BIOQUELL PLC
ANNUAL REPORT AND ACCOUNTS 2017

The Leader in Biodecontamination for Life Sciences, Pharmaceuticals and Healthcare

bioquell

Bioquell supplies no-touch, automated, environmental biodecontamination systems and services. Using patented Hydrogen Peroxide Vapour technology, our solutions deliver industry-leading efficacy and universal acceptance. Bioquell's systems and services play a pivotal role in our customers' daily operations, helping them maintain regulatory compliance and process integrity.

OUR MISSION

To deliver innovative, industry-leading systems supported by world-class customer service to provide secure operational environments and enable the manufacture of safe products.

OUR VISION

To be the leading provider of biodecontamination solutions for the life sciences, pharmaceutical and healthcare industries.

Customer Centric - Innovation - Integrity
One Team - Quality - Safety - Trust

BUSINESS REVIEW

CORPORATE GOVERNANCE

FINANCIAL STATEMENTS

OUR HIGHLIGHTS

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."

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* £m**	**Non-recurring revenues £m**	**2017 Total £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* £m	Non-recurring revenues £m	2016 Total £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, but 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 (£0.2 million) 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 units 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

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 possibly 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.*

Risk and/or uncertainty	Mitigation
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.*

DIRECTORS AND ADVISERS

IAN JOHNSON

Executive Chairman

Joined the Board in June 2016 as non-Executive Chairman, was appointed as Executive Chairman in August 2016. He was also non-Executive Chairman of Quantum Pharma plc until its recent acquisition by Clinigen PLC and has previously been Chairman of Cyprotex PLC and Celsis Group. He has served on the boards of various public and private companies in strategic consultancy and business development capacities. He studied Microbiology at Cardiff University.

MICHAEL ROLLER, ACA

Group Finance Director

Joined the Board in March 2014. He has previously been Finance Director of a number of quoted companies, most recently Corin Group PLC, has significant experience within the Life Sciences sector and is a non executive director of Filtronic plc. He qualified as an accountant with KPMG.

JAY LECOQUE

Commercial Director

Joined the Board in August 2016. He was previously CEO of Celsis Group and has worked for Baxter Healthcare and Aptar Group in various sales and marketing roles. He studied at Northwestern University and Miami University.

SIMON CONSTANTINE, ACA*

Non-executive Director

Joined the Board in November 1999. Previously he held a number of financial and operational positions at Board level within Life Sciences International PLC. He is also Chairman of Capstone Foster Care Ltd and Northern Venture Trust PLC.

SIR IAN CARRUTHERS, OBE*

Non-executive Director

Joined the Board in August 2010. He is former Chief Executive of the NHS South of England and has extensive experience of the UK and international healthcare systems. He is a Chairman of 2020 Delivery, and Chancellor of the University of the West of England.

CHRISTOPHER MILLS**

Non-executive Director

Joined the Board in December 2012. He is Chief Executive and Investment Manager of North Atlantic Smaller Companies Investment Trust PLC, a director of Oryx International Growth Fund Ltd and is the Chief Investment Officer and a member of Harwood Capital LLP.

* Member of the Audit, Remuneration and Nominations Committees.

** Member of the Remuneration Committee.

SECRETARY

Georgina Pope, ACMA

REGISTERED OFFICE

52 Royce Close
West Portway
Andover
Hampshire SP10 3TS

AUDITORS

Deloitte LLP

Chartered Accountants
Reading

STOCKBROKERS

N+1 Singer

BANKERS

Royal Bank of Scotland PLC

REGISTRARS

Link Asset Services

INTRODUCTION BY THE CHAIRMAN

The Board is committed to upholding the highest standards on corporate governance, protecting and growing our shareholders' assets, and engaging in a fair and transparent manner with all of our stakeholders. We take responsibility for approving the Group's long-term goals and strategies, and provide overall financial and organisational control. We have also put in place appropriate internal control and risk management systems across the Group. The detailed statement below sets out how the Company has applied the main and supporting principles of good governance set out in the UK Corporate Governance Code issued in April 2016 by the Financial Reporting Council ("the Code").

IAN JOHNSON

Executive Chairman

COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE

The Company is committed to the principles of corporate governance contained in the Code. The Board is accountable to shareholders for applying these principles.

The Directors consider that throughout the year ended 31 December 2017 the Company has been in compliance with the Code provisions set out in the Code, except for the following:

Code provision A.4.1 as the Board has not nominated a senior independent Director because the Board is small;

Code provision A.2.1 as, since Ian Johnson's appointment as Executive Chairman in August 2016 there has been no Chief Executive in place. The Board is satisfied that the duties of a Chief Executive are effectively discharged by the Executive Directors and the Group's senior management and that any potential conflict of duty on the Board is mitigated by having separate Chairmen on each of the Committees.

THE BOARD

The Board comprises three executive and three non-executive Directors who possess the appropriate balance of skills, experience, independence and knowledge of the Company to enable them to discharge their respective duties and responsibilities effectively. The non-Executive Directors are considered by the Board to be independent in character and judgement other than Christopher Mills who is not judged to be independent under the criteria set out in the Code as he represents shareholders controlling 28.1% of the Company's ordinary shares; the Board does not consider the fact that the other non-executive Directors hold shares in the Company impairs their independence. In the case of Simon Constantine, who has served on the Board for more than nine years, the Board is satisfied that he remains free from any relationship with the executive management of the Company which could interfere with the exercise of his independent judgement and that he continues to provide a rigorous challenge to management; he is proposed for re-election in accordance with the Code.

The Chairman is required to conduct an annual review of the non-Executive Directors' performance with a view to maintaining the overall skills, experience and knowledge of the Board as a whole. This review occurred in Q1 of 2017. The Chairman will also ascertain each Non-Executive's willingness to continue on the Board. The Board members have access to training and governance updates from the Company's advisors and other external sources.

The non-Executive Directors are required to submit themselves for re-election at regular intervals. Before re-election the Chairman will confirm to the shareholders that the individual's performance continues to be effective and the individual continues to demonstrate their commitment to the role. This composition satisfies the Code's Principles and Provisions that the Board should have a balance of Executive and non-Executive Directors in terms of number and relevant experience to enable it to have effective leadership and control of the Company and its subsidiaries. The Directors have access to all information and, if required, independent professional advice at the expense of the Company. The Board met eight times during the year, Sir Ian Carruthers was absent from two meetings. The Board has formally adopted a schedule of matters which are specifically reserved for its decision and retains full control over key strategic, financial and organisational issues within the Group. The Board has established Audit, Remuneration and Nominations Committees.

DIRECTORS' CONFLICTS OF INTEREST

All Directors have a duty, under the Companies Act 2006 ("the Act") to avoid a situation in which a direct or indirect interest conflicts or possibly may conflict with the interests of the Company. The Company's Articles of Association include provisions for dealing with Directors' conflicts of interest in accordance with the Act.

COMMUNICATION WITH SHAREHOLDERS

The Board attaches a high priority to communications with shareholders. The Group's Annual Report and Accounts is sent to all shareholders and both the Annual Report and the Half Year report are published on the Company's website. The Group meets regularly with its shareholders and there is an opportunity for shareholders to question the Chairman and the Directors at the Annual General Meeting.

THE AUDIT COMMITTEE

The Audit Committee is chaired by Simon Constantine. It consists of all the non-executive Directors with the exception of Christopher Mills and oversees the proper observation of accounting standards, the application of the Group's accounting policies, its systems of internal financial controls and all issues relating to the preparation and approval of the Group's annual and half-yearly Reports and Accounts. The Committee also considers the effectiveness of the audit process, objectivity and independence of the Group's auditors by a process of assessment and keeps the scope of non-audit services provided by the auditors and the level of non-audit fees under review. In addition it is involved in the approval of the audit fees and the auditors' terms of engagement. The Audit Committee acknowledges its responsibility to investigate any reports of impropriety or potential fraud. The report of the Audit Committee is included on pages 12 and 13.

THE REMUNERATION COMMITTEE

The Remuneration Committee consists of all the non-Executive Directors and is chaired by Sir Ian Carruthers. The Committee, which met twice during the year, is responsible for recommending to the Board the terms of service and remuneration of the Executive Directors. It also has oversight of the remuneration levels of the senior members of the management teams. The Committee is responsible for the allocation of share options throughout the Group. The Report of the Remuneration Committee is included on pages 14 to 19. The Board as a whole determines the remuneration of the Chairman and the terms of his appointment and the remuneration of the other non-Executive Directors. No Director is involved in deciding his own remuneration.

THE NOMINATIONS COMMITTEE

The Nominations Committee consists of all the non-Executive Directors with the exception of Christopher Mills and is chaired by Sir Ian Carruthers. This Committee is responsible for nominating candidates for appointment to the Board having regard to the overall skills balance and composition of the Board and with reference to the diversity policy set out on page 11. It also recommends to the Board the composition of the Board Committees and has an oversight of Board competence in conjunction with the Executive Chairman's review described on page 9. The Committee did not meet during 2017.

RISK MANAGEMENT AND INTERNAL CONTROL

A risk management policy is in place which sets out the Board's overall approach to management and acceptance of risk. The Directors and senior managers of each Group business are required to undertake their own risk identification and assessment according to the individual circumstances of the business which they manage, and this risk assessment is then reviewed and evaluated by the Group Finance Director and submitted to the Board for consideration. This system has been in place since 1 January 2017 and up to the date of approval of the Report and Accounts. This risk management process is regularly reviewed by the Board and accords with "the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting" as issued by the FRC.

The Directors have overall responsibility for the system of internal control throughout the Group and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, as it can only provide reasonable, but not absolute, assurance against material misstatement or loss. The Board has conducted a review of the effectiveness of the system of internal control for the year ended 31 December 2017 and the period up to 7 March 2018. In carrying out this review the Board takes account of material developments through reports by the Executive Chairman, the Group Finance Director and the Audit Committee. No significant issues were found during this review.

The Board has established an organisation structure with clear lines of accountability. Formalised processes are in place for the preparation, review and approval of business plans, budgets and investment proposals for the Group as a whole and for the individual divisions. Financial results and other key business monitors are reported to the Board regularly and variances from approved budgets identified and used to initiate action. The Board has published, internally, management rules which include financial and operating control procedures with which the management of each subsidiary or division is required to comply.

CORPORATE SOCIAL RESPONSIBILITY

Corporate responsibility is at the heart of the way the Group conducts its business.

DIVERSITY

The Group recognises the importance and benefit of ensuring diversity throughout the business. We strive to create a culture which recruits and promotes on the basis of ability, irrespective of gender, ethnicity or national origin. The Group has policies in place designed to counter the possibility of discrimination of all kinds.

The Company is committed to ensuring that all employees have the right to work in an environment that is free from any form of harassment or bullying.

HUMAN RIGHTS

Bioquell supports the principles defined within the United Nations Universal Declaration of Human Rights and the International Labour Organisation Core Conventions including the Conventions in relation to child labour, forced labour, non-discrimination, freedom of association and collective bargaining.

The specific circumstances of the Group are such that the very large majority of its employees are in developed countries, all its manufacturing is carried out in the UK and most of its key suppliers are located in the UK and Europe. The inherent risk associated with either the Group's employees or its suppliers as regards potential human rights violations is therefore considered by the Directors to be low. That said the Group is fully committed to good practice in respect of human rights and in the event that the Group develops in such a way as to encompass a greater level of geographical diversity, either by itself or through its supply chain, would seek to put in place appropriate protections to ensure best practice is adhered to.

RATIO OF MEN TO WOMEN

At 31 December 2017 there were 44 women (2016: 40) employed across our Group making 20% (2016: 20%) of our Group-wide employee base. With fewer than 40 employees in any single geographical location outside the UK, this ratio is evaluated on a Group-wide basis only.

