

Annual Report and Accounts 2017

A BRIGHT FUTURE



A BRIGHT FUTURE... THE FUTURE IS CFQD®

Nanoco Group plc is a world leader in the research, development and large-scale manufacture of cadmium and heavy-metal-free quantum dots and semiconductor nanoparticles.

Strategic report

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Find out more about us online at
www.nanocotechnologies.com

Forward-looking statements

The disclosures in this Annual Report for Nanoco Group plc ("the Company") and its subsidiaries ("Nanoco" or "the Group") contain certain forward-looking statements. Although the Board believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will arise. Because the expectations are subject to risks and uncertainties, actual results may vary significantly from those expressed or implied by the forward-looking statements based upon a number of factors. Such forward-looking statements include the statements under "Outlook", prospects and the commercial success of our CFQD® applications and other existing or future revenue-generating sources, risks related to the Group's ability or that of its sub-contractors and partners to manufacture products on a large scale or at all, risks related to the Group's and its marketing partners' ability to market products on a large scale or expand market share in the face of changes in customer requirements, competition and regulatory and technological change, risks related to the ownership and use of intellectual property, and risks related to the Group's ability to manage growth. Nanoco undertakes no obligation to revise or update any forward-looking statement to reflect events or circumstances after the date of the Annual Report.



HIGHLIGHTS

Display

- Hybrid commercial model in display established: direct sales of own manufactured product and multiple non-exclusive licences
- Ten-fold increase in manufacturing capacity at Runcorn and reduction in product costs
 - First commercial sales orders received
 - Substantial pipeline of commercial opportunities – focused on television and monitor projects with near term potential
 - Signed development and commercialisation deal with Kyulux focused on CFQD/OLED hybrid display
 - Operating cost base reduced significantly

Solar

- Decision taken to divest and process ongoing

Life sciences and Lighting

- New grant awarded for work on pancreatic cancer and excellent progress made in research in medical applications

Financial results

- Revenue and other operating income for the year was £1.6 million (2016: £0.8 million) and the loss after tax was £9.1 million (2016: £10.6 million)
- Cash and cash on deposit at 31 July 2017 was £5.7 million (2016: £14.5 million)

Cash and short-term deposits		Revenue	
2017	2016	2017	2016
£5.7m	£14.5m	£1.3m	£0.5m
Loss after tax		Total billings*	
2017	2016	2017	2016
£9.1m	£10.6m	£1.1m	£1.9m

* "Total billings" is the sum of invoices raised for revenue, other operating income and deferred revenue (see page 23 for reconciliation to income statement).

Post balance sheet events

- Net proceeds of £8 million following a placing in November 2017 significantly strengthens cash balance and removes immediate going concern issues
- Successful exhibition of televisions containing Nanoco Fine Color Film™ at Touch Taiwan
- In September 2017, a Commercial Supply and License Agreement was finalised with a US corporation in the field of medical devices for the treatment of pain, soft tissue injury and dermatological conditions such as acne and skin anti-ageing

AT A GLANCE

ILLUMINATING OUR TECHNOLOGY

WHAT WE DO

We are focused on continually developing and scaling up CFQD[®] quantum dots that are fit for purpose across large addressable markets. Our ability to innovate keeps us at the cutting edge of technology.

SOLAR

Printable CIGS solar cell
Non-core assets
Divesting

LIFE SCIENCES

Cancer imaging, diagnostics, therapy
Image guided surgery
Excellent proof of principle data
Partnership with University College
London and Cancer Research UK
Grant funded

DISPLAY

Near-term revenue
Multi-channel strategy
Own production
Wah Hong sale and licence
Dow and Merck technology licence

LIGHTING

Direct sales of own manufactured product
Specialised lighting focus
Horticulture
Phototherapy

REASONS TO INVEST

We have led the development of CFQD technology with rapid improvements in quality, performance and yield.



WHERE WE DO IT

Nanoco is a global business with its headquarters in Manchester, where the Group’s R&D activities are based. Nanoco’s team totals around 80 people, most of whom are highly qualified scientists recruited from countries all around the world.



CHAIRMAN'S STATEMENT

MAKING STRONG PROGRESS

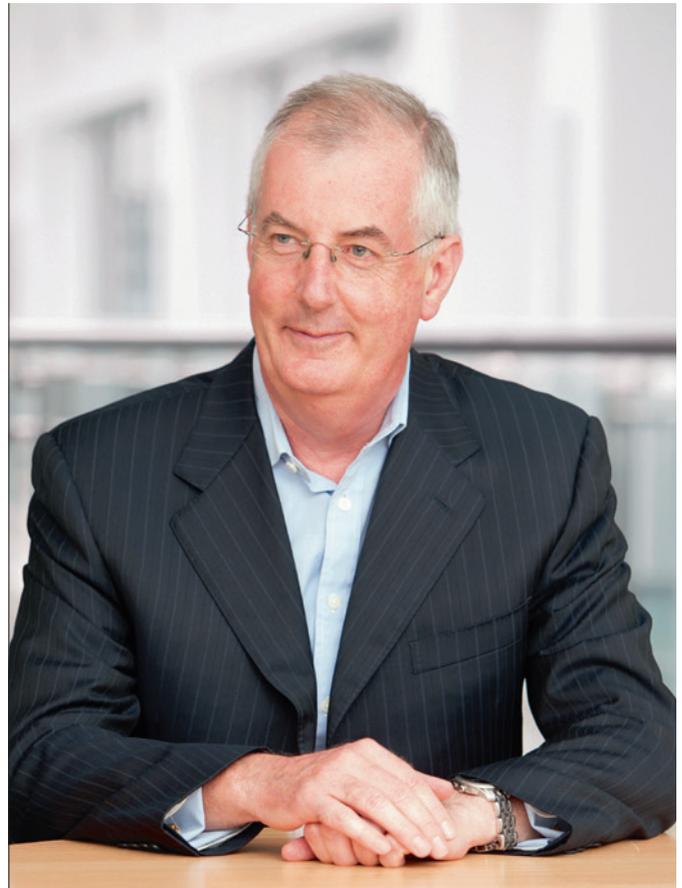
I am confident about the relevance of our technology
in display and other markets.

Summary

- An increasing number of manufacturers are now producing demonstration displays incorporating our technology.
- We now have the supply chain and the technology to support the development of the emerging market in CFQDs for the display industry.

Introduction

It is a pleasure to introduce Nanoco's results for the year to 31 July 2017. This has been a challenging year, with slower than anticipated adoption of the Company's cadmium-free quantum dots ("CFQDs") in the display industry. However, significant progress has been made in developing demand for our CFQDs; an increasing number of manufacturers are now producing demonstration displays incorporating our technology and we are confident that sales will result as these move into commercial production. We are also making good progress in Life sciences and Specialised lighting. The slower than expected progress in Display and the Company's funding horizon have both had a detrimental impact on the Company's share price. I am pleased to say that the recent announcement of an equity placing has alleviated liquidity concerns.



Following the change in commercial strategy in the previous financial year, substantial changes were made in the business during this year, which have created the building blocks for future commercial success. The Company has a compelling go-to-market strategy, with a partnership with Taiwan's Wah Hong Industrial Corporation ("Wah Hong"), alongside its two licensees, The Dow Chemical Company ("Dow") and Merck KGaA ("Merck"). These routes to market are supported by the Company's own manufacturing facility in Runcorn. We now have the supply chain and the technology to support the development of the emerging market in CFQDs for the display industry.

The recent move by the European Commission to ban cadmium in displays in Europe from 31 October 2019 is helping to accelerate adoption of the technology and the demonstration by major television manufacturers of displays featuring Nanoco's CFQDs is further evidence of this adoption.

While our focus in 2017 has been on the display market, Nanoco's technology has several important applications beyond that sector. Important progress was made during 2017 in two of the Group's three other target markets: life sciences and specialised lighting. Of particular note, the life sciences business was awarded an Innovate UK grant. In addition, after the year end, a commercial supply and license agreement was won from a US medical device company for light therapy products for the treatment of pain, soft tissue injury and dermatological conditions such as acne and skin anti-ageing. This underlines the value being built beyond Display and highlights the future potential in these other areas.

The Board has decided that the Solar assets are non-core and has commenced a process to divest these assets.

Over the year the Board made tough decisions to reduce costs which has led to a substantial reduction in headcount, the main expense of the business. During the period, average employee numbers reduced to 110 (2016: 129) and have fallen further to approximately 80 since the year end. However, that headcount reduction has not impacted the Group's ability to manufacture product and sell its technology or its ability to develop next generation IP and product.

Financial performance

Revenues and other operating income in the year to 31 July 2017 were £1.6 million (2016: £0.8 million) and the loss before tax was £10.9 million (2016: loss before tax of £12.6 million).

The Group continued to exercise careful cost control during the year. Cash, cash equivalents and deposits at the year end were £5.7 million (31 July 2016: £14.5 million; 31 January 2017: £8.3 million). Cash balances have increased post year end as a consequence of the equity raise in November 2017 of £8.0 million net of expenses. No dividend is proposed for the year (2016: none).

Governance and Board

The Board recognises the value of meeting the highest standards of corporate governance and will continue to strive to achieve such standards for the benefit of all stakeholders.

Gordon Hall retired as a Non-executive Director of Nanoco on 31 January 2017, after eight years on the Board. Robin Williams stood down from the Board in July 2017 after three years with the Company as a Non-executive Director. We would like to thank both Gordon and Robin for their contribution to the business.

In April 2017 we announced the appointment of Dr Alison Fielding as a Non-executive Director. Alison brings an exceptional breadth of relevant skills to the Nanoco Board, with her background in chemistry and her extensive commercial, financial and international experience across the technology sector.

Employees and shareholders

On behalf of the Board, I would like to thank all of Nanoco's employees for their achievements during the year and for their commitment to the Group. Nanoco benefits from an exceptional, multi-national team and the Board is enormously appreciative of its contributions and loyalty in what has been a challenging period.

I would also like to thank our shareholders for their continuing support and look forward to meeting as many as possible at our AGM to be held on 12 January 2018.

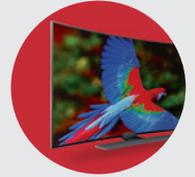
Outlook

I am confident about the relevance of our technology in display and other markets as well as our ability to execute and deliver orders and sales and I remain positive about the prospects for the Group.

Dr Christopher Richards

Chairman

16 November 2017



FOCUS ON
TV AND MONITOR
PROJECTS WITH

NEAR TERM
POTENTIAL



Read about our
business model
Pages 10-11

Read about
our strategy
Pages 14-15

CHIEF EXECUTIVE OFFICER'S STATEMENT

ENHANCING OUR EXPERTISE

We have made substantial changes in our approach to the business which underpin our confidence in future success.

Summary

- We have developed a substantial pipeline of commercial opportunities in Display and in June secured the important milestone of our first commercial sales orders.
- New production methods have achieved a substantial reduction in costs while increasing the productivity of installed capacity.

Overview

While the Group has not met the commercial targets we set ourselves a year ago, we have made substantial changes in our approach to the business which underpin our confidence in future success. We have implemented an enhanced go-to-market strategy, invested in manufacturing capability and received our first commercial sales orders, all against a backdrop of growing global interest in our technology.

The evolution in marketing strategy for the display industry, initiated in 2016, has enabled the Group to accelerate the roll-out of its technology. We have moved from an exclusive licensing model with Dow to a hybrid model, combining multiple non-exclusive licenses with direct sales of own manufactured product. In August 2016, we announced that we had signed up Merck as a second licensee of our technology.



We also developed our own channel to market for product manufactured at our facility in Runcorn, UK, and sold via our Taiwanese partner Wah Hong (referred to as "our direct partner"). We now have a three-pronged go-to-market strategy which will enable us to capitalise on the expected demand for our CFQDs. During the year, in conjunction with Wah Hong, we have developed a substantial pipeline of commercial opportunities in Display and in June secured the important milestone of our first commercial sales orders. We remain very excited about the potential for our technology both in Display and in our emerging Life sciences and Specialised lighting developments.

Display market

The market in display for CFQDs continues to grow, driven by the increasing appetite for enhanced colour and brightness and the penetration of ultra-high-definition ("UHD") TVs. IHS Technology ("IHS") forecasts 26 million displays will be quantum dot ("QD") equipped by 2021, with more than 90% of the market cadmium free. Samsung, with its QLED brand, is leading the field and sold more than 3 million QD displays in 2016. Other than Samsung, the market for quantum dot displays is still in its infancy although the introduction of UHD TV and media-centric monitor products will drive growth in the markets.

While other display OEMs are embracing CFQD technology, adoption continues to be slow due somewhat to protracted regulatory initiatives to restrict the use of cadmium. However, in early August 2017, the European Commission announced legislation, which passed into law in October 2017, banning the use of cadmium in displays from 31 October 2019, which we expect to accelerate the shift to CFQDs. Several major Taiwanese and Chinese display and TV manufacturers are now actively seeking CFQD solutions, where Nanoco continues to have a competitive lead.

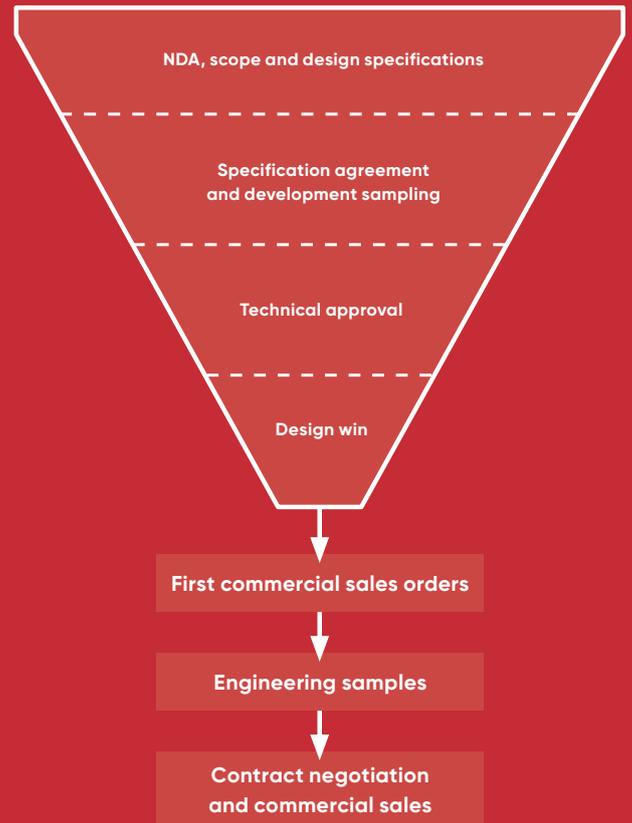
Commercialisation

Nanoco's CFQDs are now being manufactured at Nanoco's Runcorn facility and at Dow's large manufacturing plant in Cheonan, South Korea, while Merck is also evaluating the establishment of a manufacturing facility. These sites will manufacture CFQDs, blend them into a resin system and supply the combined CFQD resin system to multiple display integrators located across Asia. Samsung is the market leader in CFQD display at present and Nanoco and our licensees are all actively marketing Nanoco technology to the global display industry to compete effectively with Samsung.

Commercialisation – Runcorn

Nanoco's Runcorn manufacturing facility has been extensively enhanced to meet anticipated demand. New production methods have achieved a substantial reduction in costs while increasing the productivity of installed capacity. Runcorn now has the capacity to produce enough CFQDs to supply approximately 1 million large TVs per annum. Further capacity can be achieved with limited capital expenditure and will be brought online as demand increases.

OUR GROWING DIRECT SALES PIPELINE



As a result of promotion activities (e.g. conferences) and outreach, customer enquiries are screened and prioritised before entering into a mutual non-disclosure agreement ("NDA") – this is the start of our sales pipeline. Following detailed technical discussions to establish the customer specification and Nanoco film solution options, an iterative program of work is undertaken. This involves computer simulation modelling and multiple film samples to best fit the customer's display system. When technical approval is achieved, the customer's "product team" presents the new device in demonstrator form to their business management or customers. If they decide to proceed to market, and launch the product, we are awarded a "Design Win". What follows is the "kick-off" of a qualification process involving validation steps and engineering samples of increasing quantity, building to mass production and contracted supply – this whole process has no defined timescale, can be very lengthy and is not within our control.

