

9 April 2019

**NANOCO GROUP PLC**  
("Nanoco", the "Company" or the "Group")

**2019 Interim Results, half year ended 31 January 2019**

**Nanoco Group plc** (LSE: NANO), a world leader in the development and manufacture of cadmium-free quantum dots and other specific nanomaterials emanating from its technology platform, announces unaudited Interim Results for the half year ended 31 January 2019 ("the Period" or "H1 FY19").

**Operational highlights**

- Final milestones completed on schedule under original agreements with the US Customer; significant new extension agreed for 12 months to December 2019, as announced 25 January 2019
- Capital investment at Runcorn production plant substantially complete; US Customer now funding stress testing and optimisation
- Production capability now in place for Electronics and Display sectors with no increase in cost base
- Major improvements in CFQD® Quantum Dots<sup>1</sup> performance; Nanoco is heavily involved in all stages of quantum dot display evolution

**Financial highlights**

- Significantly improved revenue and billings lead to reduced losses
- Revenue of £3.2m, substantially higher than H1 FY18 (£0.2m), similar to total revenue in FY18
- Billings of £4.3m (including deferred revenue) also far in excess of prior year (H1 FY18: £0.1m)
- Adjusted EBITDA loss in H1 FY19 significantly reduced to £2.5m (H1 FY18: EBITDA loss £4.2m)
- Contracted orders for delivery in H2 FY19 of £3.4m and subsequent years of £4.8m
- Cash at Period end of £6.2m (31 January 2018 £8.7m, 31 July 2018: £10.7m ). Cash flow for the 12 months to 31 December 2019 expected to be broadly neutral

**Dr Michael Edelman, Chief Executive Officer of Nanoco Group plc, said:**

"Significant progress was made in the first half of the financial year, during which we hit all key milestones for our US Customer, launched a major re-allocation of resources to focus on near term revenue opportunities, and increased our R&D resources directed at further enhancing the performance of our CFQD's for commercial applications.

"Towards the end of the period, we agreed a significant contract extension with the US Customer that covers the provision of commissioning and stress testing services to December 2019. The new extension reflects Nanoco's improving capabilities as an operating partner.

"The Group's contracted orders fully underpin the Board's expectations for the full year. We are also pursuing potential upsides from material sales and other potential commercial engagements.

"These significantly improved financial results are a welcome step forward. At the same time, we also continue to carefully manage our cost base and cash resources. The Group is gaining improved visibility of future cash flows which increases our scope to deliver further improvements in financial performance going forward."

[1] Cadmium Free Quantum Dots

**Analyst meeting and webcast details**

A briefing for analysts will be held at 08.30 a.m. this morning (9 April 2019) at the offices of Peel Hunt, Moor House, 120 London Wall, London, EC2Y 5ET. For further details please contact MHP Communications on 0203 128 8570 or at [nanoco@mhpc.com](mailto:nanoco@mhpc.com)

To listen to a live webcast of the analyst briefing, please log on to the following web address approximately five minutes before 8:30am on 9 April 2019:

<http://webcasting.brrmedia.co.uk/broadcast/5ca1c2cedd35a71771299890>

A recording of the webcast will also be made available on Nanoco's website, [www.nanocogroup.com](http://www.nanocogroup.com), later today.

**For further information, please contact:**

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**Notes for editors:**

Nanoco (LSE: NANO) harnesses the power of nano-materials. Nano-materials are materials with dimensions typically in the range 1 - 100 nm. Nano-materials have a range of useful properties, including optical and electronic. Quantum dots are a subclass of nano-material that have size-dependent optical and electronic properties. The Group produces quantum dots. Within the sphere of quantum dots, the Group exploits different characteristics of the quantum dots to target different performance criteria that are attractive to specific markets or end-user applications such as the Display and Electronics markets. One of the interesting properties of quantum dots is photoluminescence: the emission of longer wavelength light upon excitation by light of a shorter wavelength. The colour of light emitted depends on the particle size. Nanoco's CFQD® quantum dots are free of cadmium and other toxic heavy metals and can be tuned to emit light at different wavelengths across the visible and infrared spectrum, rendering them useful for a wide range of

applications including displays, lighting and biological imaging.

Nanoco was founded in 2001 and is headquartered in Manchester, UK, with a US subsidiary, Nanoco Inc., in Concord, MA. Nanoco continues to build out a world-class, patent-protected IP portfolio generated both by its own innovation engine, as well as through acquisition.

Nanoco is listed on the Main Market of the London Stock Exchange and trades under the ticker symbol NANO. For further information please visit: [www.nanocotechnologies.com](http://www.nanocotechnologies.com).

## Business review

### Overview

The Group's improved performance in the first half of the year clearly demonstrates the success that can be achieved through our proprietary platform technology. This is built around the design, development, and scale-up of unique nano-materials that exploit the performance characteristics of the materials. It is this platform technology that enables us to access a wide range of potential applications, from electronic devices, displays and specialist lighting to healthcare and solar, to name but a few. This range of potential applications for Nanoco's platform technology proves the Group has many valuable opportunities outside the display industry.

Nanoco's ability to develop novel nano-materials for specific applications and produce them cost effectively on an industrial scale is unique. We manipulate the materials' different optical and electronic properties, to obtain a desired output for a specific application whether it be red and green fluorescence for the display, lighting and life science industries or infrared absorption for next generation sensor technology.

The practical implications of our unique platform capabilities are clearly evidenced in the R&D, scale-up and production support the Company has been able to provide to its US Customer on a very short time-scale. Nanoco's ability to flex its talented development scientists and production engineers to support a wide array of nano-materials in different applications is a key strength of the business. Recently we began adding to the skills and capabilities of our engineering staff in the Runcorn production facility so that they are able to operate effectively in both the Display (CFQD®) and Electronics production facilities.

We have also recently made a number of changes to our Board and senior management team that bring new skills and perspectives to the Group. These new appointments support our transition from the operating processes and systems of an R&D focussed business to those of a commercial production company. Our leadership group now includes a newly appointed HR Business Partner and Group Financial Controller as well as an internal promotion for the Head of our Runcorn manufacturing facility. These changes were made in parallel with the rolling implementation of a new IT system that will enhance the quality of our management information, speed of decision making, and effectiveness of our business processes.

### Business performance

As set out in the Annual Report for the year ended 31 July 2018, we expect that the next two financial years are likely to be dominated by activity and revenue generated by our US Customer. The first half of the current financial year confirms this position, with total revenue of £3.2m made up of £2.9m of revenues from the US Customer and the balance from royalty payments and licence fee income from the display business.

#### Contract milestones and expanded Runcorn production facility

During the Period, we successfully achieved a number of key milestones for our US Customer, earning the contracted milestone revenues in full. We also delivered a number of additional R&D milestones under a separate contract for the same customer, examining a range of different materials for use in electronics applications.

The period also saw the start of commissioning and testing of the newly expanded Runcorn production facility, dedicated to the production of nano-materials for use in the electronics sector. The substantial completion of the facility by December 2018 allowed us to sign a new contract extension in January 2019 that follows on to the next phase of commissioning and stress testing for the US Customer.

