regular intervals on an ongoing basis.* *The Group actively considers the IT security connotations associated with any new systems developments and/or business operations.*

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report and the risks and uncertainties which affect the business are summarised above. The Group has sufficient financial resources to cover budgeted future cash-flows, together with contracts with its customers and suppliers across different geographic areas and industries.

In accordance with the Corporate Governance requirements the Directors confirm that they have a reasonable expectation that the Group has adequate financial resources to continue to trade for the foreseeable future. Thus, they continue to adopt the going concern basis in preparing the financial statements.

Responsibility statement

This responsibility statement has been prepared in connection with the Group's full Annual Report and Accounts for the year ended 31 December 2017, certain parts therefore are not included within this Preliminary Announcement.

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 7 March 2018 and is signed on its behalf by:

Ian Johnson Executive Chairman	Michael Roller Group Finance Director

Consolidated income statement
for the year ended 31 December 2017

Continuing operations		Notes	**2017 £'000**	2016 £'000
Revenue		2	**29,190**	26,485
Cost of sales			**(13,986)**	(13,740)
Gross profit			**15,204**	12,745
Gross profit margin			**52%**	48%
Operating expenses:				
Sales & marketing costs			**(5,654)**	(5,154)
Administration costs			**(4,459)**	(4,191)
R&D and engineering costs			**(2,168)**	(1,826)
Operating profit before exceptional items			**2,923**	1,574
Profit on sale of Airflow business			**315**	-
Impairment of intangible assets			**-**	(662)
Costs associated with Board restructuring			**-**	(858)
Operating profit		4	**3,238**	54
Investment revenues			**53**	132
Finance costs			**(8)**	(110)
Profit before tax			**3,283**	76
Tax		5	**(591)**	321
Profit for the period attributable to equity holders of the parent		9	**2,692**	397
Earnings per share attributable to the owners of the parent	– basic		**11.6p**	1.3p
	– diluted		**10.8p**	1.2p

Consolidated statement of comprehensive income
for the year ended 31 December 2017

	2017 £'000	2016 £'000
Net profit for the year	**2,692**	397
Exchange differences on translation of foreign operations*	**(68)**	510
Total recognised income	**2,624**	907

* May be reclassified subsequently to profit and loss in accordance with IFRS.

Consolidated balance sheet

as at 31 December 2017

	Notes	**2017 £'000**	2016 £'000
Non-current assets:			
Other intangible assets		**6,817**	7,568
Property, plant & equipment		**3,910**	4,572
Deferred tax assets		**422**	90
		11,149	12,230
Current assets:			
Inventories		**3,204**	2,773
Trade and other receivables		**5,822**	6,847
Derivative financial instruments		**88**	44
Cash and cash equivalents	7	**14,586**	8,756
		23,700	18,420
Total assets		**34,849**	30,650
Current liabilities:			
Trade and other payables		**(5,508)**	(5,404)
Derivative financial instruments		**(30)**	(72)
Current tax liabilities		**(768)**	(210)
Provisions		**(594)**	(240)
Net current assets		**16,800**	12,494
Non-current liabilities:			
Cash settled share based payments		**(49)**	—
Deferred tax liabilities		**(1,140)**	(890)
Total liabilities		**(8,089)**	(6,816)
Net assets		**26,760**	23,834
Equity:			
Share capital	8	**2,327**	2,294
Share premium account		**1,733**	1,496
Equity reserve		**2,069**	1,780
Capital reserve		**255**	255
Translation reserve		**205**	273
Retained earnings	9	**20,171**	17,736
Equity attributable to equity holders of the Company		**26,760**	23,834

The financial statements of Bioquell PLC, registered number 00206372, were approved by the Board of Directors and authorised for issue on 7 March 2018.