Under the definition of senior managers as those reporting directly to Executive Directors, 5 of 17 (2016: 4 of 11) such reports are women.

There is presently no female representation on the Group Board. The Board is satisfied that it has the appropriate balance of skills, experience and expertise necessary, and will give due regard to diversity in the event of further changes to both its own membership and/or the membership of the senior management team.

THE ENVIRONMENT

Care for the environment is an integral part of the Group's business activities. It is the Group's policy to ensure its facilities are safe and the Group is committed to ensuring that its impact on the environment is minimised. The Group supports and trains its personnel to act responsibly in matters relating to the environment.

The Group takes account of relevant legislation and regulations and analyses its practices, processes and products to reduce their environmental impact, and works with its customers and suppliers to achieve a high standard of product stewardship.

HEALTH AND SAFETY

The Board is committed to ensuring the health and safety of the Group's employees and applies high standards throughout the Group in the control and management of its operations. All companies across the Group comply with relevant legislation and the Group communicates its health and safety policy to all employees. The Group has put preventative measures in place that aim to continue to reduce major injuries and lost time accidents. In the UK, during the year ended 31 December 2017, there were no fatalities, one reportable (RIDDOR) injury (2016: none) and 27 minor injuries (2016: 33).

AUDIT COMMITTEE

From the beginning of the year until the AGM on 26 April 2017 the Audit Committee comprised three independent non-Executive Directors: Simon Constantine (Chairman), Tony Bourne and Sir Ian Carruthers. Tony Bourne resigned as a non-executive Director at the AGM on 26 April. Since that date the Committee has comprised the two independent non-executive Directors.

The Audit Committee's terms of reference include the following roles and responsibilities:

→ monitoring and making recommendations to the Board in relation to the Company's published financial statements and other formal announcements relating to the Company's financial performance;

→ advising the Board on whether the Committee believes the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy;

→ monitoring and making recommendations to the Board in relation to the Company's internal financial controls and financial risk management systems;

→ periodically considering the need for an internal audit function;

→ making recommendations to the Board in relation to the appointment, re-appointment and removal of the external auditor and approving the remuneration and terms of engagement of the external auditor;

→ reviewing and monitoring the external auditors' independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;

→ monitoring the extent to which the external auditor is engaged to supply non-audit services; and

→ ensuring that the Company has arrangements in place for the investigation and follow-up of any concerns raised confidentially by staff in relation to the propriety of financial reporting or other matters.

The Committee reviews its terms of reference and its effectiveness annually and recommends to the Board any changes required as a result of the review. The terms of reference are available on request from the Company Secretary and on the Company website, www.bioquellplc.com. The Audit Committee meets at least three times a year and has direct access to Deloitte LLP ("Deloitte"), the Company's external auditor. The Board considers that the members of the Committee are independent and collectively have the skills and experience required to discharge their duties effectively, and that the Chairman of the Committee meets the requirements of the UK Corporate Governance Code as to recent and relevant financial experience.

The Board has considered the need to introduce an independent Group internal audit function but has decided that the current control mechanisms incorporating the Finance and Quality teams are appropriate in the context of the size and complexity of the business. The Board reviews this position at least annually.

During the year ended 31 December 2017 the Audit Committee met three times and discharged its responsibilities by:

→ reviewing and approving the external auditors' terms of engagement, remuneration and independence;

→ reviewing the external auditors' plan for the audit of the Company's financial statements, including identification of key risks;

→ reviewing the Company's internal financial controls operated in relation to the business and assessing the effectiveness of those controls in minimising the impact of key risks;

→ reviewing the appropriateness of the Company's accounting policies;

→ reviewing the Company's draft Annual Report and Accounts and interim report prior to Board approval;

→ in particular reviewing the Annual Report and Accounts with reference to its knowledge of the activities of the Group during the year, concluding that they are fair, balanced and understandable; and

→ reviewing the external auditors' detailed report to the Committee on the annual financial statements.

The Chair of the Audit Committee holds regular meetings with the Finance Director and other members of the management team which allows identification of areas for discussion at Audit Committee meetings. The reports received from management and the external auditors have assisted in informing the Audit Committee to perform a thorough review of the key issues.

The following key areas of risk and judgement have been identified and considered by the Audit Committee in relation to the business activities and financial statements of the Company.

→ the carrying value of intangible assets;

→ revenue recognition and in particular the timing of recording of revenue in respect of products dispatched around the year end, given the significant volume of trade in December; and

→ the level of warranty provision.

These issues were discussed with management and the auditor, in particular at the pre-year end audit planning meeting and at the conclusion of the audit of the financial statements.

Carrying value of capitalised development costs and patent costs: the Committee received and reviewed reports from management outlining the basis for the assumptions used in arriving at and the justification for retaining the carrying values of all other intangible assets. The Committee reviews, when required, impairment of intangibles proposed by management, the costs capitalised during the year, the amounts charged to the income statement by way of amortisation and the resulting net carrying values and compared these to sales and gross margins generated and forecast to be generated from the respective assets. Deloitte provided detailed reporting to the Committee on this matter. The Committee is satisfied that the carrying values of retained assets are appropriate.

Revenue recognition and in particular the timing of recording of revenue in respect of products dispatched around the year end, given the significant volume of trade in December: the Committee received a report from management on the principles, processes and calculations used to determine the revenue included in the financial statements for the year with particular reference to shipments of products and performance of services provided around the year end. After detailed review, the Committee concluded that the controls around year end shipping and invoicing of products and services remained in place and that shipments around the year end had been included in the correct accounting period. Deloitte also reported on their work on cut-off. No errors were noted. The Audit Committee therefore was satisfied that the sales figure for the year included in the Annual Report and Accounts fairly reflected the year's business.

Warranty Provision: the Committee received and reviewed a report from management on the principles and calculations associated with the warranty provision in the financial statements. Deloitte also provided detailed reporting to the Committee on this matter. The Committee is satisfied that the level of warranty provision in the balance sheet at 31st December 2017 is appropriate.

The Company's management and auditor confirmed to the Audit Committee that they were not aware of any material misstatements in the financial statements. Having reviewed the reports received from management and the auditor, the Committee is satisfied that the key areas of risk and judgement have been appropriately addressed in the financial statements and that the significant assumptions used in determining the value of assets and liabilities have been properly appraised and are sufficiently robust.

AUDITOR INDEPENDENCE

As part of the review of auditor independence, Deloitte has confirmed that it is independent of the Company and has complied with applicable auditing standards. Deloitte has held office as auditor for 17 years; in accordance with professional guidelines the engagement partner is rotated after at most five years and this is the current partner's second year.

In assessing the auditor's effectiveness, the committee:

→ challenged the work done by the auditor to test management's assumptions and estimates in the key risk areas;

→ reviewed reports received from the auditor on these and other matters;

→ received and considered feedback from management; and

→ held private meetings with the auditor that provide the opportunity for open dialogue and feedback between the Committee and the auditor without management being present.

In addition, the Chairman of the Committee has discussions in person with the audit lead partner outside the formal committee process at various times during the year.

Having completed its review, the Audit Committee is satisfied that Deloitte remained effective and independent in carrying out its responsibilities up to the date of signing this report and believes that it would not be appropriate to put the audit appointment out to tender at the present time although this is kept under review. Accordingly, Deloitte LLP will be proposed for re-appointment as auditor at the annual general meeting.

REMUNERATION COMMITTEE

DEAR SHAREHOLDER

As Chairman of the Remuneration Committee (the "Committee"), I am pleased to present our Directors' Remuneration Report for the year ended 31 December 2017. This report has been compiled in line with the Large and Medium-sized Companies and Groups Regulations 2013 (the "Regulations") and describes how the Board has applied the Principles of the UK Corporate Governance Code relating to Directors' remuneration. This report will be split into two parts:

→ The Directors' Remuneration Policy sets out the policy for 2018 and the key factors that were taken into account in setting the policy. This Policy took effect at the AGM on 26 April 2017 and, as no changes have been made, will not be subject to a shareholder vote at the AGM in 2018.

→ The Annual Report on Remuneration sets out payments and awards made to the Directors for the 2017 financial year. The Annual Report on Remuneration is subject to an advisory shareholder vote at the AGM.

The Remuneration Committee defines the Company's policy on remuneration, benefits and terms of employment. As part of this process, it provides a formal framework for the development of remuneration policy for Executive Directors and for fixing the remuneration packages of individual Directors. The Committee also reviews and approves general increases in salaries and bonus arrangements for staff. The remuneration policy and practice for employees are taken into account when setting remuneration for Executive Directors.

There has been one change in the composition of the Board during the year. Tony Bourne, non-Executive Director and Chairman of the Remuneration Committee, resigned at the AGM on 26 April.

The Committee has reviewed the remuneration packages of the Executive Directors to ensure these continue to attract, retain and motivate talented people, while recognising wider shareholder interest. The Committee reviews all incentive-based rewards before they are awarded and has full discretion to adjust awards downwards if deemed appropriate.

The terms of reference of the Remuneration Committee are available at www.bioquellplc.com.

The Policy incorporates the changes made by the Committee to the elements of the Executives' remuneration to better align them to the strategy of the Group following the changes to the Board in August 2016. The Committee believes the remuneration packages defined in this report achieve the objectives of attracting and retaining high calibre individuals and aligning their incentives with shareholders' interests. Changes within each element of remuneration are discussed in the Remuneration Report.

SIR IAN CARRUTHERS

Chairman, Remuneration Committee
7 March 2018

REMUNERATION POLICY

The Remuneration Policy came into effect from the date of the AGM in 2017. The main aim of the Group's remuneration policy is to align the interests of Executive and non-Executive Directors with the Group's business strategy and the long-term creation of shareholder value. The policy aims to pay the Directors competitively, whilst considering the remuneration practices of other international companies of similar size and scope, the current economic climate, the regulatory and governance framework, remuneration around the Group and the need to ensure that the Directors are remunerated appropriately, whilst ensuring the Group pays no more than is necessary. The Committee has no formal method of involving employees in the setting of Directors' remuneration, however the members of the Committee have access to employees both in formal and informal settings and take into account the level of employee remuneration when setting Directors' remuneration. Shareholders views on Directors' remuneration are taken into account when setting the Remuneration Policy. The following tables are an amended extract of the Policy and represents a summary of the key points of the policy:

Element of remuneration	Purpose of this element	Operation	Maximum potential benefit	Performance measures
Basic salary	To provide the basis of a market competitive overall remuneration. Takes account of the role, skills and contribution of the individual.	Basic salaries are normally reviewed annually in March with any changes usually taking effect from 1st April. The review includes a comparison with other companies of similar size and complexity whilst taking into account a number of critical factors such as individual responsibility, scope and complexity of the role and the individual's experience.	Executive Director salaries as at 1st January 2017 are set at the following levels, these may change during the period for which the Policy is in place: Ian Johnson, Executive Chairman £150,000 Jay LeCoque, Commercial Director, £50,000 Michael Roller, Group Finance Director ('GFD') £119,000 Increases in salary are made in relation to Group and individual performance, market benchmarking, inflation and other factors at the discretion of the Remuneration Committee.	n/a
Pension	To provide post-retirement remuneration to ensure that the overall remuneration package is competitive.	The GFD is entitled to an employer pension contribution of 15% or in certain circumstances a payment in lieu of pension contribution. It is the Group's policy that only basic salary is pensionable. No pension contributions are made by the Company to the other Executive Directors.	Pension contributions or payments in lieu of pension to a maximum of 15% of base salary.	n/a
Other benefits	To provide market typical benefits to ensure that the overall remuneration package is competitive.	The GFD currently receives a car allowance. The Group would consider payment of relocation expenses on an individual basis.	There are no set maximums for these benefits but they are set in line with other wider employee remuneration.	n/a
Long-term incentives	To create alignment between the interest of Executives and shareholders through the delivery of rewards in Company shares. To incentivise Executives to deliver long-term shareholder value creation and the achievement of financial targets.	An award of share options under the Group's Performance Share Plan "PSP" as approved by shareholders at the General Meeting held on 24 November 2016. The PSP scheme was formally adopted by the Remuneration Committee on 2 February 2017. The scheme rules do not include malus and clawback provisions as vesting is conditional on a corporate event which itself would be subject to significant due diligence by any purchaser.	Awards can be made subject to an individual's holding not exceeding 20% of the Company's issued share capital after exercise. The initial awards were set out in the Circular to Shareholders and are as follows: Ian Johnson: 667,000 shares Michael Roller: 90,000 shares Jay LeCoque: 333,000 shares.	Vesting subject to a sale of the Group or similar corporate event at, or above, £2 per share within 3 years, or at or above £2 + 10% per annum if after 3 years.
The Bioquell SAYE scheme	The scheme is an HM Revenue and Customs "approved" scheme the purpose of which is to allow all UK employees the chance to invest in the Company.	Invitations are issued to all permanently employed UK staff, including full-time Executive Directors to invest a maximum of £250 per month over a three year period to obtain shares. The exercise price to buy the shares under these options is set at a 20% discount to market value at the date of grant.	Maximum benefit depends on share price growth during the vesting period. Options cannot be exercised until the third anniversary of grant is reached, after which the participant has six months in which to exercise the option before it expires.	n/a