The table below sets out a summary of the historical financial information and current status of each contract and associated extensions with our US Customer.

| Contract        | Time frame and key deliverables  | Financial implications   |
|-----------------|--|--|
| First contract  | <p><b>Signed February 2018 covering the period to 31 December 2018.</b></p> <ul style="list-style-type: none"> <li>· Milestone 1: Achieved in full</li> <li>· Milestone 2: Achieved in full</li> <li>· Milestone 3: Achieved in full</li> <li>· Complete construction of expanded Runcorn production facility.</li> </ul> <p><b>Contract extension signed January 2019 covering period to December 2019.</b></p> | <ul style="list-style-type: none"> <li>· Funding of £3.4m used to pay for Runcorn facility, entitles customer to discounted material price for commercial production materials; plus</li> <li>· £4.2m earned for delivery of the milestones.</li> <li>· Extension valued at just under £8.0m, £1.2m revenue deferred until production and the balance split almost evenly between FY19 and FY20. Focus on stress testing and optimising the Runcorn facility. Any sales of material would be in addition to these sums.</li> </ul> |
| Second contract | <p><b>Signed April 2018 covering the period to 30 November 2018.</b></p> <p>R&amp;D services contract with four additional technical milestones.</p>   | <ul style="list-style-type: none"> <li>· Total contract value of £1.1m earned in full in FY18 and FY19 including all 4 technical milestones.</li> </ul>  |

A key focus for H2 FY19 is to prepare Runcorn for commercial production, with the facility expected to be ready for commercial production in H1 FY20 (the second half of calendar 2019). However, it must be noted that Nanoco's materials are just one part of a complex supply chain and so we are not able to state with certainty an expected date for full scale commercial production until we receive a firm demand signal from the US Customer.

#### Display (CFQD® Quantum Dots)

Display remains an important target market for Nanoco. To improve our competitive proposition, the Company's focus has shifted over recent months from providing downstream display products, to providing the highest performing CFQD® quantum dots to multiple film coating, photo-resist and ink companies. Our mission is to work with the companies who are considered by the display industry to be best in class.

We measure CFQD® material performance using a number of key metrics including, but not limited to, Full Width Half Maximum "FWHM" (the width in nanometres of the emission peak halfway up its height, narrower is better), quantum yield percentage (a measure of how efficiently the quantum dots absorb blue light and convert it to red or green light) and stability (how durable the quantum dot is in any specific application). An example of our improved performance in the period is a 15% reduction of the

CFQD® quantum dots' FWHM while retaining very high quantum yield and stability.

The integration of quantum dots into TVs is evolving. The first generation of QD displays use red and green quantum dots in a resin, which is then coated onto a film and integrated into the backlight of an LCD display. This dramatically enhances colour performance and reduces power consumption. The second generation of QD based displays integrate red and green quantum dots onto a blue OLED panel or blue micro-LEDs using ink jet printing or photo-resist patterning technology. Major display OEMs are currently converting existing LCD production lines to accommodate this new hybrid QD-OLED device structure. We anticipate that displays using second generation technology will enter the market as early as 2021. The third generation of quantum dot display is electroluminescent red, green and blue quantum dots fabricated into a display. Nanoco is heavily involved in all three stages of this quantum dot display evolution.

Within display we continue to work closely with our licensee partners DuPont (formerly Dow) and Merck as well as our film coating partner Wah Hong.

#### Other sectors including life sciences, lighting and healthcare

Substantial progress was achieved in the period by our Life Sciences team. Major gene and animal toxicology studies on our red biocompatible CFQD® quantum dots (Vivodots™ nanoparticles) were concluded with no significant signs of adverse effects even at high doses. These Good Laboratory Practice ("GLP") compliant studies will lay the ground for further clinical development and potential regulatory approvals across a variety of medical applications that the Nanoco Life Sciences team is pursuing. Our short-term goal is to maximize the performance of targeted Vivodots™ which would allow high quality visualisation of tumours for enhanced imaged guided surgery and enhanced specificity in cancer diagnostics.

We continue to explore early stage opportunities in horticultural lighting, working with potential partners in both the lighting device and horticultural stages of the supply chain. We also continue our commercial sales relationship with CareWear, a US-based supplier of therapeutic light patches that accelerate trauma recovery.

#### Intellectual property

We continue to grow our Intellectual Property ("IP") portfolio. The Group now benefits from c.730 patents and patent applications. Our IP strongly underpins the Group's valuation while also operating as a challenging barrier to entry to potential competitors. Our 'know how' in composition of matter and process methodologies also continues to grow and adds to the already challenging IP barrier to entry for potential competitors.

#### **Environment / Restriction of Hazardous Substances ("RoHS")**

Nanoco is committed to protecting the environment in which our activities are conducted. This commitment has driven us to develop our CFQD® quantum dot products to be free of toxic cadmium, which is still widely used by our competitors. The European Commission ("EC") has revised the RoHS exemption so that it has immediately ceased for lighting and will end on 31 October 2019 for display products, after which the normal RoHS limit for cadmium of 100ppm will apply. Nanoco expects that regulations in other key markets, including China, will fall in line with RoHS in future.

Our contacts with leading display companies continue to indicate that most already accept the need for new display products to be cadmium-free. The current exemption is still subject to review by the EC following further extension requests but this review has not yet been launched. The EC is also yet to consider a new request for cadmium based QDs to be used in 'on-chip' LED lighting applications. Nanoco actively participates in reviews of any proposed RoHS changes.

#### **Financial performance**

The Group continued on its path to deliver strong year on year revenue growth. Revenue for the period was £3.2m, substantially higher than the same period in the prior year (H1 FY18: £0.2m) almost equalling the revenue reported for the whole of the prior year. This additional revenue converted strongly through to the operating result with gross margins of approximately 85% partly offset by small managed increases in overheads. The net result was a significant reduction in the Adjusted EBITDA loss to £2.5m (H1 FY18: £4.2m loss).

Careful cost control was maintained during the period. In combination with the flexibility of our staff and their transferable skills sets, we were able to pivot our internal resources to support new nano-materials opportunities without the need for a costly restructuring exercise.

Cash at 31 January 2019 was £6.2m (31 July 2018: £10.7m; 31 January 2018: £8.7m). The Board expects the Group's net cash flow for the twelve months to the end of December 2019 to broadly break even (with some monthly variations linked to working capital changes and capital investments). This is supported by the receipt of the FY18 R&D tax credit in March 2019 (£1.4m) and underpinned by the contract extension with the US Customer.

The need to preserve the Group's cash resources and to invest in selective opportunities continues and therefore no dividend is proposed for the year (2018: £nil).

#### **Outlook**

The first half of the financial year saw the successful delivery of a number of key milestones and deliverables for the US Customer. Those successes led to a new contract extension signed at the end of the period. The Group therefore remains focussed on delivering first class technical services to the US Customer as we prepare for commercial production. Commissioning of the plant is in hand and we are confident that the facility will be fully prepared for commercial production in the second half of calendar year 2019. However, as noted previously, we cannot state when the new Runcorn facility will enter full scale production until we receive a firm purchase commitment from the US Customer.

In CFQD® quantum dots for display, by re-focussing our R&D efforts on the performance of our dots (as opposed to resins or films), we have delivered significantly improved performance across the key quality metrics of full width half max and quantum yield. We firmly believe that the best technology will win and hence we have set ourselves the goal of being the producer of the best CFQD® quantum dots for the display industry.

Market interest in the use of quantum dots across a range of applications appears to be increasing. A number of approaches have been made to Nanoco with a view to working together on existing and emerging applications for quantum dots. The Board is therefore confident in the growing relevance of our IP and technical capabilities.

The Board's expectations for the current financial year are firmly underpinned and the growing order book for FY20 adds confidence for the year ahead as we focus on exceeding the expectations of our key US Customer while further improving the performance of our CFQD's to take advantage of increasing market interest in quantum dots.

**Dr Christopher Richards**

Chairman  
9 April 2019

**Dr Michael Edelman**

Chief Executive Officer  
9 April 2019

#### **Financial review**

##### **Revenue**

Revenue in the period was £3.2m (H1 2018: £0.2m). The significant increase primarily reflects the completion of commercial contracts signed at the start of H2 FY18, with revenue in the period dominated by the US Customer (just over 90% of the total).