They were signed on its behalf by:

Ian Johnson	**Michael Roller**
Director	***Director***
7 March 2018	***7 March 2018***

Consolidated statement of changes in equity

for the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Profit for the year		**2,692**	397
Exchange differences on translation of foreign operations		**(68)**	510
Total comprehensive income in the year		**2,624**	907
Other movements in the year:			
Issued share capital	8	**33**	68
Issued share premium		**237**	577
Acquisition of own shares for cancellation		—	(41,396)
Acquisition of own shares to be held in Treasury		**(304)**	(1,269)
Credit to equity reserve for share-based payments		**223**	35
Charge to equity on exercise of share options under the SARS scheme		**(2)**	(6)
Charge to equity for deferred tax		**115**	—
Net increase/(decrease) in equity shareholders' funds		**2,926**	(41,084)
Equity shareholders' funds at beginning of year		**23,834**	64,918
Equity shareholders' funds at end of year		**26,760**	23,834

Consolidated cash flow statement

for the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Net cash from operating activities	10	**6,949**	4,133
Investing activities			
Purchases of property, plant and equipment		**(757)**	(723)
Expenditure on capitalised product development		**(132)**	(409)
Purchase of intangible asset		**(52)**	(58)
Net cash generated used in investing activities		**(941)**	(1,190)
Financing activities			
Proceeds on issue of ordinary shares		**270**	645
Acquisition of own shares for cancellation		—	(41,396)
Acquisition of own shares to be held in Treasury		**(304)**	(1,269)
Net cash used in financing activities		**(34)**	(42,020)
Net increase/(decrease) in cash and cash equivalents		**5,974**	(39,077)
Cash and cash equivalents at beginning of year		**8,756**	47,573
Effect of foreign exchange rate changes		**(144)**	260
Cash and cash equivalents at end of year		**14,586**	8,756

1. Basis of preparation

The financial information for the year ended 31 December 2017 contained in this New Release was approved by the Board on 7 March 2018. This announcement does not constitute statutory financial statements of the Company within the meaning of section 435 of the Companies Act 2006, but is derived from those financial statements, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed and adopted for use by the European Union.

The following new and revised Standards and Interpretations have been adopted in the current year. Their adoption has not had any significant impact on the amounts reported in these financial statements but may impact the accounting for future transactions and arrangements:

IAS 7 (amendments)	*Statement of Cash Flows – disclosure initiative*
IAS 12 (amendments)	*Recognition of Deferred Tax Asset for Unrealised Losses*
Annual improvements to IFRSs	*2014 – 2016 Cycle*

Otherwise the principal Group accounting policies are the same as set out in detail in the Annual Report and Accounts 2016 and have been applied consistently throughout the years ended 31 December 2016 and 2017.

Statutory accounts for 2016 have been delivered to the Registrar of companies and those for 2017 will be delivered following the Company's Annual General Meeting on 23 April 2018. The auditors have reported on those financial statements. Their reports were not qualified, did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006.

2. Revenue

An analysis of the Group's revenue follows. Revenue from continuing operations is generated from two segments, being Bio-decontamination (sale of goods and services) and Defence (sale of goods). Within the Biodecontamination segment management tracks revenue in three distinct categories; the sale of Systems (including associated service, consumables and validation), the sale of Qube (Bioquell's Aseptic Workstation solution) and the sale of Services (Biodecontamination service and Pod).

	2017 £'000	2016 £'000
Sales of Systems	**17,227**	16,586
Sales of Qube	**3,233**	2,502
Services	**8,006**	6,082
Biodecontamination segment	**28,466**	25,170
Sales of Defence	**724**	1,315
	29,190	26,485

Revenue from continuing operations is generated from two segments, being Bio-decontamination (sale of goods and services) and Defence (sale of goods):

	2017 £'000	2016 £'000
Sales of goods (including consumables)	**15,684**	15,806
Revenue from the rendering of services	**13,506**	10,679
	29,190	26,485

Geographical analysis

The Group's Biodecontamination equipment is manufactured within the UK and sold into the UK, Europe and Rest of World markets. The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods or services:

