



From strength to strength.

Interim Report
For the six months ended 31 January 2013

Contents

Review

- 01 Highlights
- 02 Chairman's and Chief Executive Officer's Joint Review

Financial Statements

- 05 Consolidated Statement of Comprehensive Income
- 06 Consolidated Statement of Changes in Equity
- 07 Statement of Financial Position
- 08 Cash Flow Statement
- 09 Notes to the Interim Financial Report
- IBC Investor Information

Nanoco Group plc (AIM: NANO), a world leader in the development and manufacture of cadmium- free quantum dots, is pleased to announce its interim results for the six months ended 31 January 2013.

○ Highlights

○ Licensing agreement signed with Dow

Worldwide licensing agreement signed with The Dow Chemical Company ("Dow") for exclusive rights to manufacture and market Nanoco cadmium-free quantum dots for the display industry.

○ Follow-on agreement with Osram

Follow-on joint development agreement signed with Osram to finalise the design of an LED using Nanoco cadmium-free quantum dots in lighting.

○ Development agreement with Tokyo Electron

Follow-on agreement signed with Tokyo Electron for the next phase of development of a nanomaterial-based solar film.

○ Further investment in production scale-up

Production scale-up continued with plans to double Semi-Tech capacity at Runcorn and Dow to build plant in Asia.

○ Cash balances of £12.5 million

Cash, cash equivalents and deposits as at 31 January 2013 of £12.5 million (31 July 2012: £15.5 million).

Our worldwide licensing agreement with The Dow Chemical Company is transformational for Nanoco.

Overview

The six months to 31 January 2013 were an exciting period in the development of Nanoco, culminating in the signing of a worldwide licensing agreement with The Dow Chemical Company ("Dow"). This exclusive agreement, for the manufacture and marketing of Nanoco's cadmium-free quantum dots for use in electronic displays, represents a major endorsement of Nanoco's unique technology, scalability and market potential. In addition, this agreement represents a significant step in the emergence of quantum dots as a mainstream material in the consumer electronics industry.

The agreement with Dow has major strategic and commercial benefits for Nanoco, including strengthening the Company's manufacturing strategy. Dow is already a major supplier to the global display industry and has close relationships with major customers in the LCD industry. It has a large manufacturing footprint in Asia, producing critical electronic materials to tight tolerances.

In our preliminary results issued in October last year, we highlighted a trend in which the emerging technical approach for combining our cadmium-free quantum dots into LCD displays is by means of incorporating the quantum dots into a film, which would be inserted into the backlight component of the display. This approach, which is one of a number that might be adopted, requires a very substantial quantity of quantum dots. Our agreement with Dow will enhance the security of the supply chain to our customers.

In addition to progressing our manufacturing strategy, we also made progress in the first half with our commercial contracts across the three key sectors of LCD displays, lighting and solar energy.

In October, we signed a follow-on joint development agreement in lighting with one of the world's largest lighting companies, whose identity we can reveal

today as being Osram. We are excited to be working with Osram and with other leading lighting companies.

In November, we signed a further agreement with Tokyo Electron for the on-going development of a printable, nanomaterial-based solar film. We are moving closer to our target for creating a low cost high efficiency solar cell capable of generating electricity for around US\$0.50 a watt.

We continued to build the Company's infrastructure and patent estate during the first half, along with recruiting further staff in technical, manufacturing and commercial roles. Nanoco's headcount at the end of the first half was 78, compared with 61 a year earlier.

Our business development activities remain focused on Korea, the USA, Japan, China and Taiwan. We are in discussions with multiple potential customers in these countries.

We have progressed plans to extend our Semi-Tech facility at The Heath Technology Park in Runcorn by acquiring further laboratory space adjacent to our existing laboratories and have begun to fit out and install further Semi-Tech lines to double our capacity to deliver production validation materials for customers.

We have also continued to file patents at a significant rate to build out our patent estate. Our intellectual property covers four key areas: our proprietary process for the mass production of cadmium-free quantum dots; cadmium-free quantum dot materials; surface chemistry; and applications/devices.

We continue to manage the Company's cash resources very prudently and maintain our focus on the successful commercialisation of Nanoco's unique technology.

Manufacturing strategy and production scale-up

In our preliminary results issued in October, we said that we were reviewing our strategic manufacturing options in the light of the much larger quantities of cadmium-free quantum dots that are expected to be required by the LCD display industry. These quantities are likely to be very substantial and, in order to satisfy market demand quickly, we decided that it was essential to partner with a global organisation with manufacturing and marketing expertise in the consumer electronics industry.

On 23 January 2013, we were delighted to announce a worldwide licensing agreement with Dow – specifically with its Dow Electronic Materials division. We believe Dow is an ideal partner in that it has production expertise, market knowledge, customer relationships and a manufacturing footprint in Asia.