CHIEF EXECUTIVE OFFICER'S STATEMENT CONTINUED

Commercialisation continued

Commercialisation – Runcorn continued

We were pleased to announce in December 2016 that the Company had been awarded ISO 9001:2015 certification for our production and supply processes, underlining the robust nature of our systems.

Commercialisation – Wah Hong

Wah Hong, which is quoted on the Taipei Exchange, is our partner for the production and sale of our Fine Color Film™. We chose to partner with Wah Hong as it is one of the world's largest manufacturers of optical films and sheets for the display industry and has a large operational footprint across China, Taiwan and Southeast Asia. We have benefited from its industry and supply chain knowledge and customer contacts since signing the agreement in July last year. Under the agreement, Nanoco will supply resins containing CFQDs from our manufacturing facility in Runcorn and Wah Hong will incorporate the resin into a film, under Nanoco's CFQD® Fine Color Film™ brand, and sell to the display industry. We will generate revenue from the sale of resin to Wah Hong and receive a licence fee from Wah Hong based on its sales and two further milestone payments dependent on the volume of film sold.

The Group's relationship with Wah Hong has progressed well over the period. Product from Nanoco/Wah Hong was used by three manufacturers, Hisense, TCL and TPV Philips, at CES in January 2017, to demonstrate prototype large screen, UHD, wide colour gamut LCD TVs. Feedback and lead generation from CES were encouraging and further validated the market opportunity. As a result, Wah Hong brought forward its investment in a new coating line which is now commissioned and capable of producing films to fit up to 100-inch TVs. These developments resulted in Wah Hong placing the first commercial orders for CFQDs from Nanoco in June 2017.

In September 2017, Nanoco's technology was featured at Touch Taiwan 2017, a leading show for the world's display industry, where major global television manufacturers showcased state-of-the-art 4K and 8K UHD products incorporating Nanoco's CFQD® Fine Color Film™.

At the Display Innovation Conference, which ran alongside Touch Taiwan 2017, Nanoco's Senior Vice President of Global Sales gave a presentation on the growing demand from manufacturers and consumers for quantum dots as a method of achieving wider colour gamut and enhanced picture quality in the next generation of displays.

The trade show further validated the growing interest in state-of-the-art TVs and monitors incorporating CFQDs to enhance colour performance.

Over the last year we have developed a very active pipeline of sales opportunities (see sales pipeline on page 7). The Group's key short-term focus is on TV and monitor projects with near term potential. Moving projects through the sales pipeline into commercial sales takes



3.2
MILLION CFQD
TVs SOLD IN 2016

24
MILLION DISPLAYS
WILL BE CADMIUM-
FREE BY 2021



**Read about
our markets
Pages 12-13**

**Read about our
sustainability
Pages 25-31**

many months of intensive work. Each customer has its own requirements and it is difficult to predict how long customers' processes will take to reach mass production status. Nanoco/Wah Hong will continue to develop further opportunities in the future.

Commercialisation – Dow

Nanoco signed an exclusive licence agreement with Dow in January 2013 for Dow to manufacture, market and sell Nanoco's heavy-metal-free quantum dots into the display market. Last year Dow and Nanoco agreed to amend the licensing agreement from exclusive to non-exclusive. Dow sells product under the TREVISTA™ brand, manufactured in its facility in South Korea. We generate royalty revenue from Dow calculated as a percentage of Dow's sales of Nanoco CFQDs.

Dow continues to see growing interest in CFQDs and is making good progress with several Display customers considering movement to quantum dot technology.

Commercialisation – Merck

Merck is the leading German science and technology company focused on healthcare, life sciences and performance materials, and the manufacturer of approximately 60% of the world's liquid crystals used in liquid crystal displays. Nanoco will generate revenue from sales made by Merck from licence fees and royalties on Merck manufactured sales.

Nanoco has completed the transfer of its technology to Merck, which has successfully produced pilot plant scale quantities of CFQDs at its facility in Darmstadt, Germany. Merck is carefully watching the development of the CFQD market and will continue to purchase CFQD products from Nanoco until it decides to build its own manufacturing facility. Merck is actively engaged with its potential customers on various CFQD application projects and sells under the Livilux® brand.

Commercialisation – staying ahead of the technology curve

In May 2017 Nanoco signed a collaboration and joint development agreement ("JDA") with Kyulux Inc. Under the agreement, Nanoco's CFQDs will be combined with Kyulux's technology to create future generation hybrid OLED/QLED display technology with superior qualities to existing products in the display market.

Nanoco also strengthened its intellectual property in electroluminescence with the acquisition of a patent portfolio from Kodak Eastman. The Group now benefits from c. 600 patents and patent applications.

These activities will ensure that Nanoco remains at the forefront of next generation products for the display industry.

Other markets

While display was the Group's primary focus during the year, Nanoco continued to develop its other target markets of life sciences and specialised lighting. The Board has decided that the solar assets are non-core and the divestment process is progressing with discussions currently ongoing with interested parties.

Other markets – life sciences

Nanoco Life Sciences ("NLS") is led by Dr Imad Nassani, who joined Nanoco in 2009 and is one of the pioneers of the use of quantum dots in the sector. Quantum dots have favourable optical and physical properties compared with organic dyes and radioisotopes, but their use in medical applications has been hindered due to the presence of cadmium. Because Nanoco's quantum dots are free of cadmium, they can be used in the human body in, for example, cancer diagnosis and surgical imaging. The initial focus of the division is on illumination of cancerous tumours to facilitate their surgical removal and then, with further development, cancer diagnosis. The NLS team has made great strides in the development of safe and clinically acceptable quantum dot nanomaterials based on the Company's heavy-metal-free quantum dot technology.

The promising outcome from our efforts may be used to develop quantum dot probes for the early detection of aggressive tumours such as pancreatic and bladder cancers. This, in addition to our burgeoning relationships with commercial and research institutions at the cutting edge of the battle against cancer, shows the scope of our ambition and the value of our technology.

We are now working to prepare the technology for clinical trials. To date Nanoco's life sciences efforts have been grant funded. In early July 2017, we announced that we had been awarded an Innovate UK grant for a VIVODOTS™ programme in conjunction with University College London targeting pancreatic cancer.

In September 2017, we announced that we had signed a Commercial Supply and License Agreement with a US corporation in the field of medical devices. Nanoco will supply film product and other technologies for light therapy products for the treatment of pain, soft tissue injury and dermatological conditions such as acne and skin anti-ageing.

Other markets – specialised lighting

Nanoco's CFQDs can tune the colour of light emitted by LEDs such that any particular shade of light can be produced by tailoring the wavelength. This ability to fine-tune the colour of light has very broad applications, such as the use of LEDs in homes and offices and in specific, niche applications where a particular wavelength of light is required.

Nanoco's commercial strategy in lighting is to focus on niche lighting applications which take advantage of quantum dots' unique properties. Lighting products for the horticulture and photodynamic therapy industries are being developed with partners and continue to make headway in line with management's expectations.

Restriction of Hazardous Substances ("RoHS")

In August 2017, as part of the RoHS Directive, the European Commission announced its decision to prohibit cadmium in TVs and displays sold in Europe from 31 October 2019. Cadmium in lighting products was prohibited immediately, although they are not commercially available. This was a much needed decision, which will provide market certainty as to the end date for cadmium to be used in TVs and other display products such as monitors. The RoHS Directive recognises cadmium as the most hazardous heavy metal. We believe that this legislation should accelerate the move from cadmium to cadmium-free QDs in TVs and displays and we are already seeing increased interest from the industry. The lack of a decision on the future of cadmium led to stronger than anticipated competition from non-CFQD solutions.

People

This has been a challenging year for the Company and I would like to take this opportunity to thank all staff for their hard work and commitment throughout the period.

Post-year end

In October 2017 we announced a placing of 19.99% of our issued share capital to raise £8.0 million net of expenses.

This fundraise significantly strengthens Nanoco's balance sheet and puts it on a strong footing for the opportunities ahead.

Outlook

The Group continues to make solid progress in commercialisation of CFQDs and expects to announce further progress from its healthy pipeline of projects. With the market developing more slowly than originally anticipated, we remain focused on careful management of costs ahead of the anticipated sales ramp-up. The Board remains confident that the opportunity for CFQDs, both in display and in other sectors, remains exciting and, moreover, that the Company has a competitive lead in this technology.

Dr Michael Edelman
Chief Executive Officer
16 November 2017



OUR BUSINESS MODEL

CONTINUED TECHNICAL DEVELOPMENT

Nanoco has a successful track record of innovation and is regarded as a world leader in the field of nanomaterials.

Our key resources and relationships

Our employees

Our people are one of our key differentiators in developing leading edge R&D and improvements in manufacturing utilising the combined skills, knowledge and expertise, thereby developing better products for our customers.

IP and technology

IP and technology is the foundation of the Company and one of its key assets. Our technology is heavily patented to secure its use for the Group. New IP and technology is continually generated for future use by the Group.

Financial resources

Following the recent placing, the Company's strengthened balance sheet is well placed to exploit the anticipated growth in revenues while continuing to invest in R&D to support future products.

Partner licensees

The licences in place with Dow, Merck and Wah Hong put the Company in a strong position to have multiple routes to the display market with significant capacity capable of achieving strong growth.

3

key licensees - Dow, Merck and Wah Hong

How we generate revenue

Operations

Nanoco's core activities are the generation and development of CFQD[®] quantum dot products involving the application of our proven intellectual property, technologies and expertise to a point where they can be turned into product, manufactured cost-effectively and distributed by the Group via chosen channel partners. The Group has recently expanded its Runcorn production capacity to provide high quality CFQD[®] quantum dot products to its customers.

Output and reinvestment

The products developed by Nanoco are based on innovative approaches and technologies that maximise the benefit of the capabilities, qualities and characteristics of our CFQD[®] quantum dots. In the display industry, the use of CFQD[®] quantum dot products enhances the colour gamut and energy efficiency of LCD TVs and other displays. We will continue to invest in research.

10x

increase in manufacturing capacity at Runcorn

Our key strengths

Resources

Development of successful CFQD® quantum dot products and other nano-materials is achieved by our highly skilled scientists applying specialist proprietary techniques and technologies to address market opportunities and customer needs. We use our existing financial resources to fund our developments along with grant income, where applicable. The potential for our products is significantly enhanced through our licensing agreements with major multi-national companies.

Expertise

We operate a comprehensive process to identify, screen and prioritise potential concepts for new products and technologies. This involves our own scientific and commercial teams, in collaboration with our partner licensees and customers. Our portfolio of issued patents and pending patent applications continues to grow annually. We supplement our in-house innovation, where appropriate, by in-licensing and, potentially, by targeted acquisition.

c. 600

patents granted/pending

How we create value

Customers

We assist customers in exploiting the full benefit of CFQD® quantum dot products in their displays in order to achieve wide colour gamut, energy efficiency and brightness thus significantly improving the customers' product offering.

Partners

We work with our partners to enable them to fully exploit our technology thereby maximising their opportunity to generate revenues and profits in a market that is forecast to grow rapidly.

Employees

We aim to:

- attract, develop and retain the best talent;
- recognise and reward success;
- value the diverse contributions of our people;
- create an environment where people feel trusted, safe, supported and healthy; and
- share values that reflect what matters to our people.

Shareholders

We are strongly positioned to compete in the display market. Our strategy in this market represents a strong growth opportunity by creating a highly scalable product offering whilst maintaining margins.

Whilst our focus is primarily on the display market at present, we fully expect our platform technology to address other markets once we succeed in the display market.

OUR MARKETS

CONTINUED GROWTH IN DISPLAY

The key market for our CFQD® technology at present and for the near future is the display sector.

The display market

- The display market includes: televisions, monitors, notebooks, tablets and smartphones
- Stronger demand for large ultra-high-definition ("UHD") and 8K panels could slow declining average selling prices
 - Global display demand could pick up after 2016 if global economy improves
 - Flat panel display ("FPD") area is expected to grow as demand for large TVs rises
- Samsung and LG were the major brands sold in 2016, followed by China's Hisense and TCL

This equates to a market opportunity for QD materials of \$400 million in 2021.



22.5M

QD TV shipments are forecast to grow from c. 4 million in 2016 to 22.5 million in 2021.

\$400M

46" +

Sales of medium and larger displays (46" and above) continue to grow.

NANOCO AWARDED GRANT FROM INNOVATE UK FOR MAJOR LIFE SCIENCES PROJECT

Nanoco has been awarded a major grant from Innovate UK, the UK's innovation agency, to support its ongoing research into the use of quantum dot nanoparticles within cancer imaging.

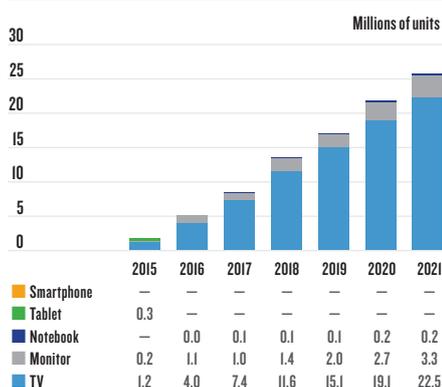
The research project that has received the grant, entitled "VIVODOTS" nano-devices for detection, resection and management of pancreatic cancers" is a continued collaboration between Nanoco and University College London ("UCL"), the Group's long time partner in the life sciences sector, and builds on the significant progress Nanoco's Life Sciences team has made on in-vivo mapping of sentinel lymph nodes and breast cancer imaging.

The total value of the grant over the three-year project is £1.15 million, of which £807,815 is attributable to Nanoco and £345,439 to UCL. Nanoco will receive 60% of its share from Innovate UK in cash over the three-year period.

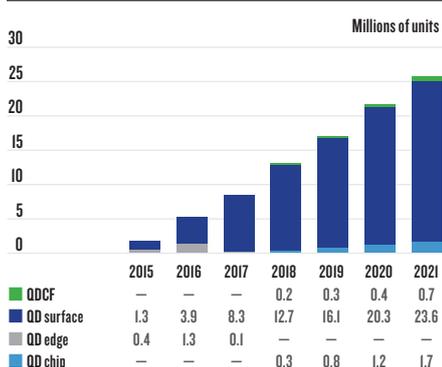
Display market opportunity

As shown in the tables below, independent forecasts of the growth of the application of quantum dot products in the display market show significant anticipated growth over the next five years and the majority of this growth is anticipated to be in "QD surface" products, i.e. film containing quantum dots.

QD display market forecast by application (volume)



QD display market forecast by type (volume)



Source: IHS.

OUR STRATEGY

MAXIMISING OUR OPPORTUNITY

Nanoco's strategy is to focus on meeting the needs of its customers through the application of its scientific know-how and innovative CFQD[®] technology.

1 Growth

Grow revenue

Revenue growth is key to the Group becoming self-sustaining financially while continuing to invest in R&D for future products.

Primarily focus on display industry

The display industry is the most developed market for our products and we are tightly focused on this market. External analysts forecast significant growth for CFQD[®] applications in the display industry in the future. The Group operates a hybrid strategy of technology licensing non-exclusively to Dow and Merck and own manufacture and direct supply to service the display industry. This hybrid strategy allows the widest coverage of the Group's technology in the display field.

Performance in 2017

Whilst billings fell by £0.8 million compared to last year to £1.1 million, revenues grew by 179% compared to 2016 to £1.3 million. Revenues remain modest compared to the opportunity ahead of us and the market has been slower to develop than envisaged.

Future focus

Focus is on converting current opportunities into revenues with emphasis on ten TV and monitor projects with five major companies. We are exploring opportunities with many of the major players in the display industry.

2 Investment

Continue to invest in R&D

Investment in R&D to improve current products and also to develop new products remains a key part of our strategy.

Patents

Patents protect our high quality IP and we continue to create new IP and protect existing IP to maintain our competitive advantages.

Develop in-house capability and capacity

We have invested in expanding our manufacturing capacity and in-house production remains a key part of our strategy.

Performance in 2017

R&D expenditure fell in 2017 compared to 2016 due to cost savings implemented as a result of the cash position of the Company; nevertheless, important progress was made during the year especially in improvements in product performance.

Future focus

We will continue to invest in R&D in order to remain at the forefront of this technology and to open up new market opportunities.

NANOCO AND KYULUX INC. SIGN AGREEMENT TO DEVELOP NEXT GENERATION DISPLAYS

Kyulux Inc., a world leader in developing and delivering the next generation of organic light emitting diode ("OLED") technology has signed a collaboration and joint development agreement with Nanoco.