POLICY ON NON-EXECUTIVE DIRECTORS

Non-Executive Directors receive fixed fees agreed by the full Board after reference to similar roles in an appropriate comparator group of companies, and reimbursement of expenses incurred in attending Board and other meetings. It is the Board's policy for the non-Executive Directors to be paid a level of fee that reflects the time commitment and responsibilities of the role and is sufficient to attract individuals with appropriate knowledge and experience. The fees in place as at 1 January 2018 are as follows:

Non-Executive Directors	Annual fee (£'000)
Sir Ian Carruthers	30
Simon Constantine	30
Christopher Mills	30
	90

REMUNERATION REPORT

The Remuneration Report constitutes the audited part of the reports of the Remuneration Committee.

The Committee consists of two independent non-Executive Directors: Sir Ian Carruthers (Chairman) and Simon Constantine. Christopher Mills, a non-Executive Director who is not considered to be independent because he represents shareholders controlling 28.1% of the Company's ordinary shares, also sits on the Committee. The Committee defines the Company's policy on remuneration, benefits and terms of employment. As part of this process, it provides a formal framework for the development of remuneration policy for Executive Directors and for fixing the remuneration packages of individual Directors. The Board, as a whole, is responsible for fixing the remuneration of the non-Executive Directors. The Committee has access to independent, external advisers when required but did not seek external advice during the year ended 31 December 2017. The Committee sought input from the Executive Chairman on remuneration of senior staff. The Chairman of the Committee remains available to shareholders regarding remuneration policy.

SINGLE TOTAL FIGURE OF REMUNERATION FOR EACH DIRECTOR (AUDITED)

2017	Salary & fees £'000	Benefits** £'000	Long-term Incentives*** £'000	Pension contribution £'000	Total £'000
Executive Directors					
Ian Johnson	**150**	**—**	**61**	**—**	**211**
Jay LeCoque	**50**	**—**	**30**	**—**	**80**
Michael Roller*	**139**	**9**	**57**	**18**	**223**
	339	**9**	**148**	**18**	**514**
Non-Executive Directors					
Tony Bourne	**8**	**—**	**—**	**—**	**8**
Sir Ian Carruthers	**30**	**—**	**—**	**—**	**30**
Simon Constantine	**30**	**—**	**—**	**—**	**30**
Christopher Mills	**30**	**—**	**—**	**—**	**30**
	98	**—**	**—**	**—**	**98**
Total	**437**	**9**	**148**	**18**	**612**

* Mr Roller reduced his hours to three days per week from 1 April 2017

** Mr Roller received a car allowance

***The charge to the income statement in the year for the awards under the LTIP and ESO schemes

2016	Salary & fees £'000	Benefits** £'000	Annual bonus £'000	Pension contribution £'000	Total £'000
Executive Directors					
Ian Johnson*	50	—	—	—	50
Jay LeCoque*	17	—	—	—	17
Michael Roller	197	8	75	29	309
	264	8	75	29	376
Non-Executive Directors					
Tony Bourne	30	—	—	—	30
Sir Ian Carruthers	30	—	—	—	30
Simon Constantine	30	—	—	—	30
Christopher Mills	30	—	—	—	30
	120	—	—	—	120
Total	384	8	75	29	496

* Ian Johnson was appointed as Executive Chairman on 24 August 2016. Jay LeCoque was appointed as an Executive Director on 24 August 2016.

** Mr Roller received a car allowance.

EXECUTIVE DIRECTOR PENSION ARRANGEMENTS

Under the terms of their service contracts the Executive Directors (other than Ian Johnson and Jay LeCoque) can ask the Company to contribute to a pension plan of their own choice. The Company contributed a maximum of 15% of basic salary during the year ended 31 December 2016. Bonus payments are excluded from the contribution calculations. During the year the Company contributed £18,000 (2016: £26,000) as payment in lieu of pension contributions for Michael Roller.

DIRECTORS' OPTIONS OVER SHARES – (AUDITED)

Share options issued under the ESO Scheme and held by Directors of the Company are as follows:

Director	1 January 2017	Granted/ (exercised)	Lapsed	31 December 2017	Exercise price (p)	Date from which exercisable	Expiry date
Michael Roller	158,980	(158,980)	—	—	92.5	24.03.17	24.03.21
	159,000	—	—	159,000	85.0	26.03.18	26.03.22
				317,980			

All the options under the ESO Scheme held during the year were subject to performance conditions.

Initial awards were made under the PSP scheme to Directors on 2 February 2017. These initial awards only vest if the Company undergoes a takeover event within three years of the date of grant valued at at last £2 per share or, if no such event occurs, a takeover event after three years valued at £2 plus 10% per annum.

Director	1 January 2017	Granted/ (exercised)	Lapsed	**31 December 2017**
Ian Johnson	—	667,000	—	**667,000**
Jay LeCoque	—	333,000	—	**333,000**
Michael Roller	—	90,000	—	**90,000**
				1,090,000

All Directors and their connected persons are required to notify the Company in writing of any transaction conducted on their own account in the shares of the Company.

STATEMENT OF DIRECTORS' SHARE INTERESTS – (AUDITED)

	31 December 2017	% Share capital	1 January 2017
Christopher Mills*	**6,305,000**	28.1%	6,305,000
Simon Constantine	**235,000**	1.0%	235,000
Michael Roller	**173,110**	0.7%	9,623

* Mr Mills is Chief Investment Officer and a member of Harwood Capital LLP which owns 28.1% of the share capital.

PERCENTAGE CHANGE IN REMUNERATION OF THE EXECUTIVE CHAIRMAN AND EMPLOYEES

The percentage change in remuneration between 2017 and 2016 for the Executive Chairman and for all employees in the Group was:

	Salary % change	Taxable benefits % change	Bonus % change
Executive Chairman	–%	–%	–%
All employees	2.8%	–%	88.4%

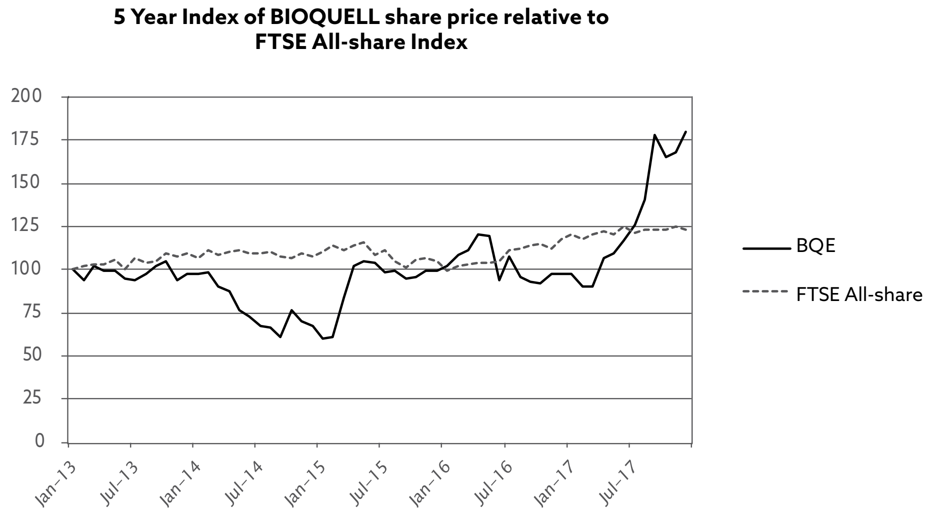
RELATIVE IMPORTANCE OF SPEND ON REMUNERATION

The following table shows the increase in actual expenditure on remuneration across the Group between 2016 and 2017 in comparison to movement in dividends:

	2017 £'000	2016 £'000	Change %
Dividend	**No dividend**	No dividend	-%
Share buyback	**304**	1,269	(76)%
Remuneration	**10,554**	10,134	4%

PERFORMANCE GRAPH

The following graph shows the Company's performance, measured by TSR, compared with the performance of the FTSE All-share Index also measured by TSR. The graph is prepared on the basis of constituent companies in the Index at a point in time. The FTSE All-share index was selected for the graph as the Committee believes it offers the most appropriate comparator for a Group of this profile.



STATEMENT OF IMPLEMENTATION OF REMUNERATION POLICY IN THE FOLLOWING FINANCIAL YEAR

The salaries for 2018 are set out below:

	From 1 April 2017	From 1 April 2018
Ian Johnson	£150,000 p.a.	£150,000 p.a.
Jay LeCoque	£50,000 p.a.	£50,000 p.a.
Michael Roller	£119,000 p.a.	£119,000 p.a.

There will be no annual bonus scheme for Executive Directors for 2018 as the Committee believes that the PSP scheme better aligns the Directors' remuneration to the interests of Shareholders. No further awards are anticipated under the PSP scheme.

STATEMENT OF CONSIDERATION OF EMPLOYMENT CONDITIONS ELSEWHERE IN THE COMPANY

Remuneration arrangements throughout the Group are based on the same remuneration principles, i.e. individuals are rewarded based on their contribution to the Group and to the success of the Group, and that reward should be competitive in the market without paying more than is necessary to recruit and retain individuals. Reward packages differ taking into account location, seniority and level of responsibility, but they are all built around these common reward objectives and principles.

STATEMENT OF CONSIDERATION OF SHAREHOLDER VIEWS

The Remuneration Committee, through the Chairman, continues to have a dialogue with shareholders. The views of shareholders are considered. In addition the Chairman meets with certain shareholders during the year.

STATEMENT OF VOTING AT ANNUAL GENERAL MEETING

The table below shows the advisory vote on the 2016 Directors' Remuneration Report and the 2017 Remuneration Policy at the 2017 AGM.

	Votes for and at discretion	% of votes cast	Votes against	% of votes cast	Votes withheld	% of votes cast
2016 Remuneration Report	6,515,667	72.2%	2,508,294	27.7%	10,422	0.1%
2017 Remuneration Policy	6,689,489	74.1%	2,331,242	25.7%	13,652	0.2%

The vote on the Annual Report on Remuneration is due to take place at the 2018 AGM to be held on 23 April.

The Committee notes the percentage of votes cast against the Remuneration Report and Policy and will continue to consider shareholder opinion when amending Board Remuneration.

SIR IAN CARRUTHERS

Chairman, Remuneration Committee
7 March 2018

DIRECTORS' REPORT

The Directors present their Annual Report and the audited financial statements for the year ended 31 December 2017.