##### **Sources of revenue**

|                      | <b>H1 FY19</b>      | <b>H1 FY18</b>      | <b>FY18</b>         |
|----------------------|---------------------|---------------------|---------------------|
|                      | <b>£m</b>           | <b>£m</b>           | <b>£m</b>           |
| Services             | 2.9 / 90.8%         | 0.0 / 0.5%          | 3.0 / 90.5%         |
| Material sales       | 0.1 / 2.2%          | 0.1 / 66.3%         | 0.2 / 5.1%          |
| Licence fees         | 0.0 / 1.6%          | 0.1 / 25.5%         | 0.0 / 1.4%          |
| Royalties            | 0.2 / 5.4%          | 0.0 / 7.7%          | 0.1 / 3.0%          |
| <b>Total revenue</b> | <b>3.2 / 100.0%</b> | <b>0.2 / 100.0%</b> | <b>3.3 / 100.0%</b> |

The table clearly shows the importance of the service income being generated, primarily from the US Customer (currently and in the prior year). As noted previously, this service income will continue to represent the majority of the Group's revenue until

such time as the US Customer places an order for production material or demand emerges in other market sectors such as display.

Other operating income was £0.1m (H1 FY18: £0.1m) which, as in the prior year, was generated by grant income earned by our Life Sciences research team.

| <b>Movements in deferred income</b>                           | <b>H1<br/>FY19<br/>£m</b> | <b>H1<br/>FY18<br/>£m</b> | <b>FY18<br/>£m</b> |
|---|---------------------------|---------------------------|--------------------|
| Value of sales invoices ("billings") raised during the period | 4.2                       | 0.1                       | 6.3                |
| Movement in deferred income during the period                 | 0.3                       | 0.1                       | 0.1                |
| Less revenue deferred to future reporting periods             | (1.3)                     | -                         | (3.1)              |
| <b>Total revenue</b>  | <b>3.2</b>                | <b>0.2</b>                | <b>3.3</b>         |

The total balance of revenue deferred until future reporting periods now stands at £4.8m (H1 FY18: £0.6m, FY18: £3.7m).

Following the adoption of IFRS15, Revenue Recognition, £4.2m of this deferred revenue has now been re-classified as a contract liability (H1 FY18: £nil, FY18: £2.9m as restated) with the balance disclosed as deferred revenue. Both categories are still expected to be recognised as revenue in future periods and, in the case of the contract liability sums, when commercial production begins for the US Customer. There was no material impact on revenue recognised in the period or in the prior year as a result of the transition to IFRS15.

### Operating expenses

Operating expenses comprise R&D and administrative expenses. Gross investment in R&D in the period was £1.6m (H1 FY18: £1.9m) to support the ongoing development of CFQD® and other nano-particles. Administrative expenses were £4.3m (H1 FY18: £3.1m) and increased as a result of a managed growth in headcount to meet the needs of the US Customer and the additional occupancy costs of the significantly expanded Runcorn facility. Lastly, bonus provisions have been made at this stage based on expectations of improved business performance in line with stretching targets set for the Group. Mindful of the Group's restricted cash resources, we maintain close scrutiny on all categories of cost.

### Operating loss and LBITDA

The table shows a sharp narrowing of the operating loss and Adjusted LBITDA in the period compared to the prior year. The 36% (£1.8m) reduction in operating loss to £3.1m and the 40% (£1.7m) reduction in Adjusted LBITDA to £2.5m both reflect the significant increase in revenue in the period at relatively attractive gross margins (around 85%). This was then partly offset by the changes in overheads noted above.

|                            | <b>H1 FY19<br/>£m</b> | <b>H1 FY18<br/>£m</b> | <b>FY18<br/>£m</b> |
|----------------------------|-----------------------|-----------------------|--------------------|
| Operating loss             | (3.1)                 | (4.8)                 | (7.4)              |
| Share-based payment charge | 0.1                   | 0.1                   | 0.2                |
| Adjusted operating loss*   | (3.0)                 | (4.7)                 | (7.2)              |
| Depreciation               | 0.2                   | 0.2                   | 0.5                |
| Amortisation               | 0.3                   | 0.3                   | 0.5                |
| Adjusted LBITDA            | (2.5)                 | (4.2)                 | (6.2)              |

Management monitor the Adjusted LBITDA as it is a close approximation for operating cash flow which is considered a KPI at a time when the Group is closely managing its cash resources. Share based payments, depreciation and amortisation are added back to the operating result to arrive at LBITDA as they are all non-cash charges.

### Taxation

The Group continues to make research and development tax credit claims on its qualifying expenditure. We also take advantage of the provision whereby losses generated are surrendered for cash credits. The tax credit for the period is estimated at £0.6m (H1 2018: £0.6m). The amount receivable at 31 January 2019 was £2.0m (H1 FY18: £2.5m), which reflects the prior year submitted claim for £1.4m plus the estimated credit in the period. The £1.4m claimed in respect of the prior year was received in full after the period end in March 2019.

### Net result

The loss after tax for H1 FY19 was £2.5m (H1 FY18: loss of £4.2m).

### Earnings per share

The basic loss per share was 0.88 pence per share (H1 FY18: loss of 1.63 pence per share). As at 31 January 2019 there were 286,089,351 ordinary shares in issue (31 January 2018: 285,947,149) including shares held in treasury.

### Cash position and liquidity

During H1 FY19, the Group generated a net cash outflow of £4.6m (H1 FY18: £3.0m cash inflow).

| <b>Cash flow summary</b>                            | <b>H1<br/>FY19<br/>£m</b> | <b>H1<br/>FY18<br/>£m</b> | <b>FY18<br/>£m</b> |
|---|---------------------------|---------------------------|--------------------|
| Operating losses                                    | (3.1)                     | (4.8)                     | (7.4)              |
| Depreciation and amortisation                       | 0.5                       | 0.5                       | 1.0                |
| Share based payments                                | 0.1                       | 0.1                       | 0.2                |
| Changes in working capital                          | (0.8)                     | (0.2)                     | 0.9                |
| Changes in deferred income / contract liabilities   | 1.0                       | (0.1)                     | 3.1                |
| Cash flow from operating activities                 | (2.3)                     | (4.5)                     | (2.2)              |
| Interest and tax                                    | -                         | -                         | 1.8                |
| Operating cash flow                                 | (2.3)                     | (4.5)                     | (0.3)              |
| Purchases of tangible fixed assets                  | (1.7)                     | -                         | (2.2)              |
| Purchases of intangible fixed assets                | (0.6)                     | (0.4)                     | (0.8)              |
| Net proceeds from placing of ordinary share capital | -                         | 7.9                       | 7.9                |
| Issue of convertible loan note                      | -                         | -                         | 0.4                |
| Other net cash flows                                | -                         | -                         | -                  |
| <b>Net cash (outflow) / inflow</b>                  | <b>(4.6)</b>              | <b>3.0</b>                | <b>5.0</b>         |

Expenditure on fixed asset additions in the period was £1.7m compared to £nil in the prior year. This reflects the completion of the Runcorn facility expansion in the period (the project started in H2 FY18). These costs were funded by the US Customer with £2.8m received in the prior financial year, £1.4m received in the period, and a further £0.4m to be received at a future date linked to the start of commercial production. The advance funding of the Runcorn facility expansion (£4.2m in total to date) is now classified as a contract liability that will unwind as cash free revenue in future years with a discount against each unit of commercial production material despatched. The rate of unwind has been agreed at a level that does not put undue stress on the Group's working capital cash flows.

Expenditure in respect of intangible fixed assets was £0.6m (H1 FY18: £0.4m) and related to patent costs. The increase reflects a re-focus of our R&D efforts onto new materials and applications.

| <b>Movement in net cash</b> | <b>H1<br/>FY19<br/>£m</b> | <b>H1<br/>FY18<br/>£m</b> | <b>FY18<br/>£m</b> |
|-----------------------------|---------------------------|---------------------------|--------------------|
| Opening net cash            | 10.7                      | 5.7                       | 5.7                |
| Net cash flow               | (4.5)                     | 3.0                       | 5.0                |
| <b>Closing net cash</b>     | <b>6.2</b>                | <b>8.7</b>                | <b>10.7</b>        |

As at 31 January 2019 the Group had cash and cash equivalents of £6.2m (31 January 2018: £8.7m). This has remained broadly unchanged since the period end, supported by the receipt of the FY18 R&D tax credit (£1.4m) and further payments under the contract extension with the US Customer (£1.1m).