Under the agreement, Nanoco's heavy-metal-free quantum dots will be combined with Kyulux's hyperfluorescence "thermally activated delayed fluorescence" ("TADF") technology to create future generation hybrid OLED/QLED display technology with superior qualities to existing products in the display market.

In addition to offering a high degree of brightness and pure colour, the combination of technologies means the displays will be cost effective for manufacturers and highly energy efficient for consumers.



WE ARE EXCITED BY THE POTENTIAL OF THIS PARTNERSHIP, WHICH BRINGS TOGETHER TWO GLOBAL LEADERS IN THEIR FIELDS."

MICHAEL EDELMAN
Chief Executive Officer

3 Licensing

Work with licensing partners to assist them in maximising their opportunity in manufacturing

Our licensing partners have the potential to bring strong benefits to the Group and provide key routes to market for our products. Licensed partners can bring significant extra capacity and resources to address the expected growth in the market for CFQD® quantum dot products.

Performance in 2017

During the year we transferred significant knowledge to our licensing partners to assist them in exploiting their licence to our technology.

Future focus

We will keep supporting our licensing partners to maximise the benefit to all parties.



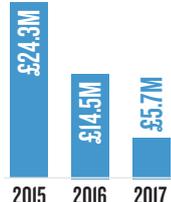
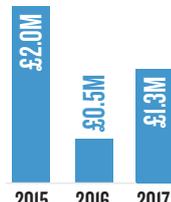
OUR KEY PERFORMANCE INDICATORS

MONITORING OUR PERFORMANCE

The key performance indicators that we use to monitor our business are as follows.

LINK TO STRATEGY

- 1 GROWTH 2 INVESTMENT 3 LICENSING

MEASUREMENT	WHY IT'S IMPORTANT	RESULTS	LINK TO STRATEGY								
Year-end cash and short-term deposits											
<p>This measures the availability of cash for corporate purposes.</p>	<p>Availability of sufficient liquidity is essential, especially where commitments are made to carry out self-funded research and development activities.</p>	<p>Cash balances reduced due to losses incurred. Post-year end a fundraising of £8 million net has been secured.</p>  <table border="1"> <tr> <th>Year</th> <th>Cash Balance (£M)</th> </tr> <tr> <td>2015</td> <td>24.3</td> </tr> <tr> <td>2016</td> <td>14.5</td> </tr> <tr> <td>2017</td> <td>5.7</td> </tr> </table>	Year	Cash Balance (£M)	2015	24.3	2016	14.5	2017	5.7	<p>1 2</p>
Year	Cash Balance (£M)										
2015	24.3										
2016	14.5										
2017	5.7										
Revenue											
<p>Revenue.</p>	<p>Revenue is a key measure of the growth of the Group's business and the Group seeks to optimise revenue from CFQD® products (including joint development projects) and supply activities.</p>	<p>Revenue increased as a result of product sales and release of deferred revenues.</p>  <table border="1"> <tr> <th>Year</th> <th>Revenue (£M)</th> </tr> <tr> <td>2015</td> <td>2.0</td> </tr> <tr> <td>2016</td> <td>0.5</td> </tr> <tr> <td>2017</td> <td>1.3</td> </tr> </table>	Year	Revenue (£M)	2015	2.0	2016	0.5	2017	1.3	<p>1</p>
Year	Revenue (£M)										
2015	2.0										
2016	0.5										
2017	1.3										

MEASUREMENT

WHY IT'S IMPORTANT

RESULTS

LINK TO STRATEGY

Loss after tax

The amount of loss after tax as shown on the income statement.

This is key measure and gives an indication of the stage of development of the business.

Lower loss due to increased revenues and lower costs than previous year.

1



Total billings

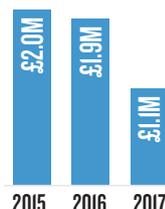
Total billings is the sum of invoices raised for revenue, other operating income and deferred revenue.

This measure is reconciled to revenue on page 23.

This is an important measure as it shows the total level of value created regardless of when the revenue is recognised. Cash flows are dictated by the levels of billings.

2016 included signing fees from Merck and Wah Hong as well as the first royalty income from Dow.

1



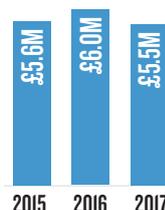
Total investment in research and development

Total investment in research and development costs, including direct and indirect overheads, of all research and development activities.

The successful development of complex products and technologies is the Group's core skill and defines the Group's competitive advantage.

As anticipated, investment in research and development expenditure was higher in 2016 than in 2017 due to cost reductions implemented during the current year.

2



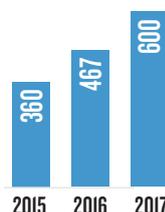
Portfolio of patents and patents pending

This is the total number of active patents and patents pending.

The value of the business is strongly linked to the level and length of protection of the Group's intellectual property. Such protection is reflected in the licences that the Group is able to negotiate with partners wishing to access our know-how.

Continued growth in the portfolio to protect the Group's intellectual property and create future value.

3



PRINCIPAL RISKS AND UNCERTAINTIES

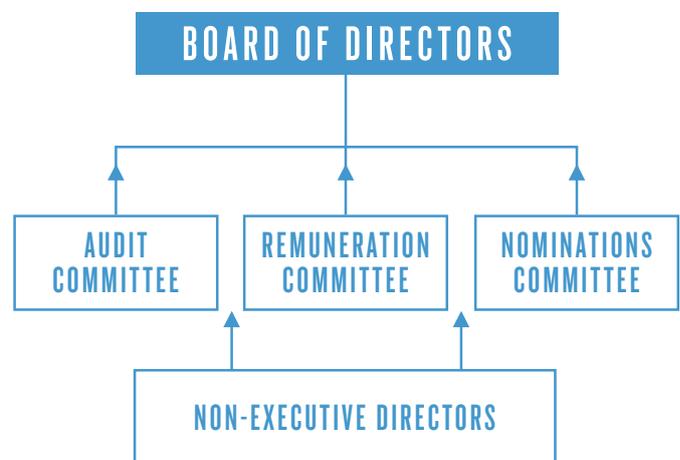
SUCCESSFULLY MANAGING RISK

The Group has successfully managed to reduce the inherent risk for the business by completing a fundraising in November 2017 thereby removing immediate concerns of the future financing of the business.

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. The Group has identified, actively monitors and is taking action to mitigate many different risks. Risks are categorised as strategic, financial or operational. This section does not include them all, but focuses on those risks that the Directors believe to be the most important that are currently faced by the business. Some risks may be unknown at present. Others, currently regarded as not critical, could become material risks in the future.

The Board has established a routine process for carrying out a robust risk assessment which evaluates and manages the principal risks faced by the Group. The Board reviews the process and a detailed review of risks was undertaken by the Audit Committee during 2017.

In last year's Annual Report we highlighted cash resources and production capacity at our Runcorn facility as the major risk issues. The Group has successfully managed to reduce the inherent risk for the business by completing a fundraising in November 2017 thereby removing immediate concerns for the future financing of the business. Improvements in capacity at the Group's production facility in Runcorn following the introduction of more efficient production processes and shift working have continued throughout the year and significantly reduced the risk of being unable to produce sufficient output from our Runcorn plant.



Strategic business risk was reduced by appointing two new partners in the display field in July 2016: Wah Hong for the production and sale of CFQD® film and Merck for the manufacture and sale of products containing CFQD® semiconductor nanoparticles. These agreements open up multiple channels into the display industry and significantly reduce the dependency on Dow, which was previously the Group's exclusive partner in the display field.

Key



No change in risk



Increase in risk



Decrease in risk



New risk identified during the year

The principal risks to achieving full commercialisation and to becoming cash generative are outlined as follows:

RISK DESCRIPTION	POTENTIAL CAUSES AND IMPACT	MITIGATION	CHANGE	LINK TO STRATEGY
Strategic and financial (investing for growth)				
Lack of widespread adoption and lifespan of CFQD® products in the display market.	Nanoco technology does not become fully accepted by the market.	High technical sales engagement with all the major display OEM brands and all parts of the display supply chain.	▼	1
	Drawn-out qualification process by display customers.		▶	
	Stronger than anticipated competition from non-CFQD® solutions.	Rapid product development.	▲	
	Samsung dominates the mainstream display market and remains vertically integrated.	High sales and technical sales engagement with all the major display OEM brands and all parts of the display supply chain.	NEW	
Nanoco is slow to generate revenue from own product sales and royalty from licensees and suffers financially.		Active control of costs within the business.	▲	
		Actively pursue alternative markets such as lighting and life sciences as substitutes for a lack of uptake of CFQD® in the display market.		
Cash shortfall.	Revenues from own product sales and licensee royalties do not materialise as planned.	Cost savings were implemented during the year, a fundraise of £8.0 million was completed post-year end and cash will continue to be prudently managed.	▲	
	The Group is unable to carry out its operations.	Prudent management of the Group's cash. Active sales engagement with the display market to ensure sales come through cash. Maintaining strong investor support. The placing completed in November 2017 provides additional financial resources to strengthen the Group's balance sheet.	▼	
Rapid commoditisation of products.	Overcapacity for CFQD® products leads to price erosion. Nanoco suffers financially.	Phased capacity expansion. Increase pace at which new generations of CFQD® products are brought to market.	▲	
Strategic (investing for growth)				
Intellectual property.	Competitors unlawfully infringing Nanoco's IP.	Nanoco constantly scans the market for signs of infringement.	▲	1
	Nanoco not getting value for its investment.	Prosecute infringers.		
Operational				
Meeting product specifications.	Technical specifications are increasing as QD technology matures. If Nanoco fails to meet specification then competitor products will be selected.	Continuous improvement in technology needed to ensure specifications are met.	NEW	1
Compliance				
Major EHS issue.	Failure to follow existing procedures or a new unforeseen risk.	Extensive and ongoing EHS procedures to bolster procedures and strengthen leadership focus and engagement throughout the organisation.	▼	2
	Injury to staff, equipment, reputation and finances and potential loss of operating licences.	Continuous training of staff in risks and how to mitigate risks.		
Read more Page 25				

We previously referred to risks associated with manufacturing capacity and Nanoco's ability to meet demand and these risks are no longer considered as significant as the ones in the table above following the improvements made to manufacturing capacity during the year.

At present we do not believe that Brexit poses a significant risk to Nanoco. We continue to take measures to ensure that, where possible, we mitigate cyber security risks so that they do not pose a significant risk to Nanoco.

VIABILITY STATEMENT

ENSURING VIABILITY

In accordance with the provisions in the UK Corporate Governance Code (C.2.2 of the 2016 revision), the Directors have assessed the viability of the Group and determined that a two-year period continues to be a suitable period to be utilised. The Directors' assessment has been made with reference to the Group's current strategy, strengthened balance sheet following the placing in November 2017 and principal risks as described in this Strategic report.

Whilst the Directors have no reason to believe the Group will not be viable over a longer period, a two-year period is considered appropriate given the nature of forecasting in the market for CFQD[®] products and the Group's principal risks and uncertainties. Forecasting in the CFQD market is difficult as it is currently in the very early stages of its development. There are very strong indications that the market is likely to grow rapidly as Samsung is actively promoting its televisions containing quantum dots and industry analysts are forecasting a large market in the display field; however, accurate forecasting in the short term remains very difficult and the market is developing slower than anticipated.

The Group's non-exclusive business model enables the Group to sell directly to OEMs and also to appoint additional licensees to manufacture the Group's CFQD[®] products. The licence agreements agreed in July 2016 with Wah Hong and Merck are also still in their infancy and it is too early to make longer-term forecasts of the levels of business with these partners. The Group is working very closely with a number of original equipment manufacturers ("OEMs") and Wah Hong in order to get the CFQD[®] films designed into OEM products. The first orders for commercial sales were received from Wah Hong in June 2017. The new processes developed during recent periods have been implemented and production capacity has been increased by developing the ability to move to a 24-hour shift

for 3.5 days per week. The new processes and shift working are ready to be implemented as demand dictates.

Dow and Merck are licensed to manufacture CFQD[®] products and they can sell their own manufactured products as well as CFQD[®] products purchased from the Group. Wah Hong is licensed to produce and sell film containing CFQD[®] products purchased from Nanoco.

The key issues considered by the Directors in evaluating the business model are:

- Is the display market a viable market for the Group's CFQD[®] technology?
 - Based on the Group's knowledge of the market and independent forecasts of the development of the display market, the Directors believe that the display market will remain a viable and growing market for the Group's CFQD[®] products for a number of years.
- Are the Group's current partners likely to be able to effectively manufacture and distribute CFQD[®] products?
 - Sample requests have increased over the past few months for Dow's TREVISTA™ cadmium-free quantum dots and are being fulfilled exclusively from Dow's Cheonan factory.

- Wah Hong has placed its first commercial orders for CFQD® products, which will be produced in Nanoco's manufacturing facility in Runcorn and delivered to Wah Hong, where it will be converted into films by Wah Hong and supplied for usage in OEM TV and monitor products.
- The Directors believe that Wah Hong will be able to produce good quality CFQD® film and that it will be able to appoint suitable OEM customers.
- Merck is carefully watching the development of the CFQD market and will continue to purchase CFQD products from Nanoco until they decide to build their own manufacturing facility.
- The Directors are confident that they would be able to appoint new partners to replace any of the Group's current partners should the licences terminate for any reason.
- In the event that alternative partners cannot be appointed the Directors believe that the Group would be able to significantly increase its own manufacturing capabilities in order to meet market demand. The attractiveness of the opportunity should mean that any additional finance required to fund any additional capital expenditure required is available.

As a result of this assessment, the Directors have concluded that the Group's business model is viable for the two-year period of this viability statement.

Going concern

In assessing whether the going concern basis is an appropriate basis for preparing the 2017 Annual Report, the Directors have utilised their detailed forecasts for the period to 31 July 2019 which take into account the Group's current and expected business activities, its cash balance of £5.7 million as shown in its balance sheet at 31 July 2017, the cash raised of £8.0 million following shareholder approval of the placing on 14 November 2017, the principal risks and uncertainties it faces and other factors impacting its future performance.

The key assumptions underpinning the assessment during the period cover the following areas:

- commercialisation of CFQD® products through existing contractual arrangements;
- ability to manufacture and supply sufficient CFQD® products to meet partner demand; and
- continued investment in research and development.

The principal, plausible downside stress tests in accordance with the Group's principal risks and uncertainties are:

- a significant reduction in projected CFQD® sales volumes due to either a reduction in demand from the Group's partners or an inability to supply;
- lower selling prices and higher manufacturing costs;
- ability of Wah Hong to produce final products that meet our quality standards;
- ability of Wah Hong to generate sufficient demand at attractive price levels to generate sufficient operating margins for the Group and achieve targets for future milestone payments;
- the length of time it will take our licence partners (Dow and Merck) to contract new customers and supply products in volume to generate royalty income and achieve targets for milestone payments;
- likelihood of new inventions making CFQD® products obsolete; and
- higher investment in research and development.

Various sensitivity analyses have been performed to reflect possible downside scenarios as referred to above. Even in the worst case scenario whereby the Group achieves no cash revenues for the twelve months following the date of this Annual Report, the Company and the Group have sufficient resources to continue in operational existence for the foreseeable future.

At the time of approving the financial statements the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the 2017 Annual Report.

10x

**INCREASE IN
PRODUCTION
CAPACITY**

c. 600

**PATENTS
GRANTED/
PENDING**



Read about
our sustainability
Pages 25–31

FINANCIAL REVIEW

A STABLE POSITION

During the year, revenues and other operating income increased to £1.6 million and, post-year end, additional cash of £8.0 million was raised thereby providing the funding to implement our strategy.

Summary

- Revenue and other operating income increased by 112%.
- Revenue from sale of products was £0.5 million (2016: £0.2 million).
- Loss before tax down £1.7 million to £10.9 million (2016: £12.6 million).

Results

Revenue for the year was £1.3 million (2016: £0.5 million) and the loss before tax was £10.9 million (2016: £12.6 million). As has historically been the case, the timing of revenue receipts in the form of milestone and joint development payments from strategic partners continued to be the major determinant of the results of the business.

Revenue and other operating income increased by 112% to £1.6 million (2016: £0.8 million).

Revenue from sale of products and services rendered accounted for 53.6% (2016: 67.1%) with the balance of revenues being royalty and licence income. Revenue from sale of products was £0.5 million (2016: £0.2 million).