The Corporate Governance Statements set out on pages 9 to 22 form part of this report as does the Strategic Report (pages 4 and 5), the Audit Committee Report (pages 12 and 13), the Directors' Remuneration Report (pages 17 to 19), the Directors' Responsibilities Statement (page 12) and the notes to the Group Financial Statements as detailed in the report.

GOING CONCERN

The Group's business activities, together with the factors likely to affect its future development, performance and position, and the risks and uncertainties which affect the business, are set out in the Strategic Report on pages 1 to 8. The Group has sufficient financial resources to cover budgeted future cashflows, together with contracts with its customers and suppliers across different geographic areas and industries. The Directors believe that the Group is well placed to manage its business successfully despite the current uncertain economic outlook.

In accordance with the Corporate Governance requirements and the Statement of Directors' Responsibilities on page 22, 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.

VIABILITY STATEMENT

In accordance with the requirements of the UK Corporate Governance Code, the Directors have assessed the Group's prospects and long term viability, having regard to its current position and the principal identified risks facing it.

The Directors have considered financial projections for the three years to 31 December 2020 under a range of assumptions, having regard to the risks the Group faces. The risks faced by the Group are detailed on pages 6 and 7 and the Directors' have considered all the known to the risks and evaluated their impact as accurately as possible. The Directors have also looked at the Group's capital expenditure requirements with regard to the Group's strategy. Given the difficulty in evaluating the impact of risks over time a three year period is considered to be the longest term over which projections can be made with any accuracy.

The Directors have concluded that there is a reasonable expectation that the Group will continue in operation and be able to meet its liabilities as they fall due throughout the period to 31 December 2020 under all reasonable trading hypotheses.

DIRECTORS AND DIRECTORS' INTERESTS

The Directors of the Company are shown on page 8. Tony Bourne resigned from the Board at the Annual General Meeting on 26 April. The remaining directors served throughout the year and through to the signing of the financial statements. The interests of the Directors in ordinary shares and options to acquire ordinary shares in the Company are set out in the Directors' Remuneration Report on pages 17 to 19.

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the UK Corporate Governance Code, the Companies Acts and related legislation. The Articles themselves may be amended by special resolution of the shareholders.

Christopher Mills and Simon Constantine retire by rotation at the next Annual General Meeting and, being eligible, offer themselves for re-election. Biographical information on all directors can be found on page 8.

RESEARCH AND DEVELOPMENT EXPENDITURE

The Group's policy is to develop new and improve existing products and services to meet the needs of its customers. The amount charged to the income statement in the year on research and development under IFRS amounted to £1,905,000 (2016: £1,826,000) – the total cash expenditure was £1,160,000 (2016: £1,287,000).

SUBSTANTIAL SHAREHOLDINGS

On 31 December 2017 the Company had been notified, in accordance with chapter 5 of the Disclosure and Transparency Rules, of the following voting rights as a shareholder of the Company.

Ordinary shareholders	Number	Percentage of issued ordinary share capital
Harwood Capital LLP*	6,305,000	28.1%
Liontrust Investments Partners LLP*	2,071,560	9.4%
A Muir	1,386,082	6.3%
J G Salkeld	1,383,850	6.3%

* The registered owners of shares in which these holders have an interest may be subsidiaries and associated companies and/or pension funds, unit trusts or investment trusts under that holder's management.

During the period between 31 December 2017 and 7 March 2018 the Company did not receive any notifications under chapter 5 of the Disclosure and Transparency Rules.

DIVIDENDS

The Board is not recommending the payment of a final dividend (2016:nil).

CAPITAL STRUCTURE

Details of the authorised and issued share capital, together with details of the movements in the Company's issued share capital during the year are shown in note 22. The Company has one class of ordinary shares of which 797,000 are held in Treasury. Each share carries the right to one vote at general meetings of the Company and carries no right to fixed income.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights. Details of employee share schemes are set out in note 30. No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

Under its Articles of Association, the Company has authority to issue 749,061 ordinary shares.

The Company meets the definition of a qualifying entity under FRS 100 issued by the Financial Reporting Council ("FRC"). Accordingly, in the year ending 31 December 2017, the Company has presented the Company only accounts under FRS 102 as issued by the FRC.

ACQUISITION OF THE COMPANY'S OWN SHARES

Further to the shareholders' resolutions of 20 June 2016 and 3 May 2017, the Company purchased 190,000 ordinary shares in the market at a cost of £304,000. These shares are held in Treasury.

SCOPE OF THE REPORTING IN THE ANNUAL REPORT AND ACCOUNTS

For the purposes of LR 9.8.4C R, the information required to be disclosed by LR 9.8.4 R in relation to long term incentive schemes can be found in the Remuneration Policy & Report (pages 15 to 19) and in note 30 to the accounts on page 48.

EQUAL OPPORTUNITIES

The Group aims to ensure there are equal opportunities for all employees with no discrimination on accounts of race, age, gender, sexual orientation, disability and political or religious beliefs.

DISABLED EMPLOYEES

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

EMPLOYEE COMMUNICATION

The Group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. This is achieved through formal and informal meetings and other forms of communication.

CORPORATE CARBON REPORTING

The table below sets out the Corporate Carbon footprint of the Group.

	2017 Tonnes of CO^2e	2016 Tonnes of CO^2e
Scope 1 (direct emissions – boilers & vehicles)	**244**	228
Scope 2 (energy indirect – purchased electricity)	**527**	482
Total emissions	**771**	710
Intensity Ratio – tonnes of CO2e per £m revenue	**29**	27

We have reported on the emission sources required under the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in August 2013. Scope 1 comprises gas used in heating and for the rotomoulding oven plus fuel used in Company vehicles (calculated using the average mileage per annum). Scope 2 comprises purchased electricity for use at the Group's facilities worldwide be they owned or leased. The reporting boundary used for collation of the above data is consistent with that used for consolidation purposes in the financial statements. Data collated from all of the Group's subsidiaries has been converted using factors from the UK Government's GHG Conversion Factors for Company Reporting.

The Group uses "tonnes of CO2e per £m revenue" as its intensity ratio as this combines the aims of growing revenue whilst maintaining overhead levels.

DISCLOSURE OF INFORMATION TO THE AUDITORS

Each of the persons who is a Director at the date of approval of this report confirms that:

(1) so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and

(2) the Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors, and signed on behalf of the Board.

GEORGINA POPE

Secretary
7 March 2018

DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors are responsible for preparing the Annual 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. Under that law the directors are required to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing the parent Company financial statements, the Directors are required to:

→ select suitable accounting policies and then apply them consistently;

→ make judgments and accounting estimates that are reasonable and prudent;

→ state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and

→ prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the group financial statements, International Accounting Standard 1 requires that Directors:

→ properly select and apply accounting policies;

→ present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;

→ provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and

→ make an assessment of the Company's ability to continue as a going concern.

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. They 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.

RESPONSIBILITY STATEMENT

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 position and 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

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF BIOQUELL PLC

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

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 2017 and of the group's profit for the year then ended;
- → the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (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, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- → the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of Bioquell plc (the 'parent company') and its subsidiaries (the 'group') which comprise:

- → the consolidated income statement;
- → the consolidated statement of comprehensive income;
- → the consolidated and parent company balance sheets;
- → the consolidated statement of changes in equity;
- → the consolidated cash flow statement; and
- → the related notes 1 to 32 to the consolidated financial statements and the related notes 1 to 10 to the parent company financial statements.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and 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 FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

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 public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

SUMMARY OF OUR AUDIT APPROACH

Key audit matters	The key audit matters that we identified in the current year were: → Revenue recognition around the year-end date; → Valuation of development cost intangible assets; and → Valuation of the warranty provision. Within this report, any new key audit matters are identified with and any key audit matters which are the same as the prior year identified with .
Materiality	The materiality that we used for the group financial statements was £150k which was determined on the basis of 5% of profit before tax and adjusted items.
Scoping	We focused our Group audit scope primarily on the audit work at three locations which represent the principal business units and account for 97% of the Group's net assets, 85% of the Group's revenue and 91% of the Group's profit before tax. Our coverage was broadly consistent with the prior year.
Significant changes in our approach	There have been no significant changes in our approach for the year ended 31 December 2017.

CONCLUSIONS RELATING TO GOING CONCERN, PRINCIPAL RISKS AND VIABILITY STATEMENT

Going concern

We have reviewed the directors' statement in note 2 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Principal risks and viability statement

Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the group's and the company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- → the disclosures on pages 6 and 7 that describe the principal risks and explain how they are being managed or mitigated;
- → the directors' confirmation on page 6 that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity; or
- → the directors' explanation on page 20 as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the directors' statement relating to the prospects of the group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

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 which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

For the audit of the year ended 31 December 2017 we have included the valuation of the warranty provision as a key audit matter for the first time. This is a result of the increased value that this has on the balance sheet and the estimation required in determining that value.

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 MATTERS continued

Revenue recognition around the year-end date	
Key audit matter description	Bioquell generates revenues from sales of Bio-decontamination equipment and consumable products and services (including installation and Bio-decontamination services). The Group has a history of recording significant revenue from products in the last month of the year which increases the risk of revenue recognition error at the year-end date. In December 2017 sales of £2.9m (December 2016: £3.0m) were recorded by the Group. Due to level of judgements involved and potential impact on the results for the financial period, we have determined that there was a potential for fraud through possible manipulation of this balance The Group's revenue recognition policy is disclosed in note 2 and revenue recognition is included in the critical accounting judgements listed in note 3. The Audit Committee has included their assessment of the risk on page 13.
How the scope of our audit responded to the key audit matter	Our audit procedures included considering the appropriateness of the Group's revenue recognition accounting policies, including those relating to sale of goods and the rendering of services. We have performed substantive risk assessment procedures so as to determine a period for which we believe that this risk is heightened. In addition: → We have evaluated the design and implementation of the key controls in the process which ensure that the timing of recognition is correct. → We have performed substantive testing of each of the material revenue streams, being the sales of Equipment, Isolators, Consumables, and the performing of RBDS and Validation Services. We have tested in detail a sample of completed dispatches on which revenue is recognised near to the year end date. For these completed orders we have assessed the timing of the transfer of risk and reward to the customer by reviewing the agreed contract terms to ascertain whether revenue has been recorded in the correct period. → We have considered sales recorded and credit notes raised in the month following the balance sheet date in order to identify whether these indicate any further risk of inappropriate revenue recognition. → We also considered the adequacy of the Group's disclosures (in note 4) in respect of revenue. → We performed testing over manual journals posted to revenue to identify unusual or irregular items.
Key observations	We have identified no material errors within our testing of the appropriateness of cut-off of revenue.

Valuation of development cost intangible assets	
Key audit matter description	Management assess the carrying value of intangible assets and where indicators of impairment exist are required to perform an impairment review under IAS 36 "Impairment of Assets". At 31 December 2017 the net book value of capitalised development costs (including patents) relating to Bio-decontamination and Defence products was £6.7m (2016: £7.4m) – refer to note 12. The Group operates in all of the life science, pharmaceutical and healthcare sectors and therefore future results are impacted by fluctuations in those markets. Assessment of the carrying value of capitalised development costs and possible impairment is a key audit matter due to the size of the balance recorded on the Group balance sheet, and the complexity of judgements involved in assessing the valuation which is based on forecast future cash flows. We have focused our work on the capitalised costs related to products with comparatively high carrying value and low headroom. The Audit Committee has included their assessment of this risk on page 12 and it is included in the key sources of estimation uncertainty within Note 3 to the Financial Statements.
How the scope of our audit responded to the key audit matter	We have performed substantive risk assessment procedures including a calculation of expected payback period for each product which has associated capitalised cost. We have used this to identify those assets which exhibit increased risk of impairment and for which the following additional procedures have been performed: → We have evaluated the design and implementation of the key controls in the process which ensure the impairment considerations are fully addressed. → We have obtained management's impairment review models covering all capitalised development costs. We determined that of the assumptions underpinning the models, the key assumption was the short-term forecast cash flow projections applied. → We have focused our audit effort on those products where there are stronger indicators of impairment based on recent sales history and on future outlook. → We have considered the impact of reasonable changes in the assumptions in order to determine whether disclosure is required in relation to sources of estimation uncertainty, and impairment sensitivities.
Key observations	We have identified no errors within our testing of the valuation of development cost intangible assets and the impairment reviews thereof. We agree with the assessment made by management that this represents a key source of estimation uncertainty, as disclosed in the accounting policies.