The Directors continue to adopt the going concern basis of accounting in preparing the financial statements.

#### **Fixed assets**

The Group increased its capital spend in tangible assets in the period to a total of £1.7m (H1 FY18: £nil). Expenditure incurred in registering patents totalled £0.6m (H1 FY18: £0.4m) during the period reflecting the Group's continued focus on developing and registering intellectual property.

The period saw the completion of the build and fit out of the expanded Runcorn production facility that is dedicated to production of nano-materials for the US Company. The estimated total cost of expanding the facility is approximately £4.6m with £4.2m incurred to date with the balance of spend to be incurred once the final stages of the supply chain are put in place for commercial production and shipping. Funding for the expansion project was provided as part of the collaboration agreements with the US Company. The end result will be a doubling of the production footprint at Runcorn and the new facility will have new production equipment, more than capable of meeting the demanding specifications for our nano-materials in an electronics supply chain.

#### **Stock**

Stock in the period increased to £0.3m compared to the position at 31 July 2018 (£0.2m). This was primarily the result of advance purchases of materials to be used in the stress testing of the Runcorn facility and also represents the fact that some materials are specialised in nature and to acquire them economically required the purchase of a number of months' worth of supplies. The supplies will also potentially be used in the manufacture of test batches of varying volumes during the stress testing period that will be shipped to the end customer and also to the next company in the supply chain.

#### **Contract liabilities**

Following the adoption of IFRS15, certain items that were previously classified as Deferred Income are now classified as a 'Contract Liability' (see cash position above and Note 2e). Once commercial production commences, the contract liability is expected to reduce over a two to three year period, depending on the volumes of material shipped each month.

#### **Brexit**

The main impact from Brexit and the continuing uncertainty around the post Brexit arrangements depends on whether or not it has a potential negative effect on the existing relationships with customers, the majority of whom are based outside of the UK, and the supply chain upon which we rely. The Group has undertaken a review of potential actions that it would take in the event that mitigation was required.

#### **Principal risks**

The Directors have considered the principal risks which may have a material impact on the Group's performance. The risks remain as disclosed in pages 101 to 104 of the 2018 Annual Report and Accounts although the risk regarding the adequacy of financial resources has reduced somewhat following the contract extensions signed with the US Customer which are material in scale and last until December 2019.

In common with all businesses at Nanoco's stage of development, the Group is exposed to a range of risks, some of which are not wholly within its control or capable of complete mitigation or protection through insurance. Specifically, a number of the Group's products and potential applications are at a research stage and hence it is not possible to be certain that a particular project or product will lead to a commercial application. Other products require further development work to confirm a commercially viable application. Finally, a number of products are considered commercially viable but have yet to see demand for full scale production quantities.

As noted above, the principal over-arching strategic risk faced by the business is that the Group exhausts its available funding before achieving adequate levels of commercial revenues that generate cash flows to be able to be self-funding.

For the purposes of assessing whether 'going concern' is an appropriate basis for preparing the financial statements, the Directors have used their detailed forecasts for the period to 31 July 2019 and summary forecasts for the following financial year (both years combined to represent the 'forecast period'). The key assumptions underpinning the assessment during the forecast period cover the following areas:

- Major contract extension with the US Customer covering service revenues to be generated in the period to 31 December 2019 (with no contingent payments);
- Minimum royalty and licence fee income from channel partners in respect of CFQD® products;
- Modest sales of CFQD® products and other nano-particles through existing contractual arrangements;
- Continued investment in research and development; and
- Continued tight control of costs within the business.

The new agreement (February 2018) with a US Company, and subsequent contract extensions, provide attractive cash generating opportunities. However, the natural consequence of having this attractive commercial relationship is that the Group is now inevitably exposed to a new risk in the short term of 'key customer reliance'. The Group is exposed to the risk of any delays in the future supply of commercial quantities of products to this new customer in the same way that the Group is exposed to delays in the widespread adoption of quantum dots in display markets. These factors both increase the risk of not becoming self-funding before existing cash resources are exhausted. The original contract deliverables included significant contingent milestones and associated payments which have now all been achieved. The recent extensions have much lower contingent elements. The risks around the agreements have therefore reduced accordingly. Commercial negotiations are ongoing to secure additional revenues to mitigate the exposure in this area.

#### **Brian Tenner**

Chief Operating Officer and Chief Financial Officer  
9 April 2019

#### **Responsibility statement**

The Directors of Nanoco Group plc, as listed on pages 34 and 35 of the 2018 Annual Report and Accounts, with the addition of Chris Batterham who was announced as a new Non-Executive Director on 12 March 2019 and joined the Board on 1 April 2019, confirm to the best of their knowledge:

- a) the condensed set of financial statements has been prepared in accordance with International Accounting Standard 34

Interim Financial Reporting, as required by paragraph 4.2.4 of the Disclosure and Transparency Rules ("DTR");

- b) the condensed set of financial statements, which has been prepared in accordance with the applicable set of accounting standards, gives a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer, or the undertakings included in the consolidation as a whole as required by DTR 4.2.10;
- c) the interim management report includes a fair review of the information required by DTR 4.2.7 - an indication of important events which have occurred during the first six months of the year and a description of the principal risks and uncertainties for the remaining six months of the year; and
- d) the interim management report includes a fair review of the information required by DTR 4.2.8 - the disclosure of related party transactions occurring during the first six months of the year and any changes in related party transactions disclosed in the 2018 Annual Report and Accounts.

**Condensed consolidated statement of comprehensive income**  
For the six months ended 31 January 2019

|   | Notes | H1 FY19<br>(Unaudited)<br>£'000 | H1 FY18<br>(Unaudited)<br>£'000 | FY18<br>(Audited)<br>£'000 |
|---|-------|---------------------------------|---------------------------------|----------------------------|
| <b>Revenue</b>  | 3     | <b>3,192</b>                    | 196                             | 3,315                      |
| Cost of sales   |       | <b>(485)</b>                    | (59)                            | (432)                      |
| <b>Gross profit</b>   |       | <b>2,707</b>                    | 137                             | 2,883                      |
| <b>Other operating income</b>   | 4     | <b>79</b>                       | 59                              | 136                        |
| <b>Operating expenses</b>   |       |                                 |                                 |                            |
| Research and development expenses   |       | <b>(1,562)</b>                  | (1,888)                         | (3,960)                    |
| Administrative expenses   |       | <b>(4,285)</b>                  | (3,143)                         | (6,468)                    |
| <b>Operating loss</b>   |       | <b>(3,061)</b>                  | (4,835)                         | (7,409)                    |
| - Before share-based payments   |       | <b>(2,935)</b>                  | (4,710)                         | (7,152)                    |
| - Share-based payments  |       | <b>(126)</b>                    | (125)                           | (257)                      |
| - Operating loss as shown above   |       | <b>(3,061)</b>                  | (4,835)                         | (7,409)                    |
| Net finance (expense) / income  | 5     | <b>(13)</b>                     | -                               | 4                          |
| <b>Loss before taxation</b>   |       | <b>(3,074)</b>                  | (4,835)                         | (7,405)                    |
| Taxation  | 6     | <b>563</b>                      | 630                             | 1,400                      |
| <b>Loss after tax</b>   | 3     | <b>(2,511)</b>                  | (4,205)                         | (6,005)                    |
| <b>Other comprehensive income</b>   |       |                                 |                                 |                            |
| Loss on exchange rate translations  |       | -                               | -                               | (13)                       |
| <b>Loss after taxation for the year and total comprehensive loss for the year</b> |       | <b>(2,511)</b>                  | (4,205)                         | (6,018)                    |
| <b>Loss per share:</b>  |       |                                 |                                 |                            |
| Basic and diluted loss for the period   | 7     | <b>(0.88)p</b>                  | (1.63)p                         | (2.21)p                    |