Revenue from royalties and licences and revenue from the joint development agreements which comprise payments from customers to gain preferential treatment in terms of supply or pricing do not have an associated cost of sale.



During the previous year, two significant licences were signed which generated invoices for upfront payments of £1.2 million. This revenue is expected to be recognised as follows:

Year ending 31 July	£ million
2016 – actual	–
2017 – actual	0.5
2018 to 2023	0.7
Total	1.2

The invoices for the upfront payments were settled in the first half of the 2017 financial year. At 31 July 2017 the amount included in deferred revenue is £0.7 million (2016: £1.2 million). The timing of revenue recognition of upfront licence fees is dependent upon the nature of each contract. One of the agreements signed in July 2016 is for a seven-year period and the upfront licence fee, which was settled in August 2016, is to be recognised as revenue evenly over the seven-year duration of the agreement. Future milestone payments received under this agreement are subject to performance conditions and at this stage the likelihood of this cannot be determined with reasonable certainty. Thus, any future milestone payments will be recognised as revenue once the milestone has been achieved. The other upfront payment has been recognised as revenue in the year ended 31 July 2017.

The impact of this is as follows:

	2017 £ million	2016 £ million
Value of sales invoices ("billings") raised during the year	1.1	1.9
Release of deferred revenue	0.5	–
Less revenue deferred to future years	–	(1.2)
Revenue and other operating income per consolidated statement of comprehensive income	1.6	0.7

The generation of cash for the Group is important and as a result the level of billings is considered a key performance indicator. Billings have fallen compared to 2016 as no new licence agreements have been signed during the year.

The decrease in research and development expenditure of £0.5 million to £5.5 million (2016: £6.0 million) comprises a decrease in R&D labour costs of £0.6 million offset by increases in material costs and utilities totalling £0.1 million. Labour costs represent 72.8% (2016: 76.6%) of total R&D costs with the balance of costs comprising materials and utility costs.

Total payroll costs (before the charge for share-based payments) decreased by £0.8 million to £5.7 million (2016: £6.5 million). The decrease in payroll costs is attributable to a 14.7% decrease in average staff numbers compared to 2016 largely due to a cost reduction programme implemented during the year to extend the Company's cash runway. Staff numbers have fallen further since 31 July 2017 and currently we have c. 80 staff. The decrease in administrative costs of £0.6 million to £6.8 million reflects decreased employee costs

(£0.2 million), professional fees (£0.1 million), depreciation (£0.3 million) and material costs (£0.2 million) offset by increases in amortisation (£0.2 million).

Non-GAAP measures

The non-GAAP measures of adjusted operating loss and LBITDA are provided to show the operating loss and loss before interest and tax, before including non-cash charges and large non-recurring items, in order to give a clearer understanding of the loss for the year that reflects cash outflow from the business.

The adjusted operating loss* for the year ended 31 July 2017 was £10.7 million (2016: £12.5 million).

Loss before interest, tax, amortisation and share-based payment charges ("LBITDA") was as shown in the table below.

The decrease of £1.7 million in LBITDA compared to 2016 is a result of the higher revenue leading to an increase in gross profit of £0.8 million and a decrease in R&D and administrative costs of £1.1 million (excluding the items added back in the below table).

With interest income (net of interest payments) decreasing by £0.1 million, the loss before tax was £10.9 million (2016: loss of £12.6 million).

The tax credit for the year is £1.8 million (2016: £2.0 million). The tax credit to be claimed, in respect of R&D spend, is £1.8 million (2016: £2.0 million). Overseas corporation tax was £0.1 million during the year (2016: £nil). There was no deferred tax credit or charge (2016: £nil).

Cash flow and balance sheet

During the year cash, cash equivalents, deposits and short-term investments decreased by £8.8 million to £5.7 million (2016: £14.5 million) largely as a result of the cash outflow from operating activities. Tax credits of £2.0 million (2016: £1.8 million) were received during the year.

The Group increased its capital spend in tangible assets in the year to a total of £0.4 million (2016: £0.2 million). Expenditure incurred in registering patents totalled £1.2 million (2016: £0.9 million) during the year reflecting the Group's continued focus on developing and registering intellectual property. Capitalised patent spend is amortised over ten years in line with the established Group's accounting policy.

	2017 £ million	2016 £ million
Operating loss	(10.9)	(12.8)
Share-based payment charge	0.2	0.3
Adjusted operating loss*	(10.7)	(12.5)
Depreciation	0.7	1.0
Amortisation	0.5	0.3
LBITDA	(9.5)	(11.2)

* Adjusted basic loss per share was 3.72 pence (2016: 4.36 pence) as shown in note 10. Basic loss per share was 3.82 pence (2016: loss of 4.47 pence). No dividend has been proposed (2016: £nil).



Read about our sustainability
Pages 25–31

Read about our governance
Pages 34–36

DISPLAY

NANOCO RECEIVES FIRST COMMERCIAL ORDERS FOR THE SUPPLY OF CFQD[®] RESIN

Nanoco received its first commercial orders from Wah Hong Industrial Corporation, one of the world's largest manufacturers of optical films and sheets for the display industry, for the supply of resins containing Nanoco's cadmium-free quantum dots.

The CFQD[®] resin products, which will be produced in Nanoco's manufacturing facility in Runcorn and delivered to Wah Hong, will be converted into films by Wah Hong and supplied to an original equipment manufacturer ("OEM") for usage in TV and monitor products.

These first orders are for initial production, which is expected to ramp up over the coming months. Nanoco and Wah Hong are pleased that display of cutting-edge branded products containing Nanoco's CFQD[®] resin began at Touch Taiwan in September 2017.

Further demonstrating the Group's continued momentum, Nanoco is focused on ten television and monitor projects with five companies.



Cash flow and balance sheet continued

On 14 November 2017 the Company's shareholders voted in favour of a placing of 19.99% of the Company's issued share capital raising approximately £8.0 million net of costs. This fundraise strengthens the Company's balance sheet significantly and eliminates immediate going concern issues.

Treasury activities and policies

The Group manages its cash deposits prudently. The placing proceeds and other cash balances will be invested across a number of financial institutions which have investment-grade credit ratings. The deposits will range from instant access to six-month term deposits. Cash deposits are regularly reviewed by the Board and cash forecasts are updated monthly to ensure that there is sufficient cash available for foreseeable requirements.

More details on the Group's treasury policies are provided in note 26 to the financial statements.

Credit risk

The Group only trades with recognised, creditworthy third parties. Receivable balances are monitored on an ongoing basis and any late payments are promptly investigated to ensure that the Group's exposure to bad debts is not significant.

Foreign exchange management

The Group invoices most of its revenues in US Dollars and Euros. The Group is therefore exposed to movements in those currencies relative to Sterling. The Group uses forward currency contracts to fix the exchange rate on invoiced or confirmed foreign currency receipts. The Group does not take out forward contracts against uncertain or forecast income.

There were no open forward contracts as at 31 July 2017 (2016: none). The Group's net profit and its equity are exposed to movements in the value of Sterling relative to the US Dollar. The indicative impact of movements in the Sterling exchange rate on profits and equity based on the retranslation of the closing balance sheet are summarised in note 26 to the financial statements and were based on the year-end position.

Summary

Following the placing completed in November 2017, the Group is well positioned to exploit the exciting opportunities ahead.

David Blain

Chief Financial Officer
16 November 2017

SUSTAINABILITY

MAKING AN IMPACT

The Group recognises that, although its primary responsibility under UK corporate law is to its shareholders, it also has responsibilities towards its employees, customers, suppliers and also, ultimately, those consumers who benefit from its products, the broader public and the environment.

Each stakeholder has different interests, some of which are listed below:

EMPLOYEES

Nanoco acknowledges its responsibilities for the health and safety of its employees, for their training and development and for treating them fairly. Further information about its employment policies is outlined below.

CUSTOMERS

Nanoco is responsible for the quality and safety of its products and for the performance of its research and development projects.

SHAREHOLDERS

Nanoco seeks to increase shareholder value over the long term.

Health and safety

Nanoco recognises that providing a safe, secure and healthy working environment is essential and contributes to productivity and improved performance. The health, safety and welfare of all of our employees, contractors and visitors is taken seriously across the entire organisation, with ultimate responsibility lying with the CEO. Health and safety performance is a standing item on each Board and Executive team agenda, and is also discussed within departmental meetings. The Group's health and safety policy is reviewed annually. In addition, the Board has established an Environmental, Health and Safety ("EHS") Committee to oversee the implementation of policy and involve staff in generating improvement plans.

There are various improvement and reporting systems in place to monitor the performance of the Group's health and safety management system. These initiatives include but are not limited to:

- i) reporting all incidents (including near misses) with appropriate ownership and action tracking systems (switched from paper forms to web-based system this year);
- ii) communication of relevant topics and incidents via weekly toolbox talks to all departments;

SUSTAINABILITY CONTINUED

Health and safety continued

- iii) monthly and quarterly leadership safety and observation audits with the focus on immediate action resolution by the executive or senior manager leading the audit;
- iv) monthly departmental audits with appropriate ownership and action tracking processes in place to address issues; and
- v) monthly health and safety reports issued across the organisation to communicate performance against annual metrics and progress on key improvement initiatives and projects.

A risk assessment programme is in place to identify and mitigate the risks from our operations. These assessments include but are not limited to:

- i) the storage, handling and processing of hazardous substances;
- ii) fire safety and emergency evacuation;
- iii) use of mechanical and electrical equipment; and
- iv) other workplace operations involving manual handling and ergonomic risks, working at height and other hazards identified as part of the EHS improvement programme.

All risk assessments are documented and actions assigned and reviewed according to the defined frequency. All research and development functions are actively encouraged to, wherever possible, eliminate or reduce the levels of hazardous substances used in our products and processes. All relevant chemical legislation and regulatory frameworks are used to assess the suitability of a substance prior to use as part of the risk assessment process. Standard operating procedures are documented and regularly reviewed.

All documents are reviewed and approved via the electronic document management system. A health and safety induction programme is in place for all new staff and visitors/contractors performing work on our premises. Staff are trained in standard operating procedures, hazard awareness, generic workplace health and safety risks and behavioural safety expectations applicable to their role within the Group.

A cross-functional health and safety team meets on a monthly basis with representation from all areas of the Group, including the Executive team. Effective inputs and outputs from the team are designed to facilitate a greater focus on health and safety and to actively encourage discussions within respective groups.

The Group has an excellent safety record and there have been no reportable incidents to the respective UK authorities across all our operations. Nanoco is committed to the continuous improvement of the health and safety management system and has recently completed the Health and Safety Laboratory ("HSL") safety culture survey for the second time (18 months after the first).

46.8
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WASTE RECYCLED

The survey showed that, across the eight factors in the HSL model, there has been a significant improvement in how staff rate our safety performance, and all our results now equal or exceed the average scores for chemical and pharmaceutical industry companies. Based on the results we have identified specific areas for improvement which are being tracked via the health and safety management plan and reported to all staff, the Executive team and the Board.

Environment

Nanoco is committed to protecting the environment in which our activities are conducted. This commitment is directly expressed in our decision to develop our products to be free of toxic heavy metals like cadmium, which is still widely used by our competitors in their quantum dot products.

Nanoco has participated actively with regulators on the use of cadmium-based quantum dots in displays and LED light products. The European Commission ("EC") has now completed a lengthy review of the use of cadmium-based quantum dots in displays and LED lighting, following the rejection by the European Parliament in 2015 of its previous proposal to extend their use. The report from their consultants (Oeko-Institute) recommended a further three-year extension, but after concern from member states and environmental NGOs the EC decided to end their use in LED lighting and give the minimum period of two years only for use in displays. The EC has now placed a Delegated Act before the European Council and Parliament to put this into force, which passed into law in October 2017. On this basis, cadmium-based quantum dots in displays will be effectively banned from 31 October 2019, since the normal RoHS limit of 100ppm will apply once the exemption ends. Nanoco expects that regulations in other key markets, including China, will fall in line with RoHS.

Our products are also designed to improve the energy efficiency of high performance lighting and display equipment and to generate energy from solar power. The Group's environmental policy aims to foster a positive attitude towards the environment and to raise the awareness of employees of responsible environmental practices at all sites operated by the Group. The Group endeavours to ensure compliance with all relevant legislation and regulatory requirements and, where practical and economically viable, standards are developed in excess of such requirements.

The CEO has responsibility for reporting on relevant environmental matters to the Board. There have been no incidents to report to the authorities across all our operations. Shareholders and other interested parties are encouraged to use the online version of the Annual Report and Accounts rather than requesting hard copies. Interested parties are encouraged to visit the Group's website or use the regulatory news services instead of a hard copy. Employees are also encouraged to recycle paper, plastic, glass, cardboard and cans wherever possible.



**Read our CEO's
statement**
Pages 6–9

**Read about our
business model**
Pages 10–11

Greenhouse gas (“GHG”) reporting

Under the Companies Act 2006 (Strategic and Directors’ Reports) Regulations 2013, the Group is required to state the annual quantity of emissions in tonnes of carbon dioxide equivalent from activities for which the business is responsible, including the combustion of fuel and the operation of its facilities and resulting from the purchase of electricity, heat, steam or cooling by the business for its own use.

As both of the Group’s UK premises are in multi-occupancy sites we place reliance upon its respective landlords to provide the data needed to determine emissions. Our laboratories require continuous negative pressure environments and, consequently, it is not possible to set realistic reduction targets in the consumption of electricity.

Our gas consumption is used for heating premises and site costs are shared between tenants on the basis of area of occupancy. In the absence of significant amounts of revenue from the sale of commercial products, the emissions of the business primarily arise from the occupation of its research and administration facilities rather than from revenue related production operations.

Emissions in respect of the Group’s US office are considered to be negligible. Our emissions, based on appropriate conversion factors published by the Department for Business, Energy & Industrial Strategy, for the current year are shown in the table opposite.

Waste

During the year, the Group generated 57.7 tonnes of waste (2016: 69.3 tonnes) and recycled 46.8 tonnes of this (2016: 62.1 tonnes). The Group engages a specialist contractor to incinerate batches of chemicals and dispose of other materials no longer required. All waste contractors are assessed to ensure the waste hierarchy approach is applied to all of our materials handled, and that their operations and systems are compliant with the relevant legislation. Audits are performed every three years in line with our duty of care as a waste producer.

Other environmental matters

Consideration of the benefits to the environment is a significant factor in decisions regarding investments to upgrade the Group’s research and development facilities in Manchester and Runcorn.

Video conferencing is used where possible instead of physical travel in order to reduce the Group’s environmental footprint through fewer flights and other means of travel.

The Group’s display, lighting and solar technologies all sit in the energy efficiency and low environmental impact arena and, as such, will enable customer companies to increase the uptake of their products while reducing their impact on the environment.

WHOLE PORTFOLIO CARBON GENERATION (ENERGY USE)

	2017 tCO ₂ e	2016 tCO ₂ e	Change
Scope 2	Electricity	721	+19.4%
	Natural gas	218	+6.9%
Scope 3	Air travel	298	-51.8%
	Total	1,237	-13.3%

INTENSITY (tCO₂e/AVERAGE NUMBER OF EMPLOYEES)

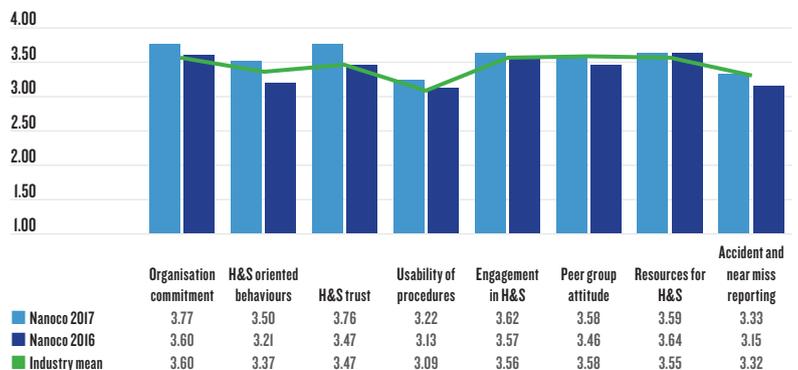
2017	2016	Change
		0.0%

DATA NOTES

Reporting period	1 August 2016 to 31 July 2017
Baseline period	1 August 2015 to 31 July 2016
Boundary	Operational control
Reporting method	The Greenhouse Gas (“GHG”) Protocol Corporate Accounting and Reporting Standard
Emissions factor source	Department for Business, Energy & Industrial Strategy, Standard Set 2017
Data changes and restatements	None

SAFETY CULTURE SURVEY

Nanoco 2016 vs 2017 and industry mean (score out of 5)



SUSTAINABILITY CONTINUED

Diversity

Gender diversity

There is one female member on the Board. Although there are no females on the Executive team, there were three (2016: four) female members out of 17 (2016: 24) on the senior management team as at 31 July 2017. Women constituted 24% (2016: 24%) of the Group's employees as a whole at that date.