FINANCIAL STATEMENTS

KEY AUDIT MATTERS continued

Valuation of the warranty provision	
Key audit matter description	At 31 December 2017 the value of warranty provisions was £594k which is an increase of £354k on the 2016 balance – refer to note 21. This provision is recognised in relation to certain product part replacements that are known to be required. There is significant judgement required in the calculation of the recorded provision which is based on expected costs of repairs including parts and labour costs, as well as an estimation of the number of units susceptible to warranty claims. The Audit Committee has included their assessment of this risk on page 13 and it is included in the key sources of estimation uncertainty within Note 3 to the Financial Statements.
How the scope of our audit responded to the key audit matter	We have performed a risk assessment to identify the key inputs to the provision calculation. In addition: → We have evaluated the design and implementation of the key controls in the process which ensure that the key inputs to the calculation are reliably estimated. → We have corroborated the completeness and accuracy of the replacement part costs included in the provision by holding discussions with engineering staff and tracing a sample of parts to standard cost listings. → We have challenged the number of affected units included in the calculation by selecting a sample of dispatched units and confirming that they are included in the provision calculation. → We have considered the reasonableness of the estimated cost of labour by independently recalculating the cost per hour from salary and other related costs incurred by the Group during 2017 as well as confirming the time required for repair through discussion with engineering staff.
Key observations	We have not identified any material errors in the valuation of the total warranty provision. We agree with the assessment made by management that this represents a key source of estimation uncertainty, as disclosed in the accounting policies.

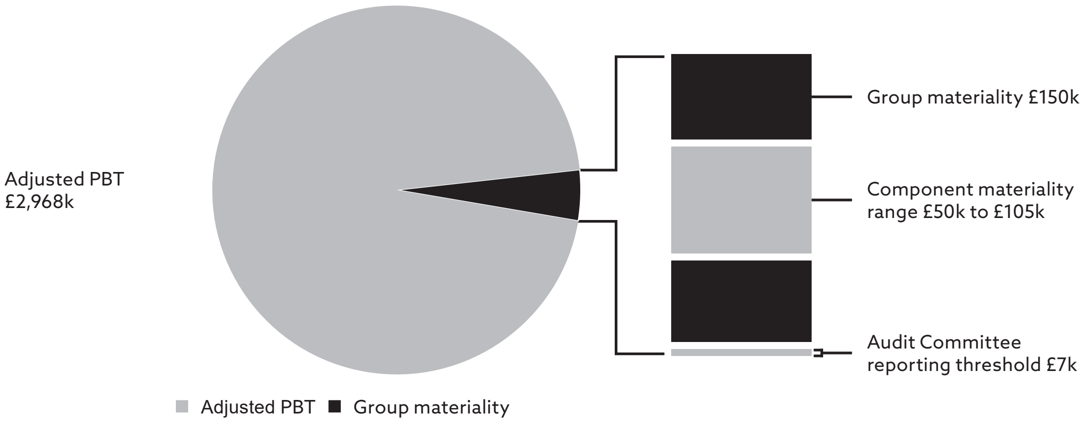
OUR APPLICATION OF MATERIALITY

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 both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£150k (2016: £100k)	£105k (2016: £85k)
Basis for determining materiality	5% of profit before tax and adjusted items which is calculated as £3,283k profit before tax excluding a credit of £315k relating to the sale of the Airflow business.	3% of net assets. Materiality has been limited by our component materiality determination and so is capped at 70% of materiality for the Group financial statements.
Rationale for the benchmark applied	Profit before tax is a key metric for the users of the financial statements; adjusting for certain items is to reflect the underlying performance of the business. The adjustments to pre-tax profit are consistent with those highlighted by management to improve comparability between reporting periods by adjusting for one-off factors which impact on IFRS measures.	Ordinarily materiality for the parent company would be based on a % of net assets. We consider this as well as a component materiality and have used the lower of those two.

OUR APPLICATION OF MATERIALITY continued



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £7k (2016: £5k) for the group, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

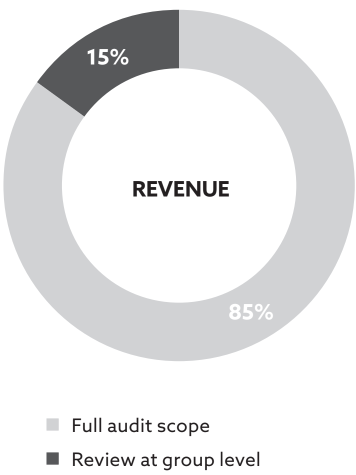
Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, we focused our Group audit scope primarily on the audit work at three (2016: five) locations being UK, France, and the US covering a total of six (2016: six) entities.

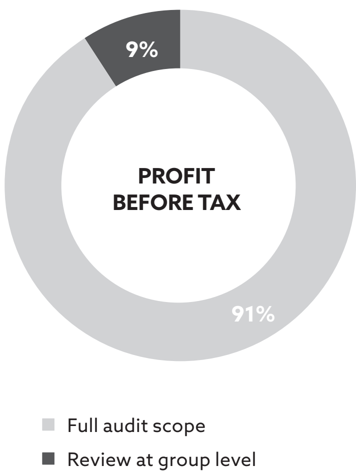
Six (2016: five) of these entities were subject to a full audit. In the prior year the remaining one was subject to specified audit procedures. These three locations represent the principal business units and account for 97% (2016: 97%) of the Group's net assets, 85% (2016: 95%) of the Group's revenue and 91% (2016: 95%) of the Group's profit before tax. They were also selected to provide an appropriate basis for undertaking audit work to address the key audit matters identified above. Our audit work at the six entities was executed at levels of materiality applicable to each individual entity which ranged from £50k to £105k (2016: £17k to £70k).

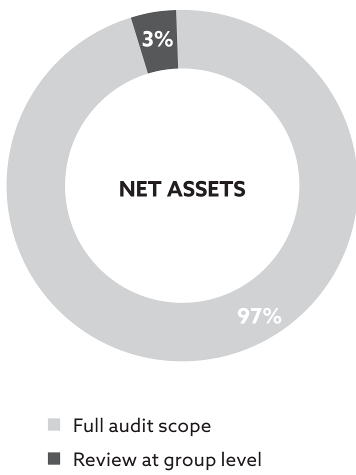
We have continued our rotational scope approach to the Singapore and US entities. We brought the US trading entities into full scope for this year's audit, visiting the location to perform the audit, whilst we reduced our scope of work at the Singapore entity to remotely performed desktop reviews. We engage component auditors who we remain in communication with throughout the audit process and through review of audit documentation.

At the Head Office we also tested the consolidation process and carried out analytical procedures to confirm our conclusions in respect of the key audit matters and our scoping of the aggregated financial information of the remaining components not subject to audit.

FINANCIAL STATEMENTS







OTHER INFORMATION

We have nothing to report in respect of these matters.

The directors are responsible for the other information. The other information comprises the information included in the annual report including the Highlights, the Chairman's Statement, the Strategic Report, the Risks and Uncertainties, and the Corporate Governance section, 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.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

→ *Fair, balanced and understandable* – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or

→ *Audit committee reporting* – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or

→ *Directors' statement of compliance with the UK Corporate Governance Code* – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the directors' responsibilities statement, 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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

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.

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

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

Adequacy of explanations received and accounting records	
Under the Companies Act 2006 we are required to report to you if, in our opinion: → we have not received all the information and explanations we require for our audit; or → 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.	**We have nothing to report in respect of these matters.**
Directors' remuneration	
Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.	**We have nothing to report in respect of these matters.**

OTHER MATTERS

Auditor tenure

Following the recommendation of the audit committee, we were appointed by the Shareholders on 15 June 2001 to audit the financial statements for the year ending 31 December 2001 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 17 years, covering the years ending 31 December 2001 to 31 December 2017.

CONSISTENCY OF THE AUDIT REPORT WITH THE ADDITIONAL REPORT TO THE AUDIT COMMITTEE

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

JANE MAKRAKIS FCA (SENIOR STATUTORY AUDITOR)

For and on behalf of Deloitte LLP
Statutory Auditor
Reading, United Kingdom
7 March 2018

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2017

Continuing operations	Notes	2017 £'000	2016 £'000
Revenue	4	**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	6	**3,238**	54
Investment revenues	8	**53**	132
Finance costs	9	**(8)**	(110)
Profit before tax		**3,283**	76
Tax	10	**(591)**	321
Profit for the period attributable to equity holders of the parent	27	**2,692**	397
Earnings per share attributable to the owners of the parent			
– basic		**11.6p**	1.3p
– diluted		**10.8p**	1.2p

Movements in reserves are set out in notes 22, 23, 24, 25, 26 and 27.

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	12	**6,817**	7,568
Property, plant & equipment	13	**3,910**	4,572
Deferred tax assets	19	**422**	90
		11,149	12,230
Current assets:			
Inventories	15	**3,204**	2,773
Trade and other receivables	16	**5,822**	6,847
Derivative financial instruments	18	**88**	44
Cash and cash equivalents		**14,586**	8,756
		23,700	18,420
Total assets		**34,849**	30,650
Current liabilities:			
Trade and other payables	20	**(5,508)**	(5,404)
Derivative financial instruments	18	**(30)**	(72)
Current tax liabilities		**(768)**	(210)
Provisions	21	**(594)**	(240)
Net current assets		**16,800**	12,494
Non-current liabilities:			
Cash settled share based payments		**(49)**	—
Deferred tax liabilities	19	**(1,140)**	(890)
Total liabilities		**(8,089)**	(6,816)
Net assets		**26,760**	23,834
Equity:			
Share capital	22	**2,327**	2,294
Share premium account	23	**1,733**	1,496
Equity reserve	24	**2,069**	1,780
Capital reserve	25	**255**	255
Translation reserve	26	**205**	273
Retained earnings	27	**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
Director
7 March 2018

MICHAEL ROLLER
Director
7 March 2018

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2017

	Notes	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	22	**33**	68
Issued share premium	23	**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	24	**223**	35
Charge to equity on exercise of share options under the SARS scheme		**(2)**	(6)
Charge to equity for deferred tax	19	**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

	Notes	2017 £'000	2016 £'000
Net cash from operating activities	28	**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. GENERAL

Bioquell PLC (the "Company") is a Public Limited Company incorporated in the United Kingdom. The address of the registered office is given on page 8. The financial statements are presented in pounds sterling (£) since that is the currency in which the majority of the Group's transactions are denominated.

Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2017. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Amendments to IAS 7 Disclosure Initiative	The Group has adopted the amendments to IAS 7 for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.
Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses	The Group has adopted the amendments to IAS 12 for the first time in the current year. The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilise a deductible temporary difference. The application of these amendments has had no impact on the Group's consolidated financial statements as the Group already assesses the sufficiency of future taxable profits in a way that is consistent with these amendments.
Annual Improvements to IFRSs 2014-2016 Cycle	The Group has adopted the amendments to IFRS 12 included in the Annual Improvements to IFRSs 2014-2016 Cycle for the first time in the current year. The other amendments included in this package are not yet mandatorily effective and they have not been early adopted by the Group. IFRS 12 states that an entity need not provide summarised financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 for such interests.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective and in some cases had not yet been adopted by the EU:

IFRS 9	*Financial Instruments*
IFRS 15	*Revenue from Contracts with Customers*
IFRS 16	*Leases*
IFRS 2 (amendments)	*Classification and Measurement of Share-based Payment Transactions*
IFRIC 22	*Foreign Currency Transactions and Advanced Consideration*
IFRIC 23	*Uncertainty over Income Tax Treatments*

IFRS 9 is effective for the Group from the year ending 31 December 2018. The Group has completed an initial assessment of the impact of IFRS 9 and it is expected adoption will not have a material impact on the Group's consolidated financial results.