**Condensed consolidated statement of changes in equity**  
For the six months ended 31 January 2019

|  | Issued equity capital<br>£'000 | Share-based payment reserve<br>£'000 | Merger reserve<br>£'000 | Revenue reserve<br>£'000 | Total<br>£'000 |
|--|--------------------------------|--------------------------------------|-------------------------|--------------------------|----------------|
| <b>At 31 July 2017 (audited)</b>           | 58,609                         | 2,957                                | (1,242)                 | (49,877)                 | 10,447         |
| Loss for the six months to 31 January 2018 | -                              | -                                    | -                       | (4,205)                  | (4,205)        |
| Shares issued on placing                   | 8,578                          | -                                    | -                       | -                        | 8,578          |
| Less: costs of placing                     | (629)                          | -                                    | -                       | -                        | (629)          |
| Share-based payments                       | -                              | 125                                  | -                       | -                        | 125            |
| <b>At 31 January 2018 (unaudited)</b>      | 66,558                         | 3,082                                | (1,242)                 | (54,082)                 | 14,316         |
| Loss for the six months to 31 July 2018    | -                              | -                                    | -                       | (1,800)                  | (1,800)        |
| Other comprehensive income                 | -                              | -                                    | -                       | (13)                     | (13)           |
| Share-based payments                       | -                              | 132                                  | -                       | -                        | 132            |
| <b>At 31 July 2018 (audited)</b>           | 66,558                         | 3,214                                | (1,242)                 | (55,895)                 | 12,635         |

|  |               |              |                |                 |               |
|--|---------------|--------------|----------------|-----------------|---------------|
| Loss for the six months to 31 January 2019 | -             | -            | -              | (2,511)         | (2,511)       |
| Shares issued on exercise of options       | 14            | -            | -              | -               | 14            |
| Share-based payments                       | -             | 112          | -              | -               | 112           |
| <b>At 31 January 2019 (unaudited)</b>      | <b>66,572</b> | <b>3,326</b> | <b>(1,242)</b> | <b>(58,406)</b> | <b>10,250</b> |

**Condensed consolidated statement of financial position**  
As at 31 January 2019

|                                | Notes | 31 January<br>2019<br>(Unaudited)<br>£'000 | 31 January<br>2018<br>(Restated)*<br>£'000 | 31 July<br>2018<br>(Restated)*<br>£'000 |
|--------------------------------|-------|--|--|---|
| <b>Assets</b>                  |       |  |  |   |
| <b>Non-current assets</b>      |       |  |  |   |
| Property, plant and equipment  |       | 4,155                                      | 634  | 2,604                                   |
| Intangible assets              | 8     | 3,731                                      | 3,234                                      | 3,432                                   |
|                                |       | <b>7,886</b>                               | 3,868                                      | 6,036                                   |
| <b>Current assets</b>          |       |  |  |   |
| Inventories                    | 9     | 278  | 132  | 217                                     |
| Trade and other receivables    | 10    | 1,314                                      | 925  | 1,415                                   |
| Income tax asset               | 11    | 1,963                                      | 2,467                                      | 1,400                                   |
| Cash and cash equivalents      |       | 6,157                                      | 8,744                                      | 10,729                                  |
|                                |       | <b>9,712</b>                               | 12,268                                     | 13,761                                  |
| <b>Total assets</b>            |       | <b>17,598</b>                              | 16,136                                     | 19,797                                  |
| <b>Liabilities</b>             |       |  |  |   |
| <b>Current liabilities</b>     |       |  |  |   |
| Trade and other payables       |       | (2,135)                                    | (1,217)                                    | (3,020)                                 |
| Deferred revenue               | 12    | (149)                                      | (102)                                      | (400)                                   |
|                                |       | <b>(2,284)</b>                             | (1,319)                                    | (3,420)                                 |
| <b>Non-current liabilities</b> |       |  |  |   |
| Deferred revenue               | 12    | (399)                                      | (501)                                      | (450)                                   |
| Contract liabilities           | 13    | (4,245)                                    | -  | (2,885)                                 |
| Convertible loan               | 14    | (420)                                      | -  | (407)                                   |
|                                |       | <b>(5,064)</b>                             | (501)                                      | (3,742)                                 |
| <b>Total liabilities</b>       |       | <b>(7,348)</b>                             | (1,820)                                    | (7,162)                                 |
| <b>Net assets</b>              |       | <b>10,250</b>                              | 14,316                                     | 12,635                                  |
| <b>Capital and reserves</b>    |       |  |  |   |
| Issued equity capital          | 15    | 66,572                                     | 66,558                                     | 66,558                                  |
| Share-based payment reserve    |       | 3,326                                      | 3,082                                      | 3,214                                   |
| Merger reserve                 |       | (1,242)                                    | (1,242)                                    | (1,242)                                 |
| Accumulated loss               |       | (58,406)                                   | (54,082)                                   | (55,895)                                |
| <b>Total equity</b>            |       | <b>10,250</b>                              | 14,316                                     | 12,635                                  |

\*Restated for the impact of IFRS9 and IFRS15, see Note 2e.

Approved by the Board and authorised for issue on 9 April 2019.

**Dr Michael Edelman**  
Chief Executive Officer

**Brian Tenner**  
Chief Operating Officer and Chief Financial Officer

**Condensed consolidated cash flow statement**  
For the six months ended 31 January 2019

|  | Six months<br>to<br>31 January<br>2019<br>(Unaudited)<br>£'000 | Six months<br>to<br>31 January<br>2018<br>(Restated)*<br>£'000 | Year to<br>31 July<br>2018<br>(Restated)*<br>£'000 |
|--|--|--|--|
| <b>Loss before tax</b>   | <b>(3,074)</b>   | (4,835)  | (7,405)  |
| Adjustments for:   |  |  |  |
| Net finance costs / (income)                                     | 13   | -  | (4)  |
| Loss on exchange rate translations                               |  |  | (13)   |
| Depreciation of tangible fixed assets                            | 191  | 266  | 504  |
| Amortisation of intangible assets                                | 254  | 268  | 476  |
| Share-based payments   | 126  | 125  | 257  |
| Changes in working capital:                                      |  |  |  |
| (Increase) / decrease in inventories                             | (61)   | 56   | (29)   |
| Decrease / (increase) in trade and other receivables             | 101  | (256)  | (746)  |
| Decrease in trade and other payables                             | (885)  | (101)  | 1,702  |
| Increase / (decrease) in deferred revenue & contract liabilities | 1,058  | (51)   | 3,081  |
| <b>Cash outflow from operating activities</b>                    | <b>(2,277)</b>   | (4,528)  | (2,177)  |
| Research and development tax credit received                     | -  | -  | 1,837  |
| <b>Net cash outflow from operating</b>                           | <b>(2,277)</b>   | (4,528)  |  |

|   |                |              |                |
|---|----------------|--------------|----------------|
| <b>activities</b>   |                |              | (340)          |
| <b>Cash flows from investing activities</b>               |                |              |                |
| Purchases of tangible fixed assets                        | (1,742)        | (7)          | (2,215)        |
| Purchases of intangible fixed assets                      | (553)          | (376)        | (782)          |
| Interest received   | -              | -            | 11             |
| <b>Net cash outflow from investing activities</b>         | <b>(2,295)</b> | <b>(383)</b> | <b>(2,986)</b> |
| <b>Cash flows from financing activities</b>               |                |              |                |
| Proceeds from issues of ordinary share capital            | -              | 8,578        | 8,578          |
| Less: costs of placing                                    | -              | (629)        | (629)          |
| Issue of convertible loan note                            | -              | -            | 400            |
| <b>Net cash inflow from financing activities</b>          | <b>-</b>       | <b>7,949</b> | <b>8,349</b>   |
| <b>(Decrease)/increase in cash and cash equivalents</b>   | <b>(4,572)</b> | <b>3,038</b> | <b>5,023</b>   |
| Cash and cash equivalents at the start of the period      | <b>10,729</b>  | 5,706        | 5,706          |
| <b>Cash and cash equivalents at the end of the period</b> | <b>6,157</b>   | <b>8,744</b> | <b>10,729</b>  |

\*Restated for the impact of IFRS9 and IFRS15, see Note 2e.