The Group is committed to providing flexible working arrangements for employees and to providing equal access to opportunities for employees, regardless of gender.

Racial and geographical diversity

The Group's employees are from many different backgrounds and represent 14 different nationalities: British, American, Australian, Chinese, German, Indian, Irish, Italian, Japanese, Korean, Polish, Portuguese, Syrian and Vietnamese.

The Board itself comprises three different nationalities, being British, American and Irish.

In addition, Group employees come from a range of business backgrounds, not purely research and development. Indeed, of the Board members, previous roles and responsibilities include those in the supply of chemicals and engineering, electronics, fast-moving consumer goods, publishing and financial industries.

Nanoco has business development people in America, Taiwan, Korea and the UK, also covering Europe and China. Increasingly Nanoco seeks individuals with experience in the business and geographic markets in which the Group operates in order to support its strategic objectives.

Equal opportunities

Nanoco is committed to a policy of treating all its employees and job applicants equally. Nanoco will appoint, train, develop, reward and promote on the basis of merit and ability. Nanoco's equal opportunities policy states that employees will not receive less favourable treatment or consideration on the grounds of age; disability; gender or gender reassignment; marriage or civil partnership status; pregnancy or maternity; race; religion or belief; sex; sexual orientation; or part-time status, nor will they be disadvantaged by any conditions of employment that cannot be justified as necessary on operational grounds relevant to the performance of the job.

The Group's equal opportunities policy is reviewed annually and is available to employees on the Group intranet. A copy can be obtained upon request from the Company Secretary.

14

DIFFERENT
NATIONALITIES



Read about
our Board
Pages 32–33

Read about
our governance
Pages 34–36

Disabled employees

It is Nanoco's policy that disabled people, including job applicants and employees, should be able to participate in all of Nanoco's activities fully on an equal basis with people who are not disabled.

Nanoco has a disability discrimination policy that states the principles that Nanoco will not, on the grounds of a person's disability, or for a reason relating to a person's disability, treat that person less favourably than it treats, or would treat, others to whom the same reason does not or would not apply, unless genuinely justified.

If any arrangements made by or on behalf of Nanoco, or any physical feature of premises occupied by Nanoco, put disabled people at a substantial disadvantage compared to people who are not disabled, Nanoco will take such reasonably practicable steps as it can to prevent this disadvantage.

Nanoco is particularly concerned that disabled workers are treated equally in the following areas:

- recruitment and selection;
- promotion, transfer and training;
- terms of employment, benefits, facilities and services; and
- dismissals and redundancies.

Employee communication and involvement

Nanoco is committed to a policy of engaging employees in the activities and growth of the Group. Human resources and senior management review communication channels via the use of employee surveys and plan communication activities to ensure employees are fully informed of current business strategy and financial results or corporate news.

Communication channels include all-Group meetings, senior team meetings which then cascade information down, regular team meetings, cross-functional working group meetings and management one-to-one updates with their team members.

Communication media used includes the Group intranet, all-Group email briefings and online meeting software.

Consultations occur to allow employee opinions to be heard when making decisions affecting their interests and all employees can discuss any business or personal concerns with the human resources management team. Nanoco promotes the achievement of a good work-life balance for employees by offering family-friendly policies like flexible working and the operation of a childcare voucher scheme. Nanoco also has procedures for emergency domestic leave. Remuneration is

DISPLAY

NANOCO WELCOMES EUROPEAN COMMISSION DECISION TO PROHIBIT CADMIUM

The European Commission has, subject to passing into law, decided to prohibit cadmium from TVs and displays sold in Europe from 31 October 2019 under its Restriction of Hazardous Substances directive.

Nanoco makes quantum dots - a semiconductor crystal used in applications like television displays - that are free of the heavy metal cadmium, meaning the prohibition of cadmium in these products is a boon for Nanoco's business.

Cadmium is one of six substances banned from use in Europe in electrical and electronic equipment by this directive, and is recognised as the most hazardous heavy metal.

WITH THIS RULING, THE END OF CADMIUM IS TRULY IN SIGHT. RESPONSIBLE DISPLAY MANUFACTURERS DEVELOPING NEW PRODUCTS WILL NEED TO START PREPARING NOW FOR BAN IN 2019."

MICHAEL EDELMAN
Chief Executive Officer

determined on an annual basis by the Remuneration Committee and Executive Directors, as appropriate. The Group attracts and retains employees of high calibre by offering remuneration that is in line with that offered by industry competitors and local practice in the countries in which it operates.

A Group share option LTIP scheme was launched during the previous financial year. Grants under this scheme were made in November 2016. Some employees also hold options from the legacy Long Term Incentive Plan ("LTIP") scheme which was operational before the main listing. There are a significant number of employee shareholders as a result of the LTIP scheme.

Employee wellbeing

Nanoco recognises that it has a duty to ensure the health, safety and welfare of its employees as far as reasonably practicable. This includes physical, mental and social wellbeing. It is also required to have in place measures to mitigate as far as practicable factors that could harm employees' physical and mental wellbeing, which includes work related stress.

Nanoco introduced an Employee Wellbeing Policy and Employee Assistance Programme in May 2017. The Wellbeing Policy extends our employer's duty of care by taking action to reduce stressors associated with the way work is organised at Nanoco that are under our control.

The Employee Assistance Programme offers support to help people cope and build resilience. Telephone counselling (UK based) and face-to-face counselling are available to all employees through the programme.



Read more about our Wellbeing Policy
Page 31

Risk assessment

Nanoco's performance on wellbeing and stress management will be assessed in the context of the HSE Management Standards.

This will involve HR and the EHS Committee developing an institution-level risk assessment via an employee survey, management focus groups and HSE assessment tools. Results will be presented to the Executive team so any necessary action can be taken where required.



SUSTAINABILITY CONTINUED

Communication

HR will communicate/provide training on agreed good management practice (knowledge, skills and behaviours framework).

HR will facilitate consultation with employees on the Wellbeing Policy via surveys and the EHS Committee meetings and feature wellbeing topics in employee communications.

HR will publish the policy in the Employee Handbook.

Monitoring and review

HR will collate management information which will enable Nanoco to measure its performance in relation to stress management and employee wellbeing.

The Wellbeing Policy will be reviewed every three years by HR and the EHS Committee using management information, staff survey feedback, senior management team ("SMT") and EHS Committee feedback and results of risk assessments.

The three-year review will be reported to the Nanoco Board EHS Committee to approve any revisions or amendments to the policy.

Ethics

Nanoco aims to demonstrate and promote high standards of honest and ethical conduct throughout the Group. Formal policies and procedures are reviewed annually and the policies listed below are available on the Group intranet or upon request from the Company Secretary. All Group employees are required to adhere to specified codes of conduct, policies and procedures, including, but not limited to, the:

- anti-bribery and corruption policy;
- whistleblowing policy; and
- equal opportunities policy.

Nanoco is a member of the Chemical Industries Association ("CIA") and applies the principles of Responsible Care® to all of its operations.

The community

Whilst the Group does not believe that it has a mandate from shareholders for the Group to make charitable donations, it does encourage its employees to support charitable causes of their choosing.

Nanoco employees hold regular charity fundraising events for their chosen charities throughout the year.

On behalf of the Board

Dr Christopher Richards
Chairman

Dr Michael Edelman
Chief Executive Officer
16 November 2017

Strategic report approval

The strategic report on pages 1 to 31 incorporates:

- Chairman's statement
- Our business model and strategy
- Our markets
- Chief Executive Officer's statement
- KPIs
- Financial review
- Corporate social responsibility
- Risks, which includes the viability and going concern statements

Dr Michael Edelman
Chief Executive Officer
16 November 2017



EMPLOYEE ENGAGEMENT

Feel better, work better, live better

Nanoco's wellbeing policy aims to enhance organisational performance by engaging all employees at all levels:

- to take responsibility for creating a working environment where potential work related stressors as far as practicable are avoided, minimised or mitigated; and
- to take responsibility for their own work and effectiveness and their own health and wellbeing.

It is managed by HR in conjunction with EHS and will assess Nanoco's working practices against the HSE Management Standards.

The introduction of an Employee Assistance Programme as part of the wellbeing policy provides counselling support that helps to reduce absence and improve wellbeing by addressing issues head-on, reducing their impact.

Training

Nanoco believes in high standards. This includes a commitment to giving our employees training and development opportunities. We are committed to developing positive working relationships and providing support for people to do their jobs competently and efficiently.

As part of our Equal Opportunities Policy, we aim to provide internal career progression where possible. As part of the personal development planning process employees discuss future career ambitions with their manager.

“
NANOCO IS COMMITTED TO ENGAGING EMPLOYEES IN THE ACTIVITIES AND GROWTH OF THE GROUP. HR AND SENIOR MANAGEMENT REGULARLY REVIEW COMMUNICATION CHANNELS WHICH INCLUDE EMPLOYEE SURVEYS AND ALL COMPANY MEETINGS. THE BOARD ACTIVELY ENCOURAGES EMPLOYEE SHARE OWNERSHIP VIA THE LTIP SHARE OPTION SCHEME.”

RUTH HAILWOOD
Head of HR

1-1
MANAGEMENT ONE-TO-ONE UPDATES WITH TEAM MEMBERS

14
DIFFERENT NATIONALITIES

24%
FEMALE EMPLOYEES

CHILDCARE VOUCHER SCHEME AND FLEXIBLE WORKING

COMPANYWIDE LTIP SHARE OPTION SCHEME



BOARD OF DIRECTORS

AN EXPERIENCED TEAM



DR CHRISTOPHER RICHARDS
Non-executive Chairman



Appointed

Chris was appointed Chairman of Nanoco Group plc in May 2016, having joined the Board as a Non-executive Director in November 2015.

Skills and experience

Following a successful international career in the agrochemical and life sciences industries, Chris has become a highly experienced non-executive director and business adviser. Chris is the former Chief Executive Officer of Arysta LifeScience, a Japan-based agrochemical business which grew rapidly under his leadership. After stepping down as CEO in 2009, he became Arysta LifeScience's Non-executive Chairman until the sale of the business in 2015 to Platform Specialty Products.

After gaining his DPhil from the University of Oxford in Biological Science, Chris worked as a research scientist for four years. He began his executive career in 1983 in the Plant Protection division at Imperial Chemical Industries plc, which later became Syngenta. During 20 years, he has lived in various countries including Colombia and Japan and led international marketing and commercial functions.

Other roles

Chris currently holds a number of executive and non-executive roles at quoted and private businesses. He is the Interim CEO and Executive Chairman of Plant Health Care plc (AIM: PHC) and a Non-executive Director of Origin Enterprises plc (AIM: OGN).



DR MICHAEL EDELMAN
Chief Executive Officer

Appointed

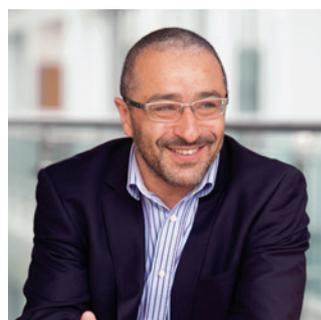
Nanoco is led by Dr Michael Edelman, who joined the Group twelve years ago in September 2004. Michael led the initial fundraising, spun Nanoco out of the University of Manchester, floated the Group on the London Stock Exchange in 2009 and grew Nanoco into the world-leading quantum dot player it is today.

Skills and experience

Prior to Nanoco, Michael held a number of executive roles, including having responsibility for licensing the technology developed by GE/Bayer joint venture Exatec LLP, Vice President and Managing Director at yet2.com, Commercial Director at Colloids Ltd and Business Manager at Brunner Mond & Co Ltd. Michael started his career with ICI and has a PhD in Organometallic Chemistry from the University of Sussex, UK, and an undergraduate degree in Classics and Chemistry from Tufts University, Boston, MA, USA.

Other roles

None



DR NIGEL PICKETT
Chief Technology Officer

Appointed

Nanoco's technology team is led by Nigel, who is a co-founder of Nanoco and inventor of Nanoco's key quantum dot scale-up technology. In 2000 he moved to Manchester where he co-founded Nanoco Technologies in 2001.

Skills and experience

Nigel has co-authored over 70 academic papers and is an inventor on 150 patents and pending applications. He has a passion and experience in taking research work from the academic bench through to full commercialisation. Nigel graduated from Newcastle University in 1991 and chose to remain at Newcastle to pursue a PhD in the field of Main Group Organometallics and is a Fellow of the Royal Society of Chemistry. After graduation in 1994 he undertook a postdoctoral fellowship at St Andrews University, Scotland, in the field of precursor design for metalorganic vapour phase epitaxy ("MOVPE") growth and synthesis of nanoparticles using chemical vapour deposition ("CVD") techniques. In 1996 he won a Japan Society for the Promotion of Science ("JSPS") fellowship and spent the following year working at Tokyo University of Agriculture and Technology, Japan. In 1998 he became a Research Fellow at Georgia Institute of Technology, USA, working on the design and evaluation of precursors used in MOVPE.

Other roles

None



KEITH WIGGINS
Chief Operating Officer

Appointed

Keith joined Nanoco in October 2014 and is a highly experienced chemicals industry executive.

Skills and experience

Keith began his career with ICI, working in R&D and manufacturing, before joining The Dow Chemical Company ("Dow") in 1989 as a sales manager in its London office. He went on to lead progressively bigger and more complex speciality chemical businesses around the world, living in Germany, Switzerland and the USA. In 2006 Keith returned to the UK as Managing Director for Dow UK, Ireland & Nordic. He held this position until 2013 and, from 2006 to 2011, he was concurrently CEO – Global Business Director of Haltermann, a speciality chemicals subsidiary of Dow. Keith, who graduated in Chemistry at Imperial College London, is an Honorary Fellow of the Royal Society of Chemistry. He has held a number of industry offices including President of the Chemical Industries Association between 2011 and 2013.

Other roles

None



DAVID BLAIN
Chief Financial Officer

Appointed

David joined Nanoco in August 2015 from the role of Chief Financial Officer of Inspired Capital plc, an AIM-listed finance provider.

Skills and experience

David is a chartered accountant with considerable operational, commercial and strategic experience gained at a number of businesses quoted on the London Stock Exchange.

After qualifying as a Chartered Accountant David joined the Newcastle office of Price Waterhouse (now PwC), where he worked for nine years in audit and business advisory services. He then spent eleven years as the Finance Director of Drew Scientific Group plc, a medical diagnostics company on the Main Market. His next role was at the AIM-traded IT business eg Solutions plc, after which he became Chief Financial Officer of Renovo Group plc, the Manchester-based biotechnology company that later became Inspired Capital plc.

Other roles

None



DR ALISON FIELDING
Non-executive Director

A N R

Appointed

Alison joined Nanoco in April 2017.

Skills and experience

Alison holds an MBA from Manchester Business School, a PhD in Organic Chemistry and a first-class degree in Chemistry from the University of Glasgow.

Alison started her career at Zeneca PLC (now Astra Zeneca) followed by five years at McKinsey & Company and later co-founded Techtran Group Limited, which was acquired by IP Group in 2005, where she held the role of Director and COO until 2013. Whilst at IP Group, she also sat on the board of and advised several early stage and quoted IP Group-backed technology companies.

Other roles

Alison is Director of Strategy and IP Impact at IP Group and is also currently a Non-executive Director of Getech Group plc.



BRENDAN CUMMINS
Non-executive Senior Independent Director

A N R

Appointed

Brendan Cummins was appointed to the Board on 28 May 2015.

Skills and experience

Brendan is an experienced chemical industry executive with 40 years of industry and leadership experience. Formerly, he was Chief Executive Officer of Ciba Inc., the major international chemicals company acquired by BASF in 2009. During his executive career he worked for many years at the Ciba-Geigy Group and then at Ciba Inc., which was formed in 1998 when Ciba-Geigy separated its chemical and pharmaceutical interests. He joined Ciba-Geigy in Ireland in the early 1970s and went on to hold many senior international positions in locations including Switzerland, China, Hong Kong and Singapore.