Under the terms of the agreement, Dow will have exclusive worldwide rights for the sale, marketing and manufacture of Nanoco's cadmium-free quantum dots for use in electronic displays. Initially, these will be LCD displays such as TVs, computer screens, tablets and smartphones.

Nanoco will receive royalty payments from Dow related to its sales of cadmium-free quantum dots, with the royalty rate reflecting the unique value of our technology.

Dow already manufactures demanding materials in Asia for the region's electronics industry. It is anticipated that Dow will build the first cadmium-free quantum dot manufacturing lines at its existing facilities in the region, beginning with a facility based on Nanoco's Kilo Lab design. Dow's experience of manufacturing scale-up is another key benefit of our licensing agreement and it is expected that full commercial production will begin in 2014.

Since signing the agreement, we have been working with Dow to secure the first customers in the display industry for Dow-manufactured Nanoco cadmium-free quantum dots. These discussions with key display customers are progressing well.

We believe that Nanoco cadmium-free quantum dots will set a new standard in the LCD display industry owing to their ability to significantly improve the colour performance of LCD displays, both cost effectively and whilst avoiding the use of heavy metals.

Today LCD displays are the dominant display technology in the large display market. Over the years LCD technology has improved and been optimised to stay ahead of competing display technologies. Nanoco's cadmium-free quantum dot technology dramatically improves the colour performance of the LCD display further enhancing the user's viewing experience.

In response to a growing level of customer activity and to support Dow we have secured additional space at Runcorn and are in the process of installing further Semi-Tech lines to double our capacity to produce large samples of production quality, cadmium-free quantum dots.

Commercial contracts

Our commercial activities have progressed well during the half year. We signed two new follow-on agreements, one in lighting and one in solar energy, and have also progressed our relationships in the LED backlighting of LCD displays.

Lighting

In October we signed a follow-on joint development agreement in lighting with Osram, one of the world's largest lighting companies. The objective of this agreement is to finalise the design and manufacture of an LED incorporating Nanoco cadmium-free quantum dots for use in different lighting applications and we are excited to be working with Osram's technical teams in the USA and Germany on this project.

The use of red Nanoco cadmium-free quantum dots with LEDs for home and office lighting has two key benefits: allowing the lighting company to "tune" the shade of white light produced and improving the colour rendering index so that true colours are seen.

“The licensing agreement with Dow represents a major endorsement of Nanoco's technology, scalability and market potential.”

Solar energy

In December we signed a follow-on agreement with Tokyo Electron, the major Japanese equipment supplier, for the on-going development of a nanomaterial-based solar film. A bespoke solar ink, developed by Nanoco, is printed to form the solar active film, which is designed to become the key part of a low cost solar cell.

Our solar cell efficiencies have continued to improve and we are moving closer to the target for creating a low cost, high efficiency solar cell.

Nanoco will receive milestone payments from Tokyo Electron under this third phase of development work, which will continue to focus on improving the efficiency of conversion of solar energy to electricity.

Other applications

Work continues on other applications for our quantum dots including bio-medical imaging.

Financial results

Revenues in the six months to 31 January 2013 were £2.54 million (H1 2012: £1.32 million) and the loss before tax was £1.60 million (H1 2012: loss of £2.36 million). At this stage in the Company's development, revenues are primarily a reflection of the amount and timing of milestone and joint development payments from strategic partners. Revenues included US\$1.0 million (£0.63 million) payable by Dow on signing the licensing agreement in January 2013.

Cost of sales remained in line with the same period in the prior year. Administrative expenses have risen by £476,000 primarily as a consequence of an increase of £240,000 in the IFRS2 (share-based payment charge) and an increase of £235,000 in staff costs, a result of recruiting additional technical staff. The IFRS2 (share-based payment) charge in respect of share schemes totalled £395,000 (H1 2012: £155,000). This increase

reflects the Company's policy to incentivise and retain staff through the use of equity-settled share awards, with annual awards being made to all staff.

Statutory cash, cash equivalents and deposits, at 31 January 2013 were £12.5 million (31 January 2012: £14.4 million; 31 July 2012: £15.5 million). Both cash and costs continue to be tightly managed.

Outlook

Our recent worldwide licensing agreement with The Dow Chemical Company is transformational for Nanoco. It represents a major endorsement of the Company's technology, scalability and market potential, and addresses the manufacture of the much larger quantities of our quantum dots that we now expect to be required by the LCD display industry. We expect full commercial production under this agreement to begin in 2014.

We continue to make good progress across our business and look forward to the future with confidence.