## Notes to the condensed consolidated financial statements For the six months ended 31 January 2019

### 1. Corporate information

Nanoco Group plc (the "Company") has a premium listing on the Main Market of the London Stock Exchange and is incorporated and domiciled in the UK. The 2019 Interim Results for the six months ended 31 January 2019 was authorised for issue in accordance with a resolution by the Directors on 9 April 2019.

These interim condensed consolidated financial statements include the financial statements of Nanoco Group plc and the entities it controls (its subsidiaries).

These interim condensed consolidated financial statements are unaudited and do not constitute statutory accounts of the Group as defined in section 434 of the Companies Act 2006. The auditor, PwC LLP, has carried out a review of the financial information in accordance with the guidance contained in International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity, and its review report is set out at the end of this report.

### 2. Accounting policies

#### a. Basis of preparation

These interim condensed consolidated financial statements have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority, IAS 34 Interim Financial Reporting as adopted by the European Union, using the recognition and measurement principles of IFRSs as adopted by the European Union and have been prepared under the historical cost convention. As required by the Disclosure Guidance and Transparency Rules of the Financial Services Authority the accounting policies adopted in these condensed consolidated financial statements are consistent with those followed in the preparation of the Group's Annual Report and Accounts for the year to 31 July 2018, with the exception of the impact of adopting of IFRS 9 and IFRS 15 (has adopted with effect from 1 August 2018). The impact of the adoption of new accounting standards is set out below.

These interim condensed consolidated financial statements include audited comparatives for the year to 31 July 2018, with the exception of comparative balances impacted by the adoption of IFRS 15. The 2018 Annual Report and Accounts, which was prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union, received an unqualified audit opinion and has been filed with the Registrar of Companies. The financial statements of the Group for the year ended 31 July 2018 are available from the Company's registered office, or from the website [www.nanocotechnologies.com](http://www.nanocotechnologies.com).

#### b. Presentation of figures

Certain figures contained in this announcement, including financial information, have been subject to rounding adjustments. Accordingly, in some cases, the sum or percentage change of the numbers contained in this announcement may not conform exactly to the total figure given.

#### c. Going concern

In assessing whether 'going concern' is an appropriate basis for preparing the financial statements, the Directors have used their detailed forecasts for the period to 31 July 2019 and summary forecasts for the following financial year (the 'forecast period'). These reflect current and expected business activities including the impact of the partnership with the US Customer, the cash balance of £6.2m as shown in the Group consolidated balance sheet at 31 January 2019, and significant cash receipts soon after the period end in respect of the FY18 R&D tax credit and receipts from the US Customer. The principal risks and uncertainties faced (as set out on page 10) are also considered as are other factors potentially impacting future performance.

Sensitivity analysis has been performed to reflect a possible downside scenario which includes only contracted revenues for the forecast period up to 31 July 2020 as well as the receipt of R&D tax credits. In this scenario management would be required to undertake a restructuring exercise to reflect the lower revenue expectations and such an exercise would create new risks regarding its effectiveness and time to deliver the expected benefits. However, even if the restructuring plan did not deliver all of the expected benefits in the downside scenario, the Company and Group have sufficient resources to continue in operational existence for the foreseeable future, being at least 12 months from the date of issue of these interim financial statements.

At the time of approving the interim condensed consolidated financial statements, the Directors have a reasonable expectation that the Company has 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.

#### d. Use of estimates and judgements

Preparation of the interim condensed consolidated financial statements requires management to make judgements, estimates and assumptions affecting the application of accounting policies and the reported of assets, liabilities, income and expenses. Actual results may differ from these estimates. The significant judgements made by management in applying the Group's accounting policies and key sources of estimated uncertainty were the same as those applied to the consolidated financial statements for year ended 31 July 2018. These are summarised below:

| Estimates   | Judgements  |
|---|---|
| Equity-settled share-based payments                           | Capitalisation (or not) of research and development expenditure |
| Impairment of intellectual property and tangible fixed assets | Revenue recognition   |



### e. New accounting standards

The IASB has published three new accounting standards relevant to the Group. Two (IFRS9 and IFRS15) have been adopted as outlined below in these interim condensed consolidated financial statements and the third (IFRS 16) will be mandatory in future periods.

#### IFRS 9 Financial Instruments (effective for periods beginning on or after 1 January 2018)

IFRS 9 has been applied since 1 August 2018 and there has been no significant impact resulting from its adoption. The Group's only material financial assets that are impacted by IFRS9 are trade receivables. IFRS9 allows companies that have no material financing element included in their trade receivables (and this can be presumed if their payment terms are typically less than one year) to use a practical expedient whereby a lifetime expected credit loss can be used. The Group have had no bad debts in the past 3 years, and based on this experience, after considering expected credit losses, the Group has made no adjustment for the impact of IFRS9.

#### IFRS 15 Revenue from Contracts with Customers (effective for periods beginning on or after 1 January 2018)

IFRS 15 establishes a framework for determining whether, how much and when revenue is recognised. It replaced IAS18 Revenue, and IAS 11 Construction contracts, as well as their related interpretations. The Group has adopted IFRS 15 using the full retrospective method and has taken advantage of a number of practical expedients, as noted below.

The full retrospective method means that the prior year comparatives and half year comparatives have all been re-stated as if IFRS15 had been in force throughout the comparative periods. The full retrospective approach also enables the Group to use a number of 'practical expedients' which mean that:

- For completed contracts, there is no need to re-state contracts in the prior financial year ending 31 July 2018 ('FY18') that started and ended in that year;
- For completed contracts, there is no need to re-state for any contracts completed at the start of FY18 (so no re-statement of the opening balances as at 1 August 2017);
- For completed contracts, there is no need to re-consider potentially variable consideration and the periods in which it should be recognised (such as revenue recognised against contingent milestones in our contracts with the US Customer); and
- For FY18, there is no need to state the amount of any transaction price allocated to remaining performance obligations or when that revenue is expected to be recognised.

In summary, there has been no quantitative impact on the statement of comprehensive income from the adoption of IFRS15 in the current or comparative periods. An amount of £4,245,000 that previously would have been classified on the balance sheet as deferred income has now been re-classified as a "contract liability" (31 July 2018: £2,885,000, 31 January 2018: £nil). Its future realisation as revenue in the income statement in future periods is however unchanged and will match the shipment of commercial production orders to the US Customer.

The Group's revised IFRS15 summary policies for revenue recognition for different income types are:

- Products sold: recognised when control of the asset passes to the customer
- Rendering of services: recognised over the periods that the customer receives the benefits of the performance obligations in each contract, typically on an elapsed time basis
- Licences: typically recognised over the period of the agreement
- Royalties: linked to the licensees own sales of products (and the passing of control of their products to their customers)

#### IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019)

The impact of adopting IFRS 16 is likely to be material on the financial statements of Nanoco Group plc, particularly from a balance sheet perspective. IFRS 16 requires lessees to recognise a lease liability reflecting future lease payments and a right-of-use asset for all leases. The Group has three property related operating lease commitments, which, while of relatively short duration, will be brought on to the balance sheet and amortised and depreciated separately. There will be no impact on cash flows although the presentation of the cash flow statement will also change. Management is still quantifying the impact of this new standard. At 31 January 2019, the future aggregate minimum lease payments under non-cancellable operating leases was £2.5m (31 January 2018: £2.4m) with the expiration of a further year of pre-existing leases offset by the new expanded Runcorn lease.