IFRS 15 is also effective for the Group from the year ending 31 December 2018. This standard will supersede all current revenue recognition under IAS 18. During 2017, the Group performed an analysis of all significant revenue streams in order to assess the impact of this transition.

→ Contracts for the sale of goods are expected to only have one performance obligation and so we anticipate that there is little impact on the Group's revenue and profit. Revenue recognition will occur at the point in time that control passes to the customer which we generally expect to be on delivery of those goods.

→ The Group provides support services through maintenance contracts for which performance obligations are completed over time. Revenue on these contracts will continue to be recognised over that period. For revenue generated from the rendering of other services we will continue to recognise revenue upon completion of the work once the performance obligations have been met.

It is expected that the adoption of IFRS 15 will not have a material impact on the Group's consolidated financial results.

IFRS 16, which is yet to be endorsed by the EU, is effective for the Group for the year ending 31 December 2019. IFRS 16 represents a significant change for the treatment of leases in the lessee's financial results. Lessees will be required to apply a single model to recognise a lease liability and asset for all leases, including those classified as operating leases under current accounting standards, unless the underlying assets has a low value or the lease term is 12 months or less. The Group has not yet carried out an exercise to determine the full impact of IFRS 16 on its accounts, but the Group's existing operating lease commitments are set out in note 29 to the accounts.

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The financial statements have also been prepared in accordance with the IFRS adopted by the European Union and therefore the Group financial statements comply with Article 4 of the EU IAS Regulation.

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are set out on the following pages.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (and its subsidiaries) made up to 31 December each year. All intragroup transactions, balances, income and expenses are eliminated on consolidation.

Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the Strategic Report on pages 4 and 5 and the Directors' Report on pages 20 and 21.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes.

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

→ the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;

→ the delivery of the goods takes place in accordance with the contracted terms of sale;

→ the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

→ the amount of revenue can be measured reliably;

→ it is probable that the economic benefits associated with the transaction will flow to the entity; and

→ the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Transactions are recorded as revenue when the delivery of goods takes place in accordance with the contracted terms of sale.

Revenue for pre-paid maintenance contracts is recognised on a straight line basis over the contract period in line with the provision of services. Other service revenues, which typically arise from contracts that last less than a week, are recognised in the period in which the work is carried out.

The Group leases its POD product to healthcare facilities on a short term basis, with contractual commitments which typically do not exceed a year. Lease income is included within service revenue. Customers are invoiced on a month by month basis and revenue is recognised on a straight line basis over the lease period. PODs which are rented out are capitalised at their standard cost within fixed assets in the Group's balance sheet and depreciated over three years.

Our distribution partners operate as principals and accept inventory risk from the point of delivery. Revenue relating to goods sold to distribution partners is recognised when the delivery of goods takes place in accordance with the contracted terms of sale to the distribution partner.

Property, plant and equipment

Property, short term leasehold improvement, fixtures and equipment are stated at cost less accumulated depreciation and any recognised impairment loss. Depreciation is charged so as to write off the cost or valuation of assets, over their estimated useful lives, using the straight-line method, on the following bases:

Property	25 years
Short-term leasehold improvements	10 to 15 years
Fixtures and equipment	3 to 8 years

Freehold land is not depreciated.

Properties or assets in the course of construction for production, supply or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes professional fees. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

Inventories

Inventories are stated at the lower of cost, calculated as standard cost based on average cost, and net realisable value. Cost comprises direct materials and, where applicable, direct labour cost and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion.

2. SIGNIFICANT ACCOUNTING POLICIES continued

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement 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 using tax rates that have been enacted or substantively enacted by the balance sheet date.

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 balance sheet 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 the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet 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.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Internally generated intangible assets –development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally generated intangible asset arising from the Group's development activity is recognised only if all of the following conditions are met:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- there is an intention to complete the intangible asset and use or sell it;
- the intangible asset can be used or sold;
- it is probable that the asset created will generate future economic benefits;
- there are adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the development cost of the asset can be measured reliably.

Internally-generated intangible assets are amortised on a straight-line basis over their useful lives which is deemed to be 15 years. Where no internally-generated intangible asset can be recognised, development expenditure is expensed in the period in which it is incurred.

Trademarks, licences and patents

Trademarks, licences and patents are measured initially at cost which includes all costs directly attributable to acquiring the patent or trademark including the registration, documentation, and other legal fees associated with the application. They are amortised over their estimated useful lives, which is between 5 and 15 years, although patent protection extends to 20 years.

Impairment of tangible and intangible assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Provision is made for any impairment and immediately expensed in the period.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

2. SIGNIFICANT ACCOUNTING POLICIES continued

Foreign currencies

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in pounds sterling, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Nonmonetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Nonmonetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity.

Leasing

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Financial instruments

Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial assets

Financial assets are recognised and derecognised on the trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the time-frame established by the market concerned, and are initially measured at fair value, net of transaction costs except for those financial assets classified as fair value through profit or loss which are initially measured at fair value.

Other financial assets are classified into the following specified categories: financial assets as "at fair value through profit and loss" and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as "loans and receivables". Loans and receivables are measured at amortised cost using the effective interest method less impairment. Interest is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted. For loans and receivables the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed but does not exceed what the amortised cost would have been had the impairment not been recognised.

2. SIGNIFICANT ACCOUNTING POLICIES continued

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and 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.

Debt and equity instruments

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Financial liabilities

Financial liabilities are classified as either financial liabilities "at fair value through profit or loss" ("FVTPL") or other financial liabilities.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if it is a derivative that is not designated and effective as a hedging instrument.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the "administrative expenses" line item in the income statement. Fair value is determined in the manner described in note 18.

Other financial liabilities

Other financial liabilities, including trade payables and borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derivative financial instruments

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. The Group uses foreign exchange forward contracts to hedge these exposures. The Group does not use derivative financial instruments for speculative purposes.

The use of financial derivatives is governed by the Group's policies approved by the Board of Directors which provide written principles on the use of financial derivatives.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Provisions for warranty costs are recognised at the date of sales of the relevant products, at management's best estimate of the expenditure required to settle the Group's liability.

Share-based payments

The Group has applied the requirements of IFRS 2 Share-based Payments. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2005. The Group is able to issue equity-settled and cash-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the Equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. Fair value is measured by use of the Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Exceptional items

Exceptional items are defined as non-recurring items that are outside the normal course of business. The Group separately recognises exceptional items in the Income Statement where they are material both in nature and amount.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 2, the directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

There are no critical accounting judgements apart from those involving estimations (which are dealt with separately below) that the Directors have made in the process of applying the Group's accounting policies that have significant effects on the amounts recognised in the financial statements. Clearly this may not be the case for future sets of financial statements.

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period end, that may have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year, are discussed below.

Internally generated intangible assets

Internally generated intangible assets arising from the Group's development activity are recognised when the conditions in IAS 38 "Intangible Assets" are met. Management applies certain assumptions in measuring development activity cost and in assessing future economic benefits. Analysis is carried out to forecast the discounted future cash flows arising from the development cost assets and management remains confident that the carrying amount of the assets will be recovered in full. No impairment was required in the year. An impairment was made during the year ended 31 December 2016 and adjustments will be made in future periods if future market activity indicates that such impairments are appropriate.

Management applies certain assumptions in assessing the impairment of other intangible assets. The key assumptions include future growth rates and the discount rate applied, although the model was not particularly sensitive to reasonably possible changes in these assumptions this year. Were management to alter its strategic approach to certain markets and market sectors, it is possible that this could result in the impairment of specific intangible assets, or a change in the useful economic life of certain development cost assets which might lead to accelerated amortisation on these assets being charged prospectively.

Warranty provision

Management applies certain assumptions in calculating its warranty provision, including the cost of parts and labour for remediation of known warranty issues, the proportion of total field units which may be susceptible to warranty claims (currently assessed to be 100%) and the underlying level of expected warranty claims for products which are newly or recently launched.

4. 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

4. REVENUE continued

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

5. 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.

6. 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 (see note 7)	**10,823**	10,169
Loss on disposal of property, plant and equipment	**—**	8
Net foreign exchange (gain)/loss	**(62)**	276

A more detailed 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

A description of the work of the Audit Committee is set out in the Corporate Governance section on pages 12 and 13 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors.

7. STAFF COSTS

The average monthly number of employees (including Executive Directors) was:

	2017 Number	2016 Number
Production shopfloor	**30**	29
Engineering directs	**90**	97
	120	126
Sales and marketing	**56**	49
Administration	**31**	26
Other	**13**	12
	100	87
	220	213

Their aggregate remuneration comprised:

	2017 £'000	2016 £'000
Wages and salaries	**9,069**	8,660
Social security costs	**1,038**	979
Other pension costs	**444**	495
Share-based payments	**272**	35
	10,823	10,169

Details of Directors' remuneration, share options and pension contributions are included in the element of the Directors' Remuneration Report, marked as audited, on pages 17 to 19.

8. INVESTMENT REVENUES

	2017 £'000	2016 £'000
Interest received	**53**	132
	53	132

9. FINANCE COSTS

	2017 £'000	2016 £'000
Interest on bank loans and overdrafts	**8**	110
	8	110

10. 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 (see note 19)	**(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).

11. 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

12. OTHER INTANGIBLE ASSETS

	Development costs £'000	Trademarks licences and patents £'000	Total intangible assets £'000
Cost			
As at 1 January 2016	12,618	2,270	14,888
Additions	409	58	467
Impairment	(272)	(769)	(1,041)
Effect of foreign exchange	—	23	23
As at 1 January 2017	12,755	1,582	14,337
Additions	132	52	184
Effect of foreign exchange	—	6	6
As at 31 December 2017	**12,887**	**1,640**	**14,527**
Amortisation			
As at 1 January 2016	5,061	1,042	6,103
Charge for the year	864	162	1,026
Impairment	(68)	(311)	(379)
Effect of foreign exchange	—	19	19
As at 1 January 2017	5,857	912	6,769
Charge for the year	849	87	936
Effect of foreign exchange	—	5	5
As at 31 December 2017	**6,706**	**1,004**	**7,710**
Carrying amount			
As at 31 December 2017	**6,181**	**636**	**6,817**
As at 31 December 2016	6,898	670	7,568

The carrying amount of development costs above relates entirely to internally developed biodecontamination units. The amortisation period for development costs incurred on the Group's product development is 15 years and the remaining amortisation period for these assets ranges from 1 to 15 years. Trademarks are amortised over their estimated useful lives, which is on average five years. Patents are amortised over 15 years which is considered prudent even though patent protection extends to 20 years. There are no individually material trademarks, licences or patents.

13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings £'000	Short-term leasehold improvements £'000	Fixtures and equipment £'000	Total £'000
Cost				
As at 1 January 2016	5,294	493	12,399	18,186
Additions	—	8	715	723
Disposals	—	—	(191)	(191)
Effect of foreign exchange	—	14	369	383
As at 1 January 2017	5,294	515	13,292	19,101
Additions	—	25	732	757
Disposals	—	—	(954)	(954)
Effect of foreign exchange	—	(6)	(113)	(119)
As at 31 December 2017	**5,294**	**534**	12,957	**18,785**
Accumulated depreciation				
As at 1 January 2016	2,548	313	9,976	12,837
Charge for the year	398	47	1,099	1,544
Disposals	—	—	(156)	(156)
Effect of foreign exchange	—	14	290	304
As at 1 January 2017	2,946	374	11,209	14,529
Charge for the year	398	42	953	1,393
Disposals	—	—	(954)	(954)
Effect of foreign exchange	—	(6)	(87)	(93)
As at 31 December 2017	**3,344**	**410**	**11,121**	**14,875**
Carrying amount				
As at 31 December 2017	**1,950**	**124**	**1,836**	**3,910**
As at 31 December 2016	2,348	141	2,083	4,572

The Group had no capital expenditure contracted but not provided for at the year end (2016: £nil).