Peter Rowley

Non-Executive Chairman
18 March 2013



Michael Edelman

Chief Executive Officer
18 March 2013

Consolidated Statement of Comprehensive Income

For the six months ended 31 January 2013

	Notes	Six months to 31 January 2013 (Unaudited) £'000	Six months to 31 January 2012 (Unaudited) £'000	Year to 31 July 2012 (Audited) £'000
Revenue	2	2,541	1,321	2,948
Cost of sales		(586)	(597)	(1,165)
Gross profit		1,955	724	1,783
Administrative expenses		(3,718)	(3,242)	(6,442)
Operating loss				
– before share-based payment		(1,368)	(2,363)	(4,294)
– share-based payment		(395)	(155)	(365)
		(1,763)	(2,518)	(4,659)
Finance income		165	158	317
Finance costs		(3)	(4)	(8)
Loss on ordinary activities before taxation		(1,601)	(2,364)	(4,350)
Taxation	3	400	343	710
Loss for the period and total comprehensive loss for the period		(1,201)	(2,021)	(3,640)
Loss per share:				
Basic loss per share for the period	4	(0.59)p	(1.00)p	(1.80)p

Consolidated Statement of Changes in Equity

For the six months ended 31 January 2013

	Issued equity capital £'000	Share-based payment reserve £'000	Merger reserve £'000	Revenue reserve £'000	Total equity £'000
At 1 August 2011	27,427	486	(1,242)	(6,512)	20,159
Loss for the six months to 31 January 2012	–	–	–	(2,021)	(2,021)
Issue of share capital	53	–	–	–	53
Expenses of 2011 placing	(10)	–	–	–	(10)
Share-based payments	–	155	–	–	155
At 31 January 2012	27,470	641	(1,242)	(8,533)	18,336
Loss for the six months to 31 July 2012	–	–	–	(1,619)	(1,116)
Issue of share capital	5	–	–	–	5
Share-based payments	–	210	–	–	210
At 31 July 2012	27,475	851	(1,242)	(10,152)	16,932
Loss for the six months to 31 January 2013	–	–	–	(1,201)	(1,201)
Issue of share capital	215	–	–	–	215
Share-based payments	–	395	–	–	395
At 31 January 2013	27,690	1,246	(1,242)	(11,353)	16,341

Statement of Financial Position

As at 31 January 2013

	31 January 2013 (Unaudited) £'000	31 January 2012 (Unaudited) £'000	31 July 2012 (Audited) £'000
Assets			
Non-current assets			
Tangible fixed assets	2,490	2,804	2,596
Intangible assets	1,123	949	1,042
	3,613	3,753	3,638
Current assets			
Inventories	51	67	79
Trade and other receivables	1,587	1,451	762
Income tax asset	1,054	924	654
Short-term investments and cash on deposit	10,653	9,838	11,119
Cash and cash equivalents	1,877	4,558	4,355
	15,222	16,838	16,969
Total assets	18,835	20,591	20,607
Liabilities			
Current liabilities			
Trade and other payables	2,241	1,939	3,390
Financial liabilities	63	63	63
	2,304	2,002	3,453
Non-current liabilities			
Financial liabilities	190	253	222
Total liabilities	2,494	2,255	3,675
Net assets	16,341	18,336	16,932
Capital and reserves			
Issued equity capital	27,690	27,470	27,475
Share-based payment reserve	1,246	641	851
Merger reserve	(1,242)	(1,242)	(1,242)
Revenue reserve	(11,353)	(8,533)	(10,152)
Total equity	16,341	18,336	16,932

Approved by the Board and authorised for issue on 18 March 2013.

Colin White

Director

Cash Flow Statement

For the six months ended 31 January 2013

	Six months to 31 January 2013 (Unaudited) £'000	Six months to 31 January 2012 (Unaudited) £'000	Year to 31 July 2012 (Audited) £'000
Loss before interest and tax	(1,763)	(2,518)	(4,659)
Adjustments for:			
Depreciation of tangible fixed assets	417	423	849
Amortisation of intangible assets	71	58	122
Share-based payments	395	155	365
Changes in working capital:			
Decrease in inventories	28	13	1
Increase in trade and other receivables	(733)	(1,044)	(429)
Increase in trade and other payables	125	354	533
(Decrease)/increase in deferred revenue payables	(1,274)	(56)	1,216
Cash outflow from operating activities	(2,734)	(2,615)	(2,002)
Interest paid	(3)	(4)	(8)
Research and development tax credit received	–	–	637
Net cash outflow from operating activities	(2,737)	(2,619)	(1,373)
Cash flows from investing activities:			
Purchases of tangible fixed assets	(311)	(74)	(292)
Purchases of intangible fixed assets	(152)	(179)	(336)
Decrease in cash placed on deposit	466	2,177	896
Interest received	73	158	391
Net cash inflow from investing activities	76	2,082	659
Cash flows from financing activities:			
Net proceeds from the issue of ordinary share capital	215	53	58
Expenses of 2011 placing	–	(10)	(10)
Loan repayment	(32)	(32)	(63)
Net cash inflow/(outflow) from financing activities	183	11	(15)
Decrease in cash and cash equivalents	(2,478)	(526)	(729)
Cash and cash equivalents at the start of the period	4,355	5,084	5,084
Cash and cash equivalents at the end of the period	1,877	4,558	4,355
Monies placed on deposit	10,653	9,838	11,119
Cash, cash equivalents and deposits at the end of the period	12,530	14,396	15,474