### 3. Segmental information

#### **Operating segments**

The Board has identified that it has one reportable operating segment being the provision of high-performance nano-particles. These are applicable to a wide range of end markets and applications which have similar activities, economic characteristics and future prospects and hence are treated as one reporting segment.

| All revenue has been generated from continuing operations and is from external customers. | Six months to 31 January 2019<br>(Unaudited)<br>£'000 | Six months to 31 January 2018<br>(Unaudited)<br>£'000 | Year to 31 July 2018<br>(Audited)<br>£'000 |
|---|---|---|--|
| <b>Analysis of revenue</b>  |   |   |  |
| Products sold   | 71  | 130   | 168  |
| Rendering of services   | 2,899   | 1   | 3,000                                      |
| Royalties and licences  | 222   | 65  | 147  |
|   | <b>3,192</b>  | <b>196</b>  | <b>3,315</b>                               |

The timing of the annual submission and subsequent receipt of the R&D tax credit has a material effect on the cash flow of the Group. There are no other factors of a seasonal or cyclical nature affecting the results of the Group. The R&D tax credit of £1.4m for the financial year ending 31 July 2018 was received in March 2019. All assets are held in the UK and all of its capital expenditure arises in the UK.

### 4. Other operating income

|              | Six months to 31 January 2019<br>(Unaudited)<br>£'000 | Six months to 31 January 2018<br>(Unaudited)<br>£'000 | Year to 31 July 2018<br>(Audited)<br>£'000 |
|--------------|---|---|--|
| Grant income | 79  | 59  | 136  |

## 5. Finance income and expense

|                            | Six months to 31 January 2019 (Unaudited) £'000 | Six months to 31 January 2018 (Unaudited) £'000 | Year to 31 July 2018 (Audited) £'000 |
|----------------------------|---|---|--------------------------------------|
| <b>Finance income</b>      |   |   |                                      |
| Bank interest receivable   | -   | -   | 11                                   |
| Loan note interest payable | (13)  | -   | (7)                                  |
|                            | <b>(13)</b>                                     | -   | 4                                    |

## 6. Taxation

The tax credit is made up as follows:

|   | Six months to 31 January 2019 (Unaudited) £'000 | Six months to 31 January 2018 (Unaudited) £'000 | Year to 31 July 2018 (Audited) £'000 |
|---|---|---|--------------------------------------|
| <b>Current income tax</b>                             |   |   |                                      |
| Research and development income tax credit receivable | (521)   | (630)   | (1,400)                              |
| Adjustment in respect of prior years                  | (42)  | -   | -                                    |
| <b>Income tax credit</b>                              | <b>(563)</b>                                    | <b>(630)</b>                                    | <b>(1,400)</b>                       |

Accumulated losses available to carry forward against future trading profits were £33.9m (2018: £31.7m).

Deferred tax liabilities / (assets) provided / (recognised) are as follows:

|  | Six months to 31 January 2019 (Unaudited) £'000 | Six months to 31 January 2018 (Unaudited) £'000 | Year to 31 July 2018 (Audited) £'000 |
|--|---|---|--------------------------------------|
| Accelerated capital allowances             | 674   | 54  | 407                                  |
| Tax losses                                 | (674)   | (54)  | (407)                                |
| <b>Deferred tax liabilities / (assets)</b> | -   | -   | -                                    |

The Group also has deferred tax assets, measured at a standard rate of 17% (2018: 17%) in respect of share-based payments of £34,000 (2018: £178,000) and tax losses of £5,769,000 (2018: £5,386,000) which have not been recognised as an asset as it is not probable that future taxable profits will be available against which the assets can be utilised.

## 7. Loss per share

|   | Six months to 31 January 2019 (Unaudited) £'000 | Six months to 31 January 2018 (Unaudited) £'000 | Year to 31 July 2018 (Audited) £'000 |
|---|---|---|--------------------------------------|
| Loss for period attributable to equity shareholders | (2,511)   | (4,205)   | (6,005)                              |
| Share-based payments                                | 126   | 125   | 257                                  |
| <b>Adjusted loss for the period</b>                 | <b>(2,385)</b>                                  | <b>(4,080)</b>                                  | <b>(5,748)</b>                       |

| Weighted average number of shares      | No.           | No.           | No.           |
|--|---------------|---------------|---------------|
| Ordinary shares in issue               | 285,974,557   | 258,331,009   | 271,964,590   |
| <b>Adjusted loss per share (pence)</b> | <b>(0.83)</b> | <b>(1.58)</b> | <b>(2.11)</b> |
| <b>Basic loss per share (pence)</b>    | <b>(0.88)</b> | <b>(1.63)</b> | <b>(2.21)</b> |

Diluted loss per share is not presented as the effect of share options issued is anti-dilutive. The adjusted loss is presented as the Board measures underlying business performance which excludes non-cash IFRS2 charges.

## 8. Intangible assets

|   | 31 January 2019 (Unaudited) £'000 | 31 January 2018 (Unaudited) £'000 | 31 July 2018 (Audited) £'000 |
|---|-----------------------------------|-----------------------------------|------------------------------|
| <b>Cost</b>                                 |                                   |                                   |                              |
| At the beginning of the period              | 5,670                             | 4,291                             | 4,291                        |
| Additions in the period                     | 553                               | 376                               | 782                          |
| Reclassified from/(to) assets held for sale | -                                 | 597                               | 597                          |
| At the end of the period                    | <b>6,223</b>                      | <b>5,264</b>                      | <b>5,670</b>                 |
| <b>Amortisation</b>                         |                                   |                                   |                              |
| At the beginning of the period              | (2,238)                           | (1,672)                           | (1,672)                      |
| Provided in the period                      | (254)                             | (268)                             | (476)                        |
| Reclassified from/(to) assets held for sale | -                                 | (90)                              | (90)                         |
| At the end of the period                    | <b>(2,492)</b>                    | <b>(2,030)</b>                    | <b>(2,238)</b>               |
| <b>Net book value</b>                       | <b>3,731</b>                      | <b>3,234</b>                      | <b>3,432</b>                 |

The expenditure recorded above all relates to patents and is amortised on a straight-line basis over ten years. Ten years is considered an appropriate basis for amortisation as an average of the expected useful economic life of the Group's patents if no additional enhancing expenditure occurred (which could potentially extend the life of the patents). Amortisation is recognised in administrative expenses. No individual patents are deemed material to the Group.

To date the Group has not capitalised any of its development costs and all such costs are written off as incurred. Careful judgement by the Directors is applied when deciding whether the capitalisation requirements for development costs have been met. This is necessary as the economic success of any product development is uncertain until such time as technical viability has been proven and commercial supply agreements are likely to be achieved. All R&D activities related to new products are continuously monitored by the Directors.

The aggregate original cost of intangible assets now fully depreciated but considered to be still in use is £421,000 (2018: £471,000).

During the year ended 31 July 2018 a review was undertaken to identify which patents are of no further value to Nanoco and should be allowed to lapse. No such patents were identified. This is an annual activity that will be repeated at the end of the current financial year.

#### 9. Inventories

|  | <b>31 January<br/>2019<br/>(Unaudited)<br/>£'000</b> | 31 January<br>2018<br>(Unaudited)<br>£'000 | 31 July<br>2018<br>(Audited)<br>£'000 |
|--|--|--|---------------------------------------|
| <b>Raw materials, finished goods and consumables</b> | <b>278</b>   | 132  | 217                                   |

Inventories primarily relate to raw materials used in the production of the Group's nano-materials and in R&D activities within the laboratories. Inventories are reviewed and rotated on a regular basis and the Directors do not consider that any impairment is required for age, technological obsolescence or deterioration in performance of the raw materials.