14. SUBSIDIARIES

A list of the investments in subsidiaries, including name and country of incorporation, is given in note 5 to the Company's separate financial statements.

15. INVENTORIES

	2017 £'000	2016 £'000
Raw materials, spare parts and consumables	**1,712**	1,346
Work in progress	**420**	310
Finished goods and goods for resale	**1,072**	1,117
	3,204	2,773

16. TRADE AND OTHER RECEIVABLES

	2017 £'000	2016 £'000
Trade debtors	**5,051**	6,001
Other debtors	**147**	251
Prepayments and accrued income	**624**	595
	5,822	6,847

All trade and other receivables are short-term and non-interest bearing. The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

16. TRADE AND OTHER RECEIVABLES continued

	2017 £'000	2016 £'000
Trade receivables	**5,083**	6,020
Allowance for doubtful debts	**(32)**	(19)
	5,051	6,001

The debtor days on sales of goods are 63 days (2016: 83 days). Included in the Group's trade receivable balance are debtors with a carrying amount of £887,000 (2016: £864,000) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the Group believes that the amounts are recoverable. The Group does not hold any collateral over these balances. The average age of these receivables is 74 days (2016: 94 days).

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by senior management on a regular basis.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable. The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Ageing of past due but not impaired receivables

	2017 £'000	2016 £'000
Not yet due	**4,196**	5,156
Up to one month overdue	**709**	169
Greater than one month overdue	**178**	695
Total	**5,083**	6,020

Movement in the allowance for doubtful debts

	2017 £'000	2016 £'000
Balance at 1 January	**19**	23
Amounts written off during the year	**—**	(23)
Increase in the allowance recognised in the year	**13**	19
Balance at 31 December	**32**	19

In determining the recoverability of the trade receivables, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the Directors believe that there is no further need for a credit provision in excess of the allowances for doubtful debts.

17. BANK OVERDRAFTS AND LOANS

The Group had no loans or overdrafts outstanding during the year ended 31 December 2017. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and cash balances. The Group continually monitors forecast and actual cash flows. The Group had committed overdraft facilities available at 31 December 2017 of £1,500,000 (2016: £1,500,000), the facilities were undrawn at the end of the year. The facilities are reviewed each year.

Capital risk management is summarised in the Directors' Report.

18. DERIVATIVE FINANCIAL INSTRUMENTS — CURRENCY DERIVATIVES

It is the policy of the Group to enter into forward foreign exchange contracts to cover specific foreign currency payments and receipts within 70 to 80% of the exposure generated. The Group also enters into forward foreign contracts to manage the risk associated with anticipated sales and purchase transactions out to six months within 40 to 50% of the exposure generated. Forward exchange contracts are carried at fair value through profit and loss.

At the balance sheet date, the total notional amount of outstanding forward foreign exchange contracts that the Group has committed are as below:

	2017 £'000	2016 £'000
Forward foreign exchange contracts	**5,856**	4,974

At 31 December 2017, the fair value of the Group's currency derivatives is estimated to be an asset of approximately £58,000 (2016: liability £28,000). The fair value has been calculated as the present value of future expected cash flows at market related rates, which are current at the balance sheet date. The value is calculated using readily available market data and represents a level 2 measurement in the fair value hierarchy under IFRS 7.

18. DERIVATIVE FINANCIAL INSTRUMENTS — CURRENCY DERIVATIVES continued

Other financial assets/liabilities

	2017 £'000	2016 £'000
Financial assets carried at fair value through the profit and loss	**88**	44
Financial liabilities carried at fair value through profit and loss	**(30)**	(72)
Net financial asset/(liability)	**58**	(28)

Foreign currency risk management

The Group is mainly exposed to US Dollars and Euros. The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts. The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date is as follows:

	Liabilities		Assets	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
US Dollar	**(2,269)**	(3,242)	**5,267**	6,714
Euro	**(1,143)**	(906)	**7,363**	7,427

Market risk exposure to foreign currency is measured using sensitivity analysis as described below.

Foreign currency sensitivity

The following table details the Group's sensitivity to a 10% change in pounds sterling against the respective foreign currencies. The 10% is the rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number indicates an increase in profit and other equity where the pound sterling strengthens against the respective currency.

	USD impact		Euro impact	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
Profit or loss	**(121)**	(105)	**(159)**	(136)
Equity	**1**	68	**(315)**	(258)

The Group has considered its sensitivity to interest rate fluctuations and does not believe that a change in interest rates would have a material impact on the financial statements.

19. DEFERRED TAX

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting periods.

	Deferred development costs £'000	Tax losses £'000	Accelerated capital allowances £'000	Other timing differences £'000	Total £'000
At 1 January 2016	(1,640)	544	(80)	(3)	(1,179)
Prior year adjustment	—	(51)	(44)	56	(39)
Credit/(charge) to income	377	(107)	79	69	418
Net credit to income statement	377	(158)	35	125	379
At 1 January 2017	(1,263)	386	(45)	122	(800)
Prior year adjustment	—	(111)	—	(34)	(145)
Credit/(charge) to income	123	(123)	49	63	112
Net charge to income statement	123	(234)	49	29	(33)
Credit to equity	—	—	—	115	115
At 31 December 2017	**(1,140)**	**152**	**4**	**266**	**718**

	2017 £'000	2016 £'000
Deferred tax assets	422	90
Deferred tax liabilities	**(1,140)**	(890)
	(718)	(800)

At the balance sheet date, the Group had an unrecognised deferred tax asset of £230,000 (2016: £nil). At 31 December 2017 a net deferred tax liability of £718,000 (2016: £800,000) has been recognised. The Finance Act 2016, which provided for reductions in the main rate of corporation tax from 20% to 19% effective from 1 April 2017 and to 17% effective from 1 April 2020, was substantively enacted on 15 September 2016. These rate reductions have been reflected in the calculation of deferred tax at the balance sheet date.

20. TRADE AND OTHER PAYABLES

	2017 £'000	2016 £'000
Trade creditors	**1,414**	1,235
Other creditors	**1,284**	1,676
Accruals and deferred income	**2,810**	2,493
	5,508	5,404

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 50 days (2016: 46 days). The Directors consider that the carrying amount of trade payables approximates to their fair value. The Group has financial risk management policies in place to ensure that all payables are paid within the credit time-frame.

21. PROVISIONS

	Warranty provision £'000
At 1 January 2017	240
Additional provision in the year	442
Utilisation of provision	(88)
At 31 December 2017	**594**
Included in current liabilities	594
Included in non-current liabilities	—
	594

The warranty provision represents management's best estimate of the Group's liability under twelve month warranties granted on products and services, based on past experience. The provision includes sums provided against identified product issues which will require remedial work during 2018. There is some uncertainty around the scale of the liability due to the geographic spread of the installed product base and therefore the warranty provision includes management's best estimate of the cost to the Group of the remedial work.

22. SHARE CAPITAL

	2017		2016	
	Number	£'000	Number	£'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.

23. SHARE PREMIUM ACCOUNT

	£'000
Balance at 1 January 2016	919
Premium arising on issue of equity shares	577
Balance at 31 December 2016	1,496
Premium arising on issue of equity shares	237
Balance at 31 December 2017	1,733

24. EQUITY RESERVE

	£'000
Balance at 1 January 2016	2,079
Credit to equity for share-based payments	35
Accelerated charge on cancellation of options	(60)
Charge to equity on exercise of options	(274)
Balance at 31 December 2016	1,780
Credit to equity for share-based payments	223
Charge to equity on exercise of options	(49)
Movement in deferred tax charged to equity	115
Balance at 31 December 2017	2,069

25. CAPITAL RESERVE

	£'000
Balance at 1 January 2016 and 1 January 2017	255
Additions	–
Balance at 31 December 2017	**255**

26. TRANSLATION RESERVE

	£'000
Balance at 1 January 2016	(237)
Effects of foreign exchange in the period	510
Balance at 31 December 2016	273
Effects of foreign exchange in the period	(68)
Balance at 31 December 2017	**205**

27. 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

28. 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.

29. OPERATING LEASE ARRANGEMENTS

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of four years and rentals are generally fixed for the period of the lease. There are no options to purchase within the agreements.

	2017 £'000	2016 £'000
Minimum lease payments under operating leases recognised in income for the year	**438**	486

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2017 £'000	2016 £'000
Within one year	**418**	427
In the second to fifth years inclusive	**904**	1,011
After five years	**258**	419
	1,580	1,857

30. SHARE-BASED PAYMENTS

Equity-settled share option schemes

The Company has a share option scheme for all employees of the Group. Options are exercisable at a price equal to the average quoted market price of the Company's shares on the date of grant. The vesting period is three years. If the options remain unexercised after a period of ten years from the date of grant, the options expire. Options are forfeited if the employee leaves the Group before the options vest except in certain circumstances in accordance with the Scheme Rules.

Special options with market-based conditions, have also been granted to certain Directors (as disclosed in the Directors' Remuneration Report) and senior members of staff. These are not included in the table below.

30. SHARE-BASED PAYMENTS continued

Equity-settled share option schemes continued

Details of the share options outstanding during the year are as follows:

	2017		2016	
	Number of share options	**Weighted average exercise price pence**	Number of share options	Weighted average exercise price pence
Outstanding at beginning of period	**1,019,473**	**105.4p**	3,409,050	129.2p
Granted during the period	**35,000**	**133.5p**	385,000	132.5p
Lapsed during the period	**(59,252)**	**91.8p**	(2,141,184)	130.6p
Exercised during the period	**(210,988)**	**93.8p**	(679,791)	127.8p
Additional options granted upon revaluation of schemes*	—	—	46,398	92.3p
Outstanding at the end of the period	**784,233**	**111.1p**	1,019,473	105.4p
Exercisable at the end of the period	**68,233**	**92.5p**	26,067	109.0p

* HMRC approved the revaluation of the outstanding options based on the drop in market price following the Tender Offer in June 2016. Options in the CSOP Approved scheme were required to retain the same value and therefore additional options were granted.

The weighted average share price at the date of exercise for share options exercised during the period was 93.8p. The options outstanding at 31 December 2017 had a weighted average exercise price of 111.1p, and a weighted average remaining contractual life of 6.2 years. In 2017 35,000 options were granted on 10 March. The aggregate of the estimated fair values of the options granted on that date was £9,398 In 2016, 385,000 options were granted on 4 October. The aggregate of the estimated fair values of the options granted on that date was £102,218.

The Black-Scholes model has been adopted as the Directors believe it provides a reasonable approximation to the fair values of the options concerned.

The inputs into the Black-Scholes model are as follows:

	2017	2016
Weighted average share price	**133.5p**	132.5p
Expected volatility	**27.5%**	27.5%
Expected life	**4.5yrs**	4.5yrs
Risk free rate	**2.10%**	2.11%
Expected dividends	**1.5%**	1.5%

Each tranche of share options was valued separately using the actual exercise price.

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous five years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

The Group recognised total expenses of £223,000 and £35,000 related to Equity-settled share-based payment transactions in 2017 and 2016 respectively.

Cash- settled share option schemes

The Group issues to certain employees cash-settled share based payments that require the Group to pay the intrinsic value of the shares to the employee at the date of exercise. The Group has recorded liabilities of £49,000 and £nil in 2017 and 2016. The awards are issued at nil cost and so the fair value is determined by reference to the market value of the award at the balance sheet date. The Group recorded total expenses of £49,000 and £nil in 2017 and 2016 respectively.