Notes to the Interim Financial Report

For the six months ended 31 January 2013

1. Accounting policies

Basis of preparation

The accounting policies adopted in this interim financial report are consistent with those followed in the preparation of the Group's annual report and accounts for the year to 31 July 2012. The interim financial information for the six months ended 31 January 2013 and 31 January 2012 is unaudited and does not constitute statutory accounts as defined in the Companies Act 2006. This interim financial report includes audited comparatives for the year to 31 July 2012. The 2012 annual report and accounts received an unqualified audit opinion and has been filed with the Registrar of Companies. This interim financial report has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and have been prepared under the historical cost convention.

Basis of consolidation

This interim financial report consolidates the financial statements of Nanoco Group PLC and the entities it controls (its subsidiaries).

2. Segmental information

Operating segments

At 31 January 2013 the Group operated as one segment, being the provision of high performance nanoparticles for research and development purposes. This is the level at which operating results are reviewed by the chief operating decision maker (i.e. the CEO) to make decisions about resources, and for which financial information is available. All revenues have been generated from continuing operations and are from external customers.

	Six months to 31 January 2013 £'000	Six months to 31 January 2012 £'000	Year to 31 July 2012 £'000
Analysis of revenue			
Products sold	66	101	134
Rendering of services	1,307	728	1,557
Royalties and licences	1,168	492	1,257
	2,541	1,321	2,948

Notes to the Interim Financial Report (continued)

For the six months ended 31 January 2013

Geographical information

The Group operates in four main geographic areas, although all are managed from the UK. The Group's revenue per geographical segment is as follows:

	Six months to 31 January 2013 £'000	Six months to 31 January 2012 £'000	Year to 31 July 2012 £'000
Analysis of revenue			
UK	122	94	182
Europe (excluding UK)	653	96	124
Asia	1,690	1,086	2,542
USA	76	45	100
	2,541	1,321	2,948

All the Group's assets are held in the UK and all of its capital expenditure arises in the UK.

3. Tax

The tax credit of £400,000 recorded in the consolidated statement of comprehensive income for the six months ended 31 January 2013 (£343,000 for the six months ended 31 January 2012) is in respect of a research and development tax credit receivable, as is the tax credit of £710,000 for the year ended 31 July 2012.

4. Loss per share

	31 January 2013 £'000	31 January 2012 £'000	31 July 2012 £'000
Loss for the financial period attributable to equity shareholders	(1,201)	(2,021)	(3,640)
Share-based payments	395	155	365
Loss for the financial period before share-based payments	(806)	(1,866)	(3,275)
Weighted average number of shares:	No.	No.	No.
Ordinary shares in issue*	204,024,647	202,199,473	202,661,900
Adjusted loss per share before share-based payments (pence)	(0.40)p	(0.92)p	(1.62)p
Basic loss per share (pence)	(0.59)p	(1.00)p	(1.80)p

*Excludes shares held by the Nanoco Employee Benefit Trust.

Diluted loss per share has not been presented above as the effect of share options issued is anti-dilutive.

Notes to the Interim Financial Report (continued)

For the six months ended 31 January 2013

5. Interim financial report

A copy of this interim financial report will be distributed to shareholders and is also available on the Company's website at www.nanocotechnologies.com

Directors

Dr Peter Rowley
(Non-Executive Chairman)

Dr Michael Edelman
(Chief Executive Officer)

Dr Nigel Pickett
(Chief Technology Officer)

Mr Colin White
(Chief Financial Officer)

Mr Michael Bretherton
(Non-Executive Director)

Mr Gordon Hall
(Non-Executive Director)

St Gabrielle LLP
(Non-Executive Director)
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Mr Colin White

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Registrars

The Company's share register is maintained on our behalf by Neville Registrars. Neville are responsible for updating the register, including changes to shareholders' addresses, purchases and sales of the Company's shares.

If you have any questions about your shareholding or need to notify any changes to your personal details please contact them:

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