#### 10. Trade and other receivables

|                                    | <b>31 January<br/>2019<br/>(Unaudited)<br/>£'000</b> | 31 January<br>2018<br>(Unaudited)<br>£'000 | 31 July<br>2018<br>(Audited)<br>£'000 |
|------------------------------------|--|--|---------------------------------------|
| Trade receivables                  | 293  | 101  | 290                                   |
| Prepayments and accrued income     | 493  | 492  | 435                                   |
| Other receivables                  | 528  | 332  | 690                                   |
| <b>Trade and other receivables</b> | <b>1,314</b>   | 925  | 1,415                                 |

Trade receivables are non-interest bearing and are generally due and paid within 30 to 60 days. The Directors have adopted the practical expedient available in IFRS9 which allows the assumption that there is no significant financing charge on receivables with a maturity less than one year, given the Group's experience of no bad debts in the past 3 years. This in turn allows the receivables to be stated at their invoice value less any provision for impairment (instead of calculating an expected credit loss required by IFRS9 if the expedient is not available). The prior periods have been considered on the same basis and in all cases there is no requirement for an impairment provision at any of the balance sheet dates.

#### 11. Income tax asset

|                         | <b>31 January<br/>2019<br/>(Unaudited)<br/>£'000</b> | 31 January<br>2018<br>(Unaudited)<br>£'000 | 31 July<br>2018<br>(Audited)<br>£'000 |
|-------------------------|--|--|---------------------------------------|
| <b>Income tax asset</b> | <b>1,963</b>   | 2,467                                      | 1,400                                 |

The income tax asset is in respect of R&D tax credits. The balance represents the prior year claim of £1,441,000 which was received in March 2019 and an estimated accrual in respect of the Group's activities in the first half of the current financial year.

#### 12. Deferred revenue

|                               | <b>31 January<br/>2019<br/>(Unaudited)<br/>£'000</b> | 31 January<br>2018<br>Re-stated*<br>£'000 | 31 July<br>2018<br>Re-stated*<br>£'000 |
|-------------------------------|--|---|--|
| <b>Current</b>                |  |   |  |
| Upfront licence fees          | 149  | 102                                       | 102                                    |
| Milestone payments            | -  | -   | 298                                    |
| <b>Total current</b>          | <b>149</b>   | 102                                       | 400                                    |
| <b>Non-current</b>            |  |   |  |
| Upfront licence fees          | 399  | 501                                       | 450                                    |
| <b>Total non-current</b>      | <b>399</b>   | 501                                       | 450                                    |
| <b>Total deferred revenue</b> | <b>548</b>   | 603                                       | 850                                    |

Deferred revenue arises under IFRS where upfront licence fees have been invoiced (and often paid) in advance of the associated service provision. Historically the revenue was recognised on a straight-line basis over the initial term of the contract which led to a portion of the advance payments being deferred at the period ends. The re-statement as a result of the adoption of IFRS15 relates to the advance payments made by the US customer, to obtain a discounted purchase price for production materials at a future date. The cash receipts were dedicated to fund the expansion of the Runcorn production facility. The advance payments have been re-classified from Deferred Revenue to Contract Liabilities (see below) in accordance with the requirements of IFRS15.

Whether classified as Deferred Revenue or as Contract Liabilities, it is expected that the sums will be recognised as revenue as and when the US customer receives deliveries of production material.

#### 13. Contract liabilities

|  | <b>31 January<br/>2019<br/>(Unaudited)<br/>£'000</b> | 31 January<br>2018<br>Restated*<br>£'000 | 31 July<br>2018<br>Restated*<br>£'000 |
|--|--|--|---------------------------------------|
| <i>Non-current</i>                                 |  |  |                                       |
| Balance at the start of the period prior to IFRS15 | -  | -  | -                                     |
| Re-statement for IFRS15                            | 2,885  | -  | -                                     |
| Revised opening balance on IFRS15 basis            | 2,885  | -  | -                                     |
| Cash advanced from customers                       | 1,360  | -  | 2,885                                 |
| <b>Contract liabilities</b>                        | <b>4,245</b>   | -  | <b>2,885</b>                          |

As explained above in Note 12, following the adoption of IFRS15, certain advance payments from the US customer have been reclassified from deferred revenue to contract liabilities. The total sum is classified as non-current as the US Customer has not yet placed any purchase orders for production material and hence there is no certainty on the timing of delivery of any such orders.

#### 14. Convertible loan

|                                     | <b>31 January<br/>2019<br/>(Unaudited)<br/>£'000</b> | 31 January<br>2018<br>(Unaudited)<br>£'000 | 31 July<br>2018<br>(Audited)<br>£'000 |
|-------------------------------------|--|--|---------------------------------------|
| Convertible Series A loan note 2028 | 400  | -  | 400                                   |
| Accrued interest                    | 20   | -  | 7                                     |
| <b>Convertible loan</b>             | <b>420</b>   | <b>-</b>                                   | <b>407</b>                            |

The loan note issued by Nanoco 2D Materials Limited is unsecured, bears a fixed interest rate of 6.5% p.a. and is fully repayable with accrued interest in 2028 unless options to convert into shares of that company have been exercised. Other details are as set out in the 2018 Annual Report and Accounts.

## 15. Issued equity capital (Unaudited)

|                                      | <i>Allotted, called-up and fully paid ordinary shares of 10p</i><br>Number | Share capital<br>£'000 | Share premium<br>£'000 | Reverse Acquisition reserve<br>£'000 | Total<br>£'000 |
|--------------------------------------|--|------------------------|------------------------|--------------------------------------|----------------|
| At 31 July 2017 (audited)            | 238,291,328  | 23,829                 | 112,648                | (77,868)                             | 58,609         |
| Shares issued on equity placing      | 47,655,821   | 4,766                  | 3,812                  | -                                    | 8,578          |
| Less: costs of placing               | -  | -                      | (629)                  | -                                    | (629)          |
| At 31 January 2018 (unaudited)       | 285,947,149  | 28,595                 | 115,831                | (77,868)                             | 66,558         |
| Shares issued on exercise of options | -  | -                      | -                      | -                                    | -              |
| At 31 July 2018 (audited)            | 285,947,149  | 28,595                 | 115,831                | (77,868)                             | 66,558         |
| Shares issued on exercise of options | 142,202  | 14                     | -                      | -                                    | 14             |
| <b>At 31 January 2019</b>            | <b>286,089,351</b>   | <b>28,609</b>          | <b>115,831</b>         | <b>(77,868)</b>                      | <b>66,572</b>  |

The equity structure appearing in the Group's financial statements reflects the equity structure of Nanoco plc (the legal parent) which includes the equity instruments issued under the share for share exchange used to effect the reverse take-over transaction in 2009. The effect of using the equity structure of the legal parent gives rise to an adjustment to the Group's issued equity capital in the form of a reverse acquisition reserve.

Following shareholder approval at a general meeting held on 14 November 2017, 47,655,821 shares were issued on 15 November 2017 as a result of a placing of shares at 18 pence each raising cash of £8.0m net of expenses.

## 16. Post-balance sheet events

The R&D tax credit for the financial year ending 31 July 2018 of £1.4m was received in March 2019. This item has had no financial impact on the results and position disclosed as at 31 January 2019.

### ***Independent review report to Nanoco Group Plc***

#### **Report on the interim condensed consolidated financial statements**

##### **Our conclusion**

We have reviewed Nanoco Group Plc's interim condensed consolidated financial statements (the "interim financial statements") in the 2019 Interim Results and Accounts of Nanoco Group Plc for the 6 month period ended 31 January 2019. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

##### **What we have reviewed**

The interim financial statements comprise:

- the condensed consolidated statement of financial position as at 31 January 2019;
- the condensed consolidated statement of comprehensive income for the period then ended;
- the condensed consolidated cash flow statement for the period then ended;
- the condensed consolidated statement of changes in equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the 2019 Interim Results have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2 to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

#### **Responsibilities for the interim financial statements and the review**

##### **Our responsibilities and those of the directors**

The 2019 Interim Results, including the interim financial statements, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the 2019 Interim Results in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements in the 2019 Interim Results based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the

Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

**What a review of interim financial statements involves**

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the 2019 Interim Results and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP  
Chartered Accountants  
Manchester  
9 April 2019

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