31. 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. Further information about the remuneration of individual Directors is provided in the audited part of the Directors' Remuneration Report on pages 17 to 19.

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

FIVE YEAR SUMMARY

	IFRS				
	2017 £'000	2016 £'000	2015 £'000	2014 £'000	2013 £'000 re-presented
Revenue (from continuing operations)	**29,190**	26,485	26,866	27,266	27,866
(from discontinued operations)	—	—	—	18,002	16,771
Operating profit/(loss) before exceptionals (from continuing operations)	**2,923**	1,574	771	(812)	(460)
Operating profit/(loss) before exceptionals (from discontinued operations)	—	—	—	3,450	3,363
Operating profit/(loss) (from continuing operations)	**3,328**	54	551	(4,678)	2,903
Profit/(loss) for the year before tax	**3,283**	76	622	(4,809)	3,081
Equity	**26,760**	23,834	64,938	31,057	33,259
Earnings per share	**11.6p**	1.3p	82.5p	(2.4)p	7.3p
Dividend per share	**Nil p**	Nil p	Nil p	3.30p	3.30p

COMPANY BALANCE SHEET
as at 31 December 2017

Results for the Company are presented under FRS102	Notes	2017 £'000	2016 £'000
Fixed assets:			
Investments in subsidiaries	5	**9,097**	8,951
Property, plant and equipment	4	**674**	710
		9,771	9,661
Current assets:			
Debtors			
– due within one year	6	**1,727**	922
– due after one year	6	**3,007**	3,473
Cash at bank and in hand		**3,035**	3,145
		7,769	7,540
Creditors: amounts falling due within one year	7	**(842)**	(659)
Net current assets		**6,927**	6,881
Total assets less current liabilities		**16,698**	16,542
Creditors: amounts falling due after more than one year	7	—	—
Net assets		**16,698**	16,542
Capital and reserves:			
Called up share capital	8	**2,327**	2,294
Share premium account	9	**1,733**	1,496
Equity reserve		**2,411**	2,190
Capital reserve		**255**	255
Profit and loss account		**9,972**	10,307
Shareholders' funds		**16,698**	16,542

As permitted by section 408 of the Companies Act 2006, the Company has elected not to present its own profit and loss account for the year.

Bioquell PLC has reported a loss after tax and the cost of share-based payments (£144,000; 2016: £32,000) for the financial year ended 31 December 2017 of £76,000 (2016: loss of £868,000).

The financial statements of Bioquell PLC, registered number 00206372 were approved by the Board of Directors and signed on its behalf by:

IAN JOHNSON
Director
7 March 2018

MICHAEL ROLLER
Director
7 March 2018

COMPANY STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2017

	2017 £'000	2016 £'000
Profit for the year	**(76)**	(868)
Exchange differences on translation of foreign operations	**45**	333
Total comprehensive income in the year	**(31)**	(535)
Other movements in the year:		
Issued share capital	**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	**144**	32
Credit to equity for share-based payments to subsidiary employees	**79**	3
Charge to equity on exercise of share options under the SARS scheme	**(2)**	(6)
Net increase/(decrease) in equity shareholders' funds	**156**	(42,526)
Equity shareholders' funds at beginning of year	**16,542**	59,068
Equity shareholders' funds at end of year	**16,698**	16,542

NOTES TO THE COMPANY FINANCIAL STATEMENTS
for the year ended 31 December 2017

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The separate financial statements of the Company are presented as required by the Companies Act 2006. They have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 102 (FRS102) issued by the Financial Reporting Council.

As permitted by FRS 102, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, key management personnel and presentation of a cash-flow statement.

The principal accounting policies are summarised below. They have been applied consistently throughout the current year and the preceding year.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, and the risks and uncertainties which affect the business, are set out in the Strategic Report on pages 4 and 5. The Group has sufficient financial resources to cover budgeted future cashflows, together with contracts with its customers and suppliers across different geographic areas and industries. The Directors believe that the Group is well placed to manage its business successfully despite the current uncertain economic outlook.

In accordance with the Corporate Governance requirements and the Statement of Directors' Responsibilities on page 22, 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.

Derivative financial instruments

The Company enters into derivative financial instruments to manage its exposure to foreign exchange rate risk, including foreign exchange forward contracts. Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. The resulting gain or loss is recognised in the profit and loss account. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than twelve months and it is not expected to be realised or settled within twelve months. Other derivatives are presented as current assets or current liabilities.

Investments

Fixed asset investments in subsidiaries and associates are shown at cost less provision for any impairment.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and provision for any impairment. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost or valuation, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Plant and equipment	3 to 8 years
Property (leasehold)	25 years

Residual value is calculated on prices prevailing at the date of acquisition or revaluation.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full on material timing differences at the rate of tax anticipated to apply when these differences crystallise. Timing differences arise from the inclusion of items of income and expenditure in tax computations in periods different from those in which they are included in the financial statements. A deferred tax asset is only recognised where it is more likely than not that it will be recoverable in the future. Deferred tax assets and liabilities are not discounted. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Share-based payments

Refer to the policy statement in note 2 to the Group accounts.

2. PROFIT FOR THE YEAR

Bioquell PLC has reported a loss after tax and the cost of share-based payments (£144,000; 2016: £32,000) for the financial year ended 31 December 2017 of £76,000 (2016: loss of £868,000).

The auditors' remuneration for audit services to the Company was £31,000 (2016: £43,000).

3. STAFF COSTS

The average monthly number of employees (including Executive Directors) of the Company was:

	2017	2016
Administration	**4**	4

Their aggregate remuneration comprised:

	2017 £'000	2016 £'000
Wages and salaries	**410**	560
Social security costs	**70**	65
Other pension costs	**26**	54
	506	679

4. FIXED ASSETS

	Property £'000	Plant and equipment £'000	Total property, plant and equipment £'000
Cost			
As at 1 January 2017	1,054	57	1,111
Additions	—	8	8
As at 31 December 2017	**1,054**	**65**	**1,119**
Accumulated depreciation			
As at 1 January 2017	347	54	401
Charge for the year	42	2	44
As at 31 December 2017	**389**	**56**	**445**
Net book value			
As at 31 December 2017	**665**	**9**	**674**
As at 31 December 2016	707	3	710

5. FIXED ASSET INVESTMENTS

The companies listed below are wholly owned subsidiaries of the Company, incorporated in Great Britain, unless otherwise stated. The addresses are shown in the Group Directory on the inside back cover of this report.

	Location
Bioquell UK Ltd	Andover, UK
Bioquell Holding SAS	Paris, France
Bioquell Global Logistics (Ireland) Ltd	Limerick, Republic of Ireland
Bioquell GmbH	Germany
Bioquell Asia Pacific Pte Ltd	Singapore
Bioquell Technology (Shenzhen) Ltd	Shenzhen, China
Bioquell Hong Kong Ltd	Hong Kong
Bioquell Inc	Pennsylvania, USA
Bioquell Defense Inc	Pennsylvania, USA
Bioquell Professional Services Inc	Pennsylvania, USA
Bioxyquell Ltd (Dormant)*	Andover, UK

* Bioxyquell Ltd (registered number 3909700) is a dormant company and as such applies the exemption not to file accounts under s448A of the Companies Act 2013.

5. FIXED ASSET INVESTMENTS continued

The principal activities of the above companies include the design, manufacture and supply of biodecontamination and containment equipment, related products and services to the pharmaceutical, healthcare, food and defence industries.

	Investment in subsidiaries		
	Shares £'000	Loans £'000	Total £'000
Cost			
As at 1 January 2017	111	9,444	9,555
Foreign exchange differences	—	154	154
As at 31 December 2017	**111**	**9,598**	**9,709**
Provision for impairment			
As at 1 January 2017 and 31 December 2017	103	509	612
Net book value			
As at 31 December 2017	**8**	**9,089**	**9,097**
As at 31 December 2016	8	8,943	8,951

6. DEBTORS

	2017 £'000	2016 £'000
Debtors due within one year:		
Amounts due from subsidiary undertakings	**1,615**	799
Prepayments and accrued income	**112**	123
	1,727	922
Debtors due after one year:		
Amounts due from subsidiary undertakings	**3,007**	3,473
Total debtors	**4,734**	4,395

7. CREDITORS

	2017 £'000	2016 £'000
Amounts falling due within one year:		
Accruals and deferred income	**88**	149
Amounts due to subsidiary undertakings	**306**	—
Corporation tax	**236**	236
Deferred tax	**212**	274
	842	659

8. CALLED UP SHARE CAPITAL

	2017		2016	
	Number	**£'000**	Number	£'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. SHARE PREMIUM ACCOUNT

	£'000
Balance at 1 January 2016	919
Premium arising on issue of equity shares	577
Balance at 31 December 2016	1,496
Premium arising on issue of equity shares	237
Balance at 31 December 2017	**1,733**

10. SHARE-BASED PAYMENTS

Equity-settled share option schemes

The Company's employees are able to participate in the Group's share option schemes. Details of these schemes are given in note 30 of the Group's accounts.

Special options with market-based conditions, have also been granted to certain Directors (as disclosed in the Directors' Remuneration Report) and senior members of staff. These are not included in the table below.

Details of the share options outstanding with employees of the Company during the year are as follows:

	2017		2016	
	Number of share options	**Weighted average exercise price pence**	Number of share options	Weighted average exercise price pence
Outstanding at beginning of year	**356,439**	**80.1**	1,039,000	128.4
Granted during the year	—	—	35,000	132.5
Lapsed during the year	—	—	(678,125)	127.8
Additional options granted on revaluation of schemes*	—	—	9,939	92.5
Exercised during the year	**(158,981)**	**92.5**	(49,375)	132.4
Outstanding at the end of the year	**197,458**	**93.6**	356,439	80.1
Exercisable at the end of the year	**3,459**	**92.5**	—	—

* HMRC approved the revaluation of the outstanding options based on the drop in market price following the Tender Offer in June 2016. Options in the CSOP Approved scheme were required to retain the same value and therefore additional options were granted.

Note 30 of the Group accounts describes the valuation method for share options.

UK HEADQUARTERS

Bioquell UK Ltd

52 Royce Close
West Portway
Andover SP10 3TS
UK

T: +44 (0)1264 835835
F: +44 (0)1264 835836

FRANCE

Bioquell SAS

153 Quai du Rancy
94380 Bonneuil sur Marne
Paris
France

T: +33 1 4378 1594
F: +33 1 4378 1584

IRELAND

Bioquell Ireland

Unit E4
Eastway Business Park
Ballysimon Road
Limerick
Republic of Ireland

T: +353 61 603622
F: +353 61 603627

SINGAPORE

Bioquell Asia Pacific Pte Ltd

207 Henderson Road #01-05
Henderson Industrial Park
159550
Singapore

T: +65 6592 5145
F: +65 6227 5878

THE AMERICAS

Bioquell Inc

702 Electronic Drive
Suite 200
Horsham PA 19044
USA

T: +1 215 682 0225
F: +1 215 682 0395

GERMANY

Bioquell GmbH

Nattermannallee 1
50829 Köln
Germany

T: +49 (0) 221 168 996 74
F: +49 (0) 221 168 996 75

CHINA

Bioquell Shenzhen Technology
Company Ltd

Room 416, Kingson Building
No. 1 Chuangsheng Road, Xili,
Nanshan District, Shenzhen

T: +86 755 8631 0348
F: +86 755 8631 0211

BIOQUELL PLC

52 Royce Close
West Portway
Andover
Hampshire SP10 3TS
UK

T: +44 (0)1264 835900
F: +44 (0)1264 835901
E: enquiries@bioquellplc.com
W: www.bioquellplc.com