Sales revenue by geographical market	**Year ended 31 December 2017 £'000**	Year ended 31 December 2016 £'000
UK	**5,780**	6,454
Rest of Europe	**8,800**	7,676
Rest of World	**14,610**	12,355
	29,190	26,485

3. Business and geographical segments

For management purposes, the Group is currently organised into two divisions – Biodecontamination ("BIO") and Defence. These divisions are consistent with the internal reporting as reviewed by the Executive Chairman. Segment information is available only within the Income Statement, the Group does not split out the balance sheet for the Defence business. Segment information about these businesses is presented below:

Year ended 31 December 2017	BIO £'000	Defence £'000	Consolidated £'000
Revenue			
Total revenue	**28,466**	**724**	**29,190**
Result			
Segment result before adjusted item	**4,036**	**(35)**	**4,001**
Sale of Airflow business	**315**	**—**	**315**
Segment result	**4,351**	**(35)**	**4,316**
Unallocated head office costs			**(1,078)**
Profit from operations			**3,238**
Finance costs and investment revenue			**45**
Profit before tax			**3,283**
Tax			**(591)**
Profit for the year			**2,692**

The profit from the sale of the Airflow business (£315,000) has been recognised as a chargeable gain for tax purposes resulting in a tax charge of £61,000.

Year ended 31 December 2016	BIO £'000	Defence £'000	Consolidated £'000
Revenue			
Total revenue	25,170	1,315	26,485
Result			
Segment result before exceptional item	2,603	202	2,805
Impairment of intangibles	(458)	(204)	(662)
Segment result	2,145	(2)	2,143
Costs associated with Board restructuring			(858)
Consolidated result after exceptional items			1,285
Unallocated head office costs			(1,231)
Profit from operations			54
Finance costs and investment revenue			22
Profit before tax			76
Tax			321
Profit for the year			397

The impairment of intangibles had no cash impact on the business but it did create a release of the deferred tax liability adding £126,000 to the recognised tax credit on the Income Statement. The costs associated with Board restructuring had a cash impact totalling £858,000 and were recognised as an allowable deduction for tax purposes.

4. Profit from operations

Profit from operations has been arrived at after charging/(crediting):

	2017 £'000	2016 £'000
Research & development costs	**982**	832
Impairment of intangible assets	**—**	662
Depreciation of property, plant and equipment	**1,393**	1,544
Amortisation of development costs	**849**	864
Amortisation of trademarks, patents and licence fees	**87**	162
Cost of inventories recognised as an expense	**7,202**	6,433
Cost of inventory written off in the year	**22**	102
Staff costs	**10,823**	10,169
Loss on disposal of property, plant and equipment	—	8
Net foreign exchange (gain)/loss	**(62)**	276

An analysis of auditors' remuneration is provided below:

	2017 £'000	2016 £'000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	**45**	43
Fees payable to the Company's auditors for the audit of the subsidiaries pursuant to legislation	**74**	63
Fees payable for the audit of subsidiaries by other Deloitte firms (France)	**15**	15
Total audit fees	**134**	121
Audit related assurance services	**4**	9
Total non-audit fees	**4**	9

5. Tax

	2017 £'000	2016 £'000
UK corporation tax current year	**(558)**	(42)
UK corporation tax prior year	**-**	(16)
Deferred tax credit current year	**112**	418
Deferred tax adjustment prior year	**(145)**	(39)
	(591)	321

Corporation tax is calculated at 19.25% (2016: 20%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. Reductions in the corporate tax rates have been announced in the USA and France both of which have converged more closely to the UK rate. There has been no significant immediate impact to the Group as a consequence of these changes.