Other roles

Brendan is currently a Non-executive Director of Ashland Inc., a global speciality chemical company, quoted on the New York Stock Exchange, where he is also a member of the Ashland audit committee and chair of the governance and nominations committee. In addition, Brendan serves as a non-executive board member of The Perstorp Group, Sweden and member of the remuneration committee (Perstorp Group is controlled by the French private equity fund PAI Partners). Brendan is a member of the Remuneration, Audit and Nominations Committees.

A Audit Committee
N Nominations Committee
R Remuneration Committee
○ Chairman

CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 31 JULY 2017



I am pleased to present the Corporate governance report for the year ended 31 July 2017.

As I said in my letter to shareholders in last year's report, the Board believes that good governance is fundamental to the successful growth of our business. The Board and its Committees play a central role in the Group's governance by providing an external and independent perspective on matters material to Nanoco's stakeholders, and by seeking to ensure that effective internal controls and risk management measures are in place.

The Board also promotes a culture of good governance throughout the Group by creating an environment of openness, transparency, accountability and responsibility.

This section of the Annual Report describes our corporate governance structures and processes and how they have been applied throughout the year ended 31 July 2017.

My role as Chairman

My role is to ensure that Nanoco has an effective Board which is collectively responsible for the long-term success of the Group and that all Board Directors play an active part in all meetings, in an open environment in which everyone expresses their opinions in pursuit of the best conclusions for the Group. One of my most important jobs is to ensure that the Board and its Committees have the right balance of skills, experience and knowledge

suitable for Nanoco's evolving strategy and growth aspirations as we progress through a new phase of our development.

Board and Committee evaluation

Regular and appropriate Board and Committee evaluation is vital to improving Board effectiveness. This year I conducted a thorough internal Board evaluation process, which was discussed in detail by the Board. Overall, it was concluded that the Board and Committees functioned effectively, with Directors feeling free to voice their differing opinions, but that there were areas of potential improvement.

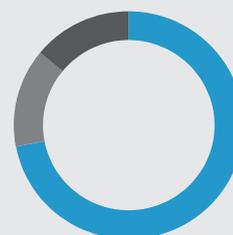
It was felt that the balance of time allocated to strategy, operations and functional areas and governance was broadly correct, although, as last year, it was decided that additional time should be spent discussing strategy. We are addressing the strategy by allocating additional time outside of the regular Board meetings to ensure that this area is properly addressed in future. The Chairs of both the Audit and Remuneration Committees changed during the year as a result of resignations from the Board. The new Chairs have settled in well to their roles and next year the performance of those Committees will be reviewed formally. Whilst in compliance with the Code, we believe that the ratio of Non-executive

SECTOR EXPERIENCE



Advisers (1)
Chemical (5)
Finance (1)

TENURE



0-5 years (5)
11-15 years (1)
16-20 years (1)

Directors to Executive Directors is not ideal and we will look to appoint another Non-executive Director in due course.

Audit Committee

The Audit Committee's key work during the period was detailed work in supporting the going concern assessment, the detailed disclosures that we made in our interim results and improving the risk management process. Further details can be found on page 38.

Longer-term viability statement

The Group utilised the first two years of its five-year forecast to assess its long-term viability. The two-year period was chosen due to the inherent difficulty and uncertainties in preparing forecasts for the Group at its current stage of development. Further details are provided on page 20.

Dr Christopher Richards

Chairman
16 November 2017

This section contains the Group's reporting disclosures on corporate governance required by the Companies Act 2006, the 2016 UK Corporate Governance Code of the Financial Reporting Council ("the Code") and the UKLA's Disclosure and Transparency Rule 7 including the required statement of compliance. A copy of the Code is publicly available at www.frc.org.uk/directors/corporate-governance-and-stewardship/uk-corporate-governance-code.

The Board is committed to ensuring that high standards of corporate governance appropriate for the Group's size are maintained by Nanoco.

Statement of compliance with the Code

I am pleased to confirm that the Board considers that it has been in compliance with the Code throughout the year ended 31 July 2017. We did not comply with the requirement in E.2.4 to give 14 clear working days' notice of the general meeting we held on 14 November 2017. The reason for the non-compliance was the desire to conclude the meeting as early as possible as completion of the fundraising had a direct impact on the publication of the Company's preliminary results announcement and its report and accounts for the year ended 31 July 2017 as the proceeds of the fundraising were relevant in assessing the going concern status of the Company. The Directors strongly believed that it was in the best interests of the Company for the going concern status of the Company to be secured prior to the publication of the Company's preliminary results announcement and its report and accounts for the year ended 31 July 2017, which were required to be published by 30 November 2017. Whilst in compliance with the Code, we believe that the ratio of Non-executive Directors to Executive Directors is not ideal and we will look to appoint another Non-executive Director in due course.

Disclosure and Transparency Rule 7

This statement complies with sub-sections 2.1, 2.2(i), 2.3(i), 2.5, 2.7 and 2.10 of Rule 7 of the UK Listing Authority's Disclosure and Transparency Rules. The information required to be disclosed by sub-section 2.6 of Rule 7 is shown in the Statement of Directors' responsibilities on page 64 and is incorporated in this section by reference.

The Board

The Group is controlled through its Board of Directors. The Board's main roles are to provide overall strategy and direction for the Group and to ensure that the necessary financial and other resources are made available to enable those objectives to be met. It has a schedule of matters reserved for its approval, including, but not limited to, decisions on strategy and risk management, approval of budgets, acquisitions and disposals, major capital expenditure, legal and insurance issues, Board structure and the appointment of advisers. In some areas responsibility is delegated to Committees

	Full Board	Audit Committee	Nominations Committee	Remuneration Committee
Number of meetings in period	7	5	3	4
Attendance:				
Executive Directors				
Dr Michael Edelman	7	—	—	—
Dr Nigel Pickett	7	—	—	—
Keith Wiggins	7	—	—	—
David Blain	7	—	—	—
Non-executive Directors				
Dr Christopher Richards	7	—	3	—
Brendan Cummins	7	5	3	4
Dr Alison Fielding	2	1	—	1
Former Directors				
Gordon Hall	3	3	—	3
Robin Williams	6	5	3	4

of the Board within clearly defined terms of reference.

Once the strategic and financial objectives of the Group have been set by the Board it is the role of the Chief Executive Officer to ensure that through the day-to-day management of the Group's business they are achieved.

All Directors are subject to election by the shareholders at the next general meeting following appointment to the Board and to re-election at intervals of not more than three years.

As at 31 July 2017, the Board comprised the Non-executive Chairman, two independent Non-executive Directors and four Executive Directors.

The names of the current Directors together with their biographical details and any other directorships are set out on pages 32 and 33.

The contracts of the Directors are available for inspection by shareholders at the AGM.

The Board considers its independent Non-executive Directors to be independent in character and judgement. No Non-executive Director has been an employee of the Group; has had a material business relationship with the Group; receives remuneration other than a Director's fee; has close family ties with any of the Group's advisers, Directors or senior employees; or holds cross-directorships.

The Non-executive Directors constructively challenge and help develop proposals on strategy and bring strong, independent judgement, knowledge and experience to the Board's deliberations.

The Directors are given access to independent professional advice at the Group's expense, when the Directors deem it is necessary in order for them to carry out their responsibilities.

The Board meets at least eight times a year and the Audit, Remuneration and Nominations Committees meet at least twice a year. Additional Board calls may be held to address specific issues as they arise. During this year, one Board meeting

was cancelled and combined with another meeting so the Board met seven times in this financial year.

The Board receives appropriate and timely information prior to each meeting, with a formal agenda and Board and Committee papers being distributed several days before meetings take place. Any Director may challenge Group proposals, and decisions are taken democratically after discussion. Any Director who feels that any concern remains unresolved after discussion may ask for that concern to be noted in the minutes of the meeting. Any specific actions arising from such meetings are agreed by the Board and then followed up by management.

The Group maintains, for its Directors and officers, liability insurance for any claims against them in that capacity.

There is a formal, rigorous and transparent procedure for the appointment of new Directors to the Board, which is led by the Nominations Committee.

The Board has carried out a thorough evaluation each year of its own performance and that of its Committees and individual Directors. The Chairs of both the Audit and Remuneration Committees have been in place for only part of the year and their performance will be reviewed fully next year. The Board considers that the Committees have performed effectively throughout the year.

The Board will not take significant risks to achieve its strategic objectives and indeed endeavours to limit the risks to the business in the achievement of its strategic objectives by partnering with a number of organisations in a number of areas.

The Group has effective procedures in place to deal with conflicts of interest. The Board is aware of other commitments of its Directors and changes to these commitments are reported to the Board.

The number of Board and Committee meetings attended by each of the Directors during the year is shown on page 35.

CORPORATE GOVERNANCE STATEMENT CONTINUED

The Board continued

During the year, the Board has maintained responsibility for: the overall management of the Group, which included review and development of the Group's focus and business partnerships; approval of the annual operating and capital expenditure budgets and any material changes to them; and approval of the half-yearly report, interim management statements or trading updates, the preliminary announcement of results and the Annual Report and Accounts.

Each full Board meeting considers, as a matter of course, the operational, technological and financial performance of the Group against its strategic goals and annual budget; reports from the Chairs of the Audit, Remuneration and Nominations Committees (if applicable); important forthcoming events; and reports on investor relations, legal affairs, the environment, and health and safety. Additionally, Directors are required to confirm any potential conflicts of interest arising from the proposed business of the meeting and any changes in their commitments or other appointments. Certain key senior management members are invited to give presentations at Board and Committee meetings where appropriate.

Other areas, including the review of the Group risk register, the strategic plan, litigation matters, contentious matters, succession planning, IT strategy and the need for a quality and compliance committee and strategic advisory committee are reviewed by the Board during each year at intervals commensurate with their importance.

The roles of the Chairman and Chief Executive Officer

The division of responsibilities between the Chairman of the Board and the Chief Executive Officer is clearly defined. The Chairman leads the Board in the determination of its strategy and in the achievement of its objectives. The Chairman is responsible for organising the business of the Board, ensuring its effectiveness and setting its agenda. The Chairman is a Non-executive Director and has no involvement in the day-to-day business of the Group. The Chairman facilitates the effective contribution of Non-executive Directors and constructive relations between Executive and Non-executive Directors, ensures Directors receive accurate, timely and clear information and facilitates effective communication with shareholders.

The Chief Executive Officer has direct charge of the Group on a day-to-day basis and is accountable to the Board for the financial and operational performance of the Group.

Commitments and performance of the Chairman

The Chairman has sufficient time to devote to his duties as Chairman and this has been demonstrated by his active participation in the Group's activities. His performance is reviewed annually by the Non-executive

Directors and led by the Senior Non-executive Director, Brendan Cummins. In this regard, the experiences, input and recommendations of all Board Members was solicited via confidential interviews and discussions. The evaluation, for the most part, focused on the Chair's leadership effectiveness in managing the Board/managing relationships with all stakeholders, the extent to which the Chair effectively leads and develops the Board and promotes solid participation leading to sound decision making and the conducting of meaningful performance evaluation. The Chair was evaluated on the effectiveness of the overall governance process, the cohesion of our strategic management system and recommendations were given as to how we could further develop all these aspects.

Professional development

On appointment, each Director takes part in an induction programme in which they receive comprehensive information about the Group; the role of the Board and the matters reserved for its decision; the terms of reference and membership of the Board and Committees and the powers delegated to those Committees; the Group's corporate governance practices and procedures, including the powers reserved to the Group's most senior Executives; and the Group's latest financial information. Throughout their period in office the Directors are updated on the Group's business, the competitive environment in which it operates, corporate social responsibility matters and other changes affecting the Group and the industry it operates in as a whole.

Performance evaluation

The Board has established a formal process for the annual evaluation of the performance of the Executive Directors. This evaluation is based on a performance evaluation questionnaire completed by each Executive Director. The evaluation of the Chief Executive Officer is performed by the Chairman and the evaluation of the other Executive Directors is performed by the Chief Executive Officer.

Information

Board reports and papers are circulated to the Directors in advance of the relevant Board or Committee meeting. The Board papers include management accounts, regular management reports and information which enables the Board to scrutinise the Group's and management's performance against agreed objectives.

These papers are supplemented by information specifically requested by the Directors from time to time. Minutes of Board and Committee meetings are circulated to all Board members.

Director dealings in Company shares

In addition, the Company has adopted a model code for Directors' dealings in securities of the Company which is appropriate for a company quoted on

the premium list of the London Stock Exchange. The Directors comply with the rules relating to Directors' dealings and also take all reasonable steps to ensure compliance by the Group's "applicable employees" as defined in the rules.

Investor relations

Meetings with analysts and institutional shareholders are held following the interim and preliminary results announcements and on an ad hoc basis. These are usually attended by the Chief Executive Officer and Chief Financial Officer. Feedback from these meetings and regular market updates are prepared by the Company's broker and by the Company's internal and external investor relations advisers and are presented to the Board. The Chairman and other Non-executive Directors are available to shareholders to discuss strategy and governance issues at a shareholder's request. There is an investors section on the Company's website, www.nanocotechnologies.com, which is kept up to date.

Annual General Meeting ("AGM")

At the AGM, separate resolutions will be proposed for each substantially different issue. The outcome of the voting on AGM resolutions is disclosed by means of an announcement on the London Stock Exchange.

Relations with shareholders and other stakeholders

Nanoco recognises the importance of good and timely communication. Its primary communication channel is the internet. All press releases are published on the Company's website shortly after they are issued via the regulatory news service in the United Kingdom.

The majority of shareholders receive most of their information about the Company, including the annual and half-yearly reports, via the website.

All shareholders are encouraged to attend the Annual General Meeting and talk to the Directors there. In addition, shareholders are able to contact the Company via email at info@nanocotechnologies.com.

The Board takes steps to ensure that the views of major shareholders are considered through regular contact. As appropriate, the Board takes due note of their views insofar as these are relevant to the Company's overall approach to corporate governance. This is achieved through feedback from meetings with significant shareholders and feedback from the Company's brokers.

In addition, capital market events are held to inform financial analysts, shareholders and the press about the Company's activities.

Dr Christopher Richards
Chairman

16 November 2017

NOMINATIONS COMMITTEE REPORT

MEMBERS

- **Dr Christopher Richards (Chairman)**
- **Brendan Cummins**
- **Dr Alison Fielding (appointed 20 April 2017)**
- **Robin Williams (resigned on 13 July 2017)**
- **Gordon Hall (resigned on 31 January 2017)**



Good governance and strong, responsible, balanced leadership are critical to creating long-term shareholder value.

The Board strongly believes that good governance and strong, responsible, balanced leadership are critical to creating long-term shareholder value and business success. The Committee met three times during the year.

Roles and responsibilities

Under normal circumstances, the Nominations Committee will meet not less than twice a year to assist the Board in discharging its responsibilities relating to the composition and make-up of the Board and any Committees of the Board. It is also responsible for periodically reviewing the Board's structure and identifying potential candidates to be appointed as Directors or Committee members as the need may arise. The Nominations Committee is responsible for evaluating the balance of skills, knowledge and experience and the size, structure and composition of the Board and Committees of the Board, and retirements and appointments of additional and replacement Directors and Committee members, and makes appropriate recommendations to the Board on such matters.

Committee membership

In accordance with the UK Corporate Governance Code the Nominations Committee consists of Non-executive Directors. It is chaired by Dr Christopher Richards since his appointment as a Non-executive Director in November 2015. The Committee's other members are Brendan Cummins and Dr Alison Fielding. Gordon Hall and Robin Williams were members of the Committee prior to their resignation from the Board. There have not been any other changes to the Committee membership during the year.

Committee activities during the year

The Nominations Committee met three times during the financial year to discuss Board structure and independence, its skillset and the appointment of Dr Alison Fielding as a Non-executive Director and Audit Committee Chair. The recruitment firm used to assist the Committee in the selection process which led to the recruitment of Dr Alison Fielding was The Miles Partnership, which is the only connection that the Miles Partnership has with the Company.

Whilst in compliance with the Code, we believe that the ratio of Non-executive Directors to Executive Directors is not ideal and we will look to appoint another Non-executive Director in due course.

Diversity

The Group pursues diversity, including gender diversity, throughout the business. When recruiting at Board level, the Nominations Committee requires that executive search firms have signed up to their industry's voluntary code of conduct (prepared in response to the Davies Review of Women on Boards). The Group follows a policy of appointing talented people on merit at every level and does not have a specific target for numbers of female Directors. The Board will also ensure that its own development in this area is consistent with its strategic objectives and enhances Board effectiveness.

Dr Christopher Richards
Nominations Committee Chairman
16 November 2017

AUDIT COMMITTEE REPORT



The Audit Committee continues to be vigilant in its monitoring of internal and external risk factors.

The Audit Committee plays a central role in the review of the Group's financial reporting and internal control processes. Its aim is to ensure that these processes deliver high quality and timely information.

The Audit Committee continues to be vigilant in its monitoring of internal and external risk factors and to assist the Board in its development of a risk register and the introduction of the viability report. As a Committee it seeks not just to respond to external factors but to endeavour to support and challenge management to anticipate future risks and opportunities.

The Committee remains committed to helping the Board ensure that the Annual Report, as a whole, is fair balanced and understandable.

The specific duties of the Committee, how it operates and the key areas of focus are detailed in the review below. It is very conscious of increasing shareholder expectation and scrutiny of its work and would welcome feedback.

Roles and responsibilities

The Audit Committee assists the Board in discharging its responsibilities with regard to:

- financial reporting, including reviewing and monitoring the integrity of the Group's annual and interim financial statements. The Board has also requested that the Committee advise them in ensuring that the financial statements, when taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's performance, business model and strategy. The ultimate responsibility for reviewing and approving the Annual Report and Accounts and the half-yearly reports remains with the Board;
- the external auditor, including reviewing and monitoring the extent of the non-audit work undertaken by the external auditor, advising on the appointment of the external auditor, overseeing the Group's relationship with its external auditor and reviewing the effectiveness of the external audit process;
- internal controls and consideration of the potential need for an internal audit function, including reviewing the effectiveness of the Group's internal control review function;
- the appropriateness of accounting policies and the critical judgements and estimates;
- the relevance of developments in accounting and reporting requirements;
- the effectiveness of internal controls and risk management systems;
- the auditor's plan for the year-end audit;
- the formal engagement terms, performance, objectivity and independence of the auditor, including the extent of non-audit work undertaken by the auditor; and
- the audit and non-audit fees of the auditor. These are set out in note 6 to the financial statements.

MEMBERS

- **Dr Alison Fielding**
(Chair from 13 July 2017)
- **Brendan Cummins**
- **Robin Williams**
(Chairman until resignation on 13 July 2017)
- **Gordon Hall**
(resigned on 31 January 2017)

The Audit Committee will give due consideration to laws and regulations, the provisions of the UK Corporate Governance Code and the requirements of the Listing Rules.

Committee membership

The composition of the Committee currently comprises Dr Alison Fielding and Brendan Cummins. Dr Alison Fielding became Chair of the Committee following the resignation of Robin Williams on 13 July 2017. Gordon Hall was also a member of the Committee until his resignation. In accordance with the provisions of the Code, the Committee is made up of independent Non-executive Directors. The Board considers that Dr Alison Fielding, by virtue of her former executive and current non-executive roles, has recent and relevant financial experience to act as Chair of the Committee. Details of relevant experience of all members of the Committee are detailed on pages 32 and 33. Other Directors and representatives of the external auditor attend by invitation.

Activities of the Audit Committee

The Committee met five times during the financial year. The meetings were held to review the results of the external audit for the previous financial year and discuss and agree the scope of the external audits and internal reviews for the year, including the review of key areas of judgement and improvements to the risk management process.

The Committee discharged its obligations in response to the financial year as follows:

External audit

During the year the Committee reviewed and approved the scope and timetable for the interim review and final audit. The Committee also reviews the policies to ensure ongoing compliance with the Code. This includes the policy against which to consider the independence of the external auditor consistent with the ethical standards published by the Audit Practices Board and a policy on the engagement of the external auditor for the provision of non-audit services.

The Committee has considered the independence requirements, including that the rotation policy has been complied with. Furthermore, the only fees paid for non-audit services related to a review of the interim results in the current year and a review of working capital forecasts required for an anticipated fundraising and therefore do not jeopardise their independence. A separate external firm is engaged for taxation advice. However, in view of the period which has elapsed since the appointment of its current auditor in 2008, the Committee will consider the need for a re-tender following the finalisation of this year's audit and in any case will put the audit out to tender following the 2018 audit.

Independence safeguards

In accordance with best practice and professional standards, the external auditor is required to adhere to a rotation policy whereby the audit engagement partner is rotated after five years. Ernst & Young LLP has been in tenure for nine years and the current audit engagement partner was appointed in 2016. The external auditor is also required periodically to assess whether, in its professional opinion, it is independent and those views are shared with the Audit Committee. The Committee has authority to take independent advice as it deems appropriate in order to resolve issues on auditor independence. No such advice has to date been required.

Non-audit services provided by the external auditor

During the financial year the non-audit services provided to the Group by the auditor (£52,000, 2016: £8,000) comprised a review of the interim results and, in the current year only, a review of working capital forecasts required for an anticipated fundraising. Since the year end non-audit services provided to the Group by the auditor amounted to £25,000 (2016: £nil) and comprised a further review of the working capital statement required to be given in relation to the fundraising in November 2017.

Independence assessment by the Audit Committee

The Committee was satisfied that safeguards were maintained regarding the independence and objectivity of the external auditor.

Financial reporting

The Committee reviewed the interim and annual financial statements. As part of that review process, the members of the Committee were provided with a draft of the full Annual Report enabling them to ensure that the numbers therein are consistent with those in the financial statements, their knowledge gained from the monthly management accounts or are sourced from appropriate data. More importantly, the Committee assessed whether the words used were consistent with their understanding of the Group's business obtained through Board and Audit Committee meetings and other interaction they had with management, using their experience to assess whether the Annual Report taken as a whole is fair, balanced and understandable. This additional review by the Committee, supplemented by advice received from external advisers during the drafting process, assisted the Board in determining that the report is fair, balanced and

understandable at the time that it was approved. The Committee considered the appropriateness of preparing the accounts on a going concern basis, including consideration of forecast plans and supporting assumptions and concluded that the Group's financial position was such that it continued to be appropriate for accounts to be prepared on a going concern basis. Emphasis was placed on the detailed going concern disclosures which were subject to detailed scrutiny as part of the preparation of the interim results.

The Committee, together with the Board, considered what were the significant risks and issues in relation to the financial statements and how these would be addressed.

- (i) The Committee reviewed the revenue recognition policies adopted in these accounts and determined that the treatment was appropriate as it reflects the substance of the licence agreements. There were no new licence agreements in this year.
- (ii) The Committee considered the use of the going concern basis, due to the continued losses being incurred. This involved extensive scenario planning and full disclosure in the interim results.
- (iii) The Committee reviewed the need for an impairment of the carrying value of tangible and intangible fixed assets as the Group incurred losses during year and concluded that an impairment provision of £77,000 should be made.
- (iv) The Committee has overseen the preparation of the viability statement produced for this year's Annual Report and has conducted a robust examination of the risks identified, the resultant actions that may be required and the projected outcomes.

AUDIT COMMITTEE REPORT CONTINUED

Internal controls and risk management

The Board has overall responsibility for the Group's system of internal controls, including reviewing the effectiveness of these controls and the processes in place for risk management. The role of the Executive Directors is to implement the Board's policies on risk and control and provide assurance on compliance with these policies. The processes and procedures in place are designed to manage rather than eliminate risk and can therefore only provide a reasonable and not an absolute assurance against material misstatements or losses.

Executive Directors have a close involvement with all day-to-day operations and also meet with staff on a regular basis to identify and review business risks, the controls needed to minimise those risks and the effectiveness of controls in place. Business risks are monitored and updated on a regular basis. Insurance is in place where appropriate.

Some key features of the internal control system are that:

- (i) annual budgets and rolling forecasts are reviewed and approved by the Board;
- (ii) monthly management accounts information is compared and reconciled with budgets;
- (iii) the Group has written operational, accounting and employment policies in place;
- (iv) the Board actively identifies and evaluates the risks inherent in the business and ensures that appropriate controls and procedures are in place to manage these risks;
- (v) the Group has well established financial reporting and approval systems and procedures which cover all key transactional processes and Group commitments; and
- (vi) the Group has a uniform system of investment appraisal.

The Group has quality assurance processes in place by virtue of its internal quality assurance department, which audits non-financial processes and procedures, although this department does not report to the Audit Committee.

As a result of deficiencies identified last year, additional procedures have been introduced by the Audit Committee to ensure that revenue recognition is correctly determined as part of the process of agreeing new licences and other technical areas of IFRSs are properly applied. These additional procedures include review and approval of the proposed treatment by the Board.

The Committee considers that the need for an internal audit function is not currently warranted due to the size and complexity of the business but will reconsider this need not less than annually.

Internal accountability

The Board has overall responsibility for the Group's system of risk management and internal control. The Audit Committee reviews the effectiveness of the system at least annually on behalf of the Board and, having carried out this review, the Board continues to believe that the system is effective in safeguarding shareholders' interests and the Group's assets. Such a system can only provide reasonable and not absolute assurance against material misstatement or loss, nor can it eliminate the risk of failure.

In accordance with the Internal Control Guidance for Directors issued by the Financial Reporting Council, there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. This process was introduced during 2015 and is being reviewed and improved upon.

The Group operates, and attaches importance to, clear principles and procedures designed to achieve the accountability and control appropriate to a science-based business operating internationally in the research business sector. Nanoco has established an organisational structure with clearly drawn lines of accountability and delegation of authority.

Financial results and key operational and financial performance indicators are reported regularly throughout the year and variances from plans and budgets are investigated and reported. The Group has a system of high level financial control procedures which are supplemented by detailed procedures at each operating entity. Compliance with these procedures is monitored by the Audit Committee through its reviews of internal and external audit findings, its reviews of exceptions, and regular management and financial reporting.

Details of the technical, product, market and operational risks of the business are disclosed in the Strategic report.

Details of the Group's financial risk management objectives and policies are disclosed in note 26 to the financial statements.

The Directors do not consider that the business is, at this time, significantly exposed to credit or interest risk and, as such, these risks are not considered to be material for an assessment of the assets, liabilities, financial position and results.

The Group seeks to manage liquidity by ensuring funds are available to meet foreseeable needs and to invest cash assets safely and profitably. The Group had cash, cash equivalent and deposit balances of £5.7 million as at 31 July 2017 (2016: £14.5 million).

The Group manages its cash deposits prudently. The net placing proceeds of £8.0 million and other cash balances will be invested across a number of financial institutions which have investment-grade credit ratings. The deposits will range from instant access to six-month term deposits. Cash deposits are regularly reviewed by the Board and cash forecasts are updated monthly to ensure that there is sufficient cash available for foreseeable requirements.

Dr Alison Fielding
Audit Committee Chair
16 November 2017

REMUNERATION COMMITTEE REPORT

STATEMENT FROM THE CHAIRMAN OF THE REMUNERATION COMMITTEE



MEMBERS

- **Brendan Cummins**
(Chairman from 1 February 2017)
- **Dr Alison Fielding**
(from 20 April 2017)
- **Gordon Hall**
(Chairman until his resignation
on 31 January 2017)
- **Robin Williams**
(resigned on 13 July 2017)

Our remuneration policy is designed to promote the long-term success of the business by ensuring a focus on performance related pay that drives our transformation to a commercial proposition and provides a clear emphasis on long-term sustainable performance.

Dear shareholder

As the Chairman of Nanoco's Remuneration Committee ("the Committee"), I am pleased to present our Directors' remuneration report for the year ended 31 July 2017. The terms of reference of the Remuneration Committee can be found in the Investor section of the Group's website. Our Directors' remuneration policy was approved by shareholders at the AGM on 10 December 2015 and has been applied throughout the year ended 31 July 2017. Transitioning to a commercial organisation presents many challenges to a remuneration process. It is not always possible during such transitions to fully reward individual effort and individual performance. The developing of a market takes time and the resulting financial achievement reflecting all the effort only comes in the future. The Committee

would like to acknowledge and thank the organisation for the excellent work over the years, in driving our organisation forward. The Committee considers that the policy remains appropriate for the Group in the coming year and it will continue to apply for the year ending 31 July 2018. The full Directors' remuneration policy as approved can be found in the Annual Report and Accounts for the year ended 31 July 2015 on the Group's website at www.nanocotechnologies.com.

The Annual report on remuneration section of this report provides details of the amounts earned by Directors in respect of the year ended 31 July 2017 and how the Directors' remuneration policy will be operated for the year commencing 1 August 2017. This will be subject to an advisory vote at the AGM on 12 January 2018.

Our approach to remuneration

Our remuneration policy is designed to promote the long-term success of the business by ensuring a focus on performance related pay that drives our transformation to a commercial proposition and provides a clear emphasis on long-term sustainable performance.

A key part of our remuneration policy is our incentive arrangements, which are aligned to the strategic direction of the Group and our stakeholder philosophy. Our incentive arrangements comprise a Deferred Bonus Plan ("DBP") and a Long Term Incentive Plan ("LTIP").

REMUNERATION COMMITTEE REPORT CONTINUED

STATEMENT FROM THE CHAIRMAN OF THE REMUNERATION COMMITTEE

Our approach to remuneration continued

The share plans are designed to:

- be simple and transparent to participants and our shareholders;
- engage employees and appropriately motivate and incentivise our senior leadership team to deliver the long-term strategy;
- reflect our stakeholder philosophy by enabling employees at all levels to share in the success of the Group and by encouraging the senior leadership team to build meaningful shareholdings in the Company; and
- provide a flexible framework which reflects the stage of the Group's development, which is perceived as valuable and a fair reflection of performance and is aligned with sustainable shareholder value creation.

Remuneration decisions in respect of the year ended 31 July 2017

As referred to in the 2016 Directors' remuneration report, our Executive Directors' salaries for the year ended 31 July 2017 were increased by 0.5%, below the increases for the wider workforce.

The 2017 bonus opportunity for the Executive Directors was based on a combination of financial and corporate measures and challenging personal objectives. Notwithstanding the commitment of the Executive Directors and the excellent

performance against personal objectives, the Remuneration Committee determined that the company could not justify awarding any bonuses to the Executive Directors due to affordability and the lack of achievement of financial targets.

Long-term incentive awards were granted in the year under the LTIP, and further information is given on pages 53 and 54.

Remuneration in the year commencing 1 August 2017

The approved Directors' remuneration policy will be applied as follows in the year commencing 1 August 2017:

- Executive Directors will not receive a salary increase.
- Consideration is to be given to awarding the workforce below Executive and senior management a base salary increase of 1 to 2% to be applied based on individual merit and performance level.
- For the year commencing 1 August 2017, employer pension contributions above the amount of any salary sacrifice (and the associated employer National Insurance contributions savings) will continue to be capped at 5% of salary.
- Annual bonus opportunity for Executive Directors will remain at 100% of salary, subject to the achievement of stretching performance conditions. Half of any bonus earned will be delivered via an award of deferred shares under the DBP; further information is given on page 57.

- LTIP awards for the year commencing 1 August 2017 will be granted at the usual policy level of 100% of salary.
- LTIP awards will continue to be subject to stretching share price and revenue targets with an underpin applying to both elements. Further information is given on page 58.
- In line with best practice, clawback will continue to apply to any cash bonus paid and malus provisions to any unvested deferred bonus awards and awards granted under the new LTIP.
- No increases to the Non-executive Director fee levels are proposed.

As a Committee, we believe that ongoing dialogue with our major shareholders is of key importance. Should you have any queries or feedback in relation to the Directors' remuneration report, please contact me through the Company Secretary.

Brendan Cummins

Remuneration Committee Chairman
16 November 2017

DIRECTORS' REMUNERATION REPORT

This Directors' remuneration report for the year ended 31 July 2017 complies with the requirements of the Listing Rules of the UK Listing Authority, Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and the provisions of the UK Corporate Governance Code (September 2016). The Regulations require the auditor to report to the Company's members on certain parts of the Directors' remuneration report and to state whether, in its opinion, those parts of the report have been properly prepared in accordance with the accounting regulations.

Items that are audited throughout this report are clearly marked as audited in the heading of the section.

Directors' remuneration policy

This part of the report sets out the Company's Directors' remuneration policy as approved at the December 2015 AGM, except that we have updated the scenario charts on page 46 to reflect the application of the policy in 2017/18. The Directors' remuneration policy is not audited.