The (charge)/credit for the year can be reconciled to the profit per the Income Statement as follows:

	2017 £'000	2016 £'000
Profit before tax	**3,283**	76
Tax at the UK corporation rate of 19.25% (2016: 20%)	**(632)**	(17)
Adjusted for:		
Tax effect of expenses not deductible in determining taxable profit	**(26)**	(33)
Effect on deferred tax asset of movement in share price	**(29)**	71
Effect of research and development relief	**155**	204
Tax effect of different tax rate of subsidiaries operating in other jurisdictions	**(105)**	(33)
Prior year adjustment	**(145)**	(55)
Utilisation of tax losses not recognised	**227**	54
Effective change in tax rate	**(36)**	130
	(591)	321

In 2017, the anticipated tax deduction on unexercised share options exceeded the cumulative related remuneration expenses and £115k has therefore been charged directly to equity (2016: £nil).

6. Earnings per share

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

Earnings	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Earnings for the purposes of basic and diluted earnings per share being net profit attributable to equity holders of the parent	**2,692**	397

Number of shares	Year ended 31 December 2017	Year ended 31 December 2016
Weighted average number of ordinary shares for the purposes of basic earnings per share	**23,144,421**	31,174,461
Effect of dilutive potential ordinary shares:		
– share options	**1,874,233**	1,019,473
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**25,018,654**	32,193,934

7. Analysis of net cash

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Cash and cash equivalents	14,586	8,756

8. Share capital

	2017 Number	2017 £'000	2016 Number	2016 £'000
Authorised				
Ordinary shares of 10p each	**55,947,780**	**5,595**	55,947,780	5,595
Redeemable deferred ordinary shares of £1 each	**255,222**	**255**	255,222	255
		5,850		5,850
Called up, allotted and fully paid				
Ordinary shares of 10p each	**22,471,816**	**2,247**	22,004,780	2,200
Ordinary shares of 10p each held in Treasury	**797,000**	**80**	940,000	94
		2,327		2,294

In March 2017 333,000 shares were transferred from Treasury to be held by the Company in relation to the LTIP scheme.

During the year the Company acquired 190,000 shares in the market for £304,000. These shares are now held in Treasury.

The Company issued a total of 324,036 ordinary shares of 10p each for £270,000 on the conversion of options under the Executive Share Option schemes and the Save-as-you-earn scheme.

9. Retained earnings

	£'000
Balance at 1 January 2016	57,636
Net profit for the year from continuing operations	397
Acquisition of own shares for cancellation	(39,296)
Acquisition of own shares to be held in Treasury	(1,269)
Exercised share options	268
Balance at 1 January 2017	17,736
Net profit for the year from continuing operations	**2,692**
Acquisition of own shares to be held in Treasury	**(304)**
Exercised share options	**47**
Balance at 31 December 2017	**20,171**

10. Notes to the cash flow statement

	2017 £'000	2016 £'000
Profit before tax	**3,283**	76
Adjustments for:		
Finance costs	**8**	110
Investment revenues	**(53)**	(132)
Depreciation of property, plant and equipment	**1,393**	1,544
Amortisation and impairment losses of intangible assets	**936**	1,026
Impairment of intangible assets	—	662
Accelerated IFRS2 charge	—	60
Share-based payments	**272**	35
Loss on disposal of property, plant and equipment	—	8
Increase in provisions	**354**	156
Operating cash flows before movements in working capital	**6,193**	3,545
(Increase)/decrease in inventories	**(515)**	976
Decrease/(increase) in receivables	**717**	(359)
Increase/(decrease) in payables	**509**	(51)
Cash generated by operations	**6,904**	4,111
Investment revenues	**53**	132
Interest paid	**(8)**	(110)
Net cash from operating activities	**6,949**	4,133

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less.

The cash impact of the sale of the Airflow business was a cash inflow of £254,000.

11. Post balance sheet event

On 8th January 2018, the Group disposed of its airflow spare parts business to Crowthorne Hi Tec Services Limited. The gain arising on this disposal will be accounted for in the Group's 2018 accounts.

12. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are therefore not disclosed.

Remuneration of key management personnel

The total remuneration for all of the Directors of Bioquell PLC, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures.

	2017 £'000	2016 £'000
Short-term employee benefits	**446**	724
Post-employment benefits	**16**	60
Share-based payments	**148**	33
	610	817