The table below describes each of the elements of the remuneration package for the Executive Directors.

Element and purpose	Operation	Maximum opportunity	Performance measures
Base salary Core element of fixed remuneration that provides the basis to recruit and retain talent necessary to deliver the business strategy.	Normally reviewed annually, any increases generally apply from 1 August (but may be reviewed more frequently if required). When determining base salary levels, consideration is given to the following: <ul style="list-style-type: none"> • the role, responsibility and experience of the individual; • corporate and individual performance; • market conditions, including typical pay levels for comparable roles in companies of a similar size and complexity; and • the range of salary increases awarded across the Group. 	Whilst there is no maximum salary, salary increases will normally be in line with the wider workforce, with the following exceptions: <ul style="list-style-type: none"> • where an Executive Director has been promoted or their role has had a change in scope or responsibility; • due to an individual's development or performance in their role (e.g. a newly appointed Executive Director being moved to be aligned with the market over time); • where there has been a change in market practice; or • where there has been a change in the size and/or complexity of the business. 	n/a
Benefits Provide a market-competitive benefits package and promote the wellbeing of employees.	Directors are entitled to receive reimbursement for out-of-pocket expenses incurred on Company business. Where tax is payable in respect of expenses incurred by Directors wholly and necessarily for business purposes, the Board has agreed that the relevant tax will be paid by the Company. The Company provides benefits, principally life assurance, for all Directors. Directors' business expenses are reimbursed on submission of an authorised expense claim. The benefits provided would be reviewed periodically, taking individual circumstances into consideration. Benefits provided may include, for example, medical expenses, relocation expenses, expatriate allowances and travel expenses.	Whilst the Committee has not set an absolute maximum on the level of benefits Executive Directors may receive, the value of benefits is set at a level which the Committee considers to be appropriately positioned taking into account relevant market levels based on the nature and location of the role, the level of benefits provided to other employees in the Group and individual circumstances.	n/a
Retirement benefits Provide market-competitive post-employment benefits to recruit and retain Directors of the calibre required for the business.	The Company currently operates a salary sacrifice pension arrangement under which Executive Directors may elect to sacrifice salary and the Company pays an amount equal to the amount of the salary sacrifice, together with the employer National Insurance saved, into a private pension scheme. Executive Directors are also eligible to participate in the Company's defined contribution scheme (or such other pension plan as may be deemed appropriate). In appropriate circumstances, such as where contributions exceed the annual or lifetime allowance, Executive Directors may be permitted to take a cash supplement instead of contributions to a pension plan (this would not count towards the bonus or LTIP opportunity).	For the year commencing 1 August 2017, employer pension contributions above the amount of any salary sacrifice and employer NIC saved will be capped at 5% (2016: 5%) of salary. An overall contribution limit of up to 10% of base salary may be made in future years (in addition to the amount of any salary sacrifice and employer NIC saved) to take account of a change in the scope of the role, increase in responsibility and/or a change in the size and/or complexity of the business.	n/a

DIRECTORS' REMUNERATION REPORT CONTINUED

Directors' remuneration policy continued

Element and purpose	Operation	Maximum opportunity	Performance measures						
<p>Annual bonus Rewards and incentivises the achievement of annual objectives which are aligned with key financial and strategic goals and supports the enhancement of shareholder value.</p>	<p>Performance targets are set annually and payout levels are determined after the year end following the Committee's assessment of actual performance against set targets.</p> <p>At least 50% of any bonus earned is paid in cash and 50% is awarded in shares under the DBP which vest after two years. The Committee may decide not to operate deferral if it is determined that the amount to be deferred is too small to warrant the administrative burden.</p> <p>Deferred share awards may incorporate the right to receive (in cash or shares) the value of the dividends that would have been paid on the shares that vest.</p>	<p>Maximum annual bonus opportunity is 100% of salary.</p> <p>The percentage of maximum bonus payable for the different levels of performance would be no greater than:</p> <table border="1"> <tr> <td>Below threshold</td> <td>0%</td> </tr> <tr> <td>On-target</td> <td>60%</td> </tr> <tr> <td>Maximum</td> <td>100%</td> </tr> </table>	Below threshold	0%	On-target	60%	Maximum	100%	<p>Stretching performance targets are set each year, reflecting the business priorities that underpin Group strategy.</p> <p>Ordinarily, up to 60% will be subject to achievement of a combination of financial and corporate measures and the balance will be based on challenging personal objectives. The Committee retains discretion to apply different weightings in relevant circumstances.</p>
Below threshold	0%								
On-target	60%								
Maximum	100%								
<p>Long Term Incentive Plan ("LTIP") To reflect stakeholder philosophy, provide a longer-term retention mechanism and provide alignment with shareholders.</p>	<p>The Committee intends to make long-term incentive awards under the 2015 LTIP scheme as approved at the 2015 AGM.</p> <p>Under the LTIP, awards of conditional shares, restricted stock or nil-cost options (or similar cash equivalent) can be made with vesting dependent on the achievement of performance conditions, normally, over a three-year performance period.</p> <p>Under the LTIP, there will be no retesting of performance following the end of the performance period.</p> <p>After the end of the performance period the vested awards would normally be subject to a two-year holding period.</p> <p>LTIP awards may incorporate the right to receive (in cash or shares) the value of the dividends that would have been paid on the shares that vest.</p>	<p>The maximum value of shares over which an individual can be granted an award in respect of a financial year is normally 100% of base salary, although this limit may be increased to 250% of base salary in exceptional circumstances.</p> <p>25% of awards will vest for threshold levels of performance, rising to 100% for maximum performance.</p>	<p>The vesting of LTIP awards is subject to the satisfaction of performance targets set by the Committee.</p> <p>The performance measures are reviewed regularly to ensure they remain relevant but will be based on financial measures (which may include, but are not limited to, Group revenue targets and EPS) and/or share price related measures.</p> <p>The relevant metrics and the respective weightings may vary each year based on Company strategic priorities.</p>						
<p>Shareholding requirement To align Directors to shareholder interests.</p>	<p>A requirement to build up over a five-year period and hold a shareholding of at least 200% of base salary for the CEO and 100% of base salary for other Executive Directors.</p> <p>50% of vested shares under the DBP or LTIP (post-tax) are to be retained until the shareholding requirement has been met.</p>	n/a	n/a						

Notes to the policy table

Application of clawback and malus to variable remuneration

Under the DBP, during the two-year deferral period, the Committee has the right to reduce any deferred bonus awards which have not yet been released in the event of a material misstatement of the Group's financial results, material misconduct on the part of the participant or a material failure of risk management by the Group (i.e. a malus provision). For up to two years following the payment of a cash bonus award, the Committee may also require the repayment of some or all of the award in these circumstances (i.e. a clawback provision).

Under the 2015 LTIP scheme, at any time prior to the end of the holding period for LTIP awards the Committee in its discretion may reduce, cancel or impose further conditions on LTIP awards which have not yet been released in the event of a material misstatement of the Group's financial results, material misconduct on the part of the participant or a material failure of risk management by the Group.

Notes to the policy table *continued*

Explanation of performance measures chosen

Selected performance measures for the annual bonus and LTIP awards reflect the Group's strategy. Stretching performance targets are set each year by the Committee taking into account a number of different factors.

Annual bonus

Up to 60% of the potential maximum annual bonus will be subject to achievement of a combination of financial and corporate measures, whilst the balance will be based on challenging personal objectives. The Committee will disclose the metrics and performance against these on a retrospective basis to the extent that these are not commercially sensitive.

LTIP

The Company has historically used commercial revenue targets as its primary measure for LTIP awards for Executive Directors. Recognising that the Company's transition from a research and development company to a commercial, product-driven organisation presents a number of challenges to defining meaningful and appropriate performance metrics and targets. The awards granted under the LTIP will be a combination of share price growth for 50% of the award; and Group revenue targets for 50% of the award. Both of these metrics will be subject to a performance underpin to ensure that the share price and revenue metrics for the LTIP do not lead to behaviours that are divergent from the core commercialisation strategy and that appropriate developments are made in all areas of the business. It is the Committee's view these are the most appropriate performance measures for determining LTIP vesting for the awards on the basis that:

- share price growth is a key measure of value delivered to shareholders and should reflect the achievement of commercial milestones. This ensures that this element only vests where significant value is delivered to shareholders;
- Group revenue is a core metric for measuring the successful growth of the Group and development of new commercial products; and
- the performance underpin ensures that the share price and revenue metrics for the LTIP do not lead to behaviours that are divergent from the core commercialisation strategy and that appropriate development is made in all areas of the business.

The Committee intends to review the performance metrics for future awards taking into account the business priorities and strategy. Whilst it is recognised that EPS is not an appropriate metric for the awards given the current negative earnings of the Group, as the Group moves towards positive EPS, it may be considered an appropriate metric once the Group has developed a history of earnings.

The Committee also retains the discretion to adjust or set different performance measures or targets where it considers it appropriate to do so (for example, to reflect a change in strategy, a material acquisition and/or a divestment of a Group business or a change in prevailing market conditions) and to assess performance on a fair and consistent basis from year to year.

Operation of the LTIP and DBP

The LTIP and DBP are operated by the Committee in accordance with their respective rules, including the ability to adjust the number of shares subject to awards in the event of a variation of share capital, demerger, delisting, special dividend, rights issue or other event which may, in the opinion of the Company, affect the current or future value of shares.

Early vesting of awards

As described on page 48, awards under the DBP and LTIP may vest earlier than anticipated in "good leaver" circumstances.

On a change of control of the Company or other relevant corporate event (such as a demerger, delisting, special dividend or other event which may affect the value of an award), the extent to which unvested awards will vest will be determined in accordance with the rules of the relevant plan.

Awards under the DBP will vest in full in the event of a takeover, merger or other relevant corporate event.

Awards under the LTIP will vest early on a takeover, merger or other relevant corporate event. The Committee will determine the level of vesting taking into account the extent to which the performance conditions are satisfied. Such vesting would ordinarily be on a time pro-rata basis, although the Committee has discretion not to apply time pro-rating.

How the Executive Directors' remuneration policy relates to the Group

The remuneration policy summarised above provides an overview of the structure that operates for the Executive Directors. The same broad structure also operates for the members of the senior management team, although with lower levels of participation in the annual bonus, DBP and/or the LTIP. For other employees, the same remuneration principles are applied and the Company aims to provide a remuneration package that is competitive in an employee's country of employment and which is appropriate to promote the long-term success of the Group.

DIRECTORS' REMUNERATION REPORT CONTINUED

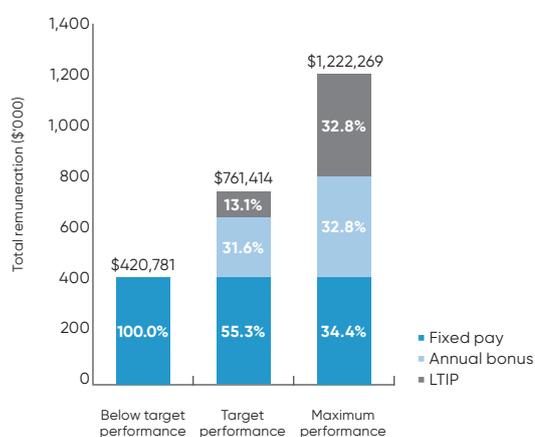
Remuneration outcomes in different performance scenarios

The charts below set out an illustration of the remuneration policy for 2018. The charts provide an illustration of the proportion of total remuneration made up of each component of the remuneration policy and the value of each component.

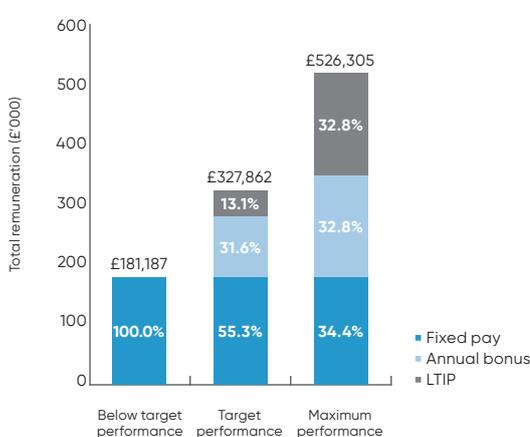
Three scenarios have been illustrated for each Executive Director:

Below threshold performance	Fixed remuneration No annual bonus payout No vesting under the LTIP
Target performance	Fixed remuneration 60% annual bonus payout 25% vesting under the LTIP
Maximum performance	Fixed remuneration 100% annual bonus payout 100% vesting under the LTIP

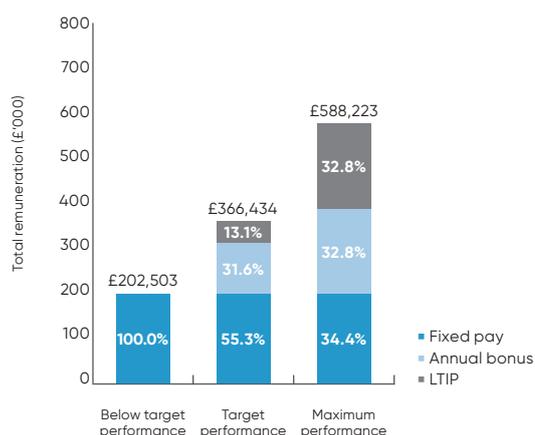
Dr Michael Edelman



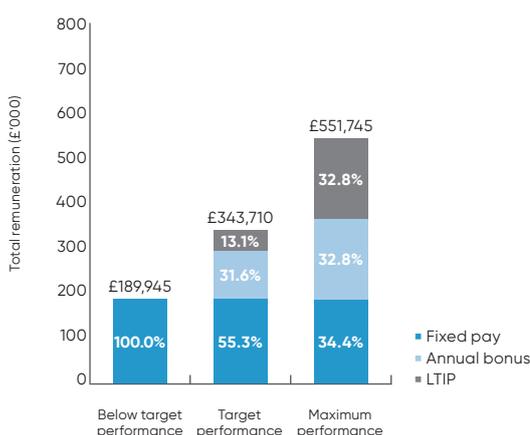
Dr Nigel Pickett



Keith Wiggins



David Blain



Fixed pay currently comprises the following elements:

	Current base salary	Benefits*	Pension**	Total
Chief Executive Officer – Dr Michael Edelman	\$400,744	–	\$20,037	\$420,781
Chief Technical Officer – Dr Nigel Pickett	£172,559	–	£8,628	£181,187
Chief Operating Officer – Keith Wiggins	£192,860	–	£9,643	£202,503
Chief Financial Officer – David Blain	£180,900	–	£9,045	£189,945

* No benefits are currently provided to the Executive Directors other than under the Group life assurance scheme.

** Based on 5% employer pension contribution/cash supplement in lieu of pension which applies for the year ended 31 July 2018.

The values illustrated do not take into account share price fluctuation or dividend equivalents that may be received under the share plans. The ultimate amounts received by the Directors may be higher or lower than the amounts illustrated above.

Remuneration policy for Non-executive Directors

Purpose and link to strategy	Operation	Other items
To enable the Company to attract and retain Non-executive Directors of the required calibre by offering market-competitive rates.	<p>The Chairman's fee is determined by the Committee and the fees of the other Non-executive Directors are determined by the Board.</p> <p>Fees are set taking into account several factors, including the size and complexity of the business, fees paid to chairmen and non-executive directors of companies of a similar size and complexity and the expected time commitment and contribution for the role.</p> <p>Overall fees paid to Non-executive Directors will remain within the limits set by the Company's Articles of Association.</p>	<p>Non-executive Directors are provided with directors' and officers' insurance and indemnity protection and may be eligible to be reimbursed any reasonable hotel and travelling expenses and other reasonable expenses incurred in the performance of their duties.</p> <p>The Non-executive Directors do not participate in the Company's annual bonus, share plans or pension schemes.</p>

Remuneration policy on recruitment

When hiring a new Executive Director, the Committee will seek to align the remuneration package with the above policy.

When determining appropriate remuneration arrangements, the Committee may include other elements of pay which it considers are appropriate and necessary to recruit and retain the individual. However, this discretion is capped and is subject to the limits referred to below:

- base salary will be set at a level appropriate to the role and the experience of the Director being appointed. This may include agreement on future increases up to a market rate, in line with increased experience and/or responsibilities, subject to good performance, where it is considered appropriate;
- benefits will only be provided in line with the above policy;
- pension contributions will only be provided in line with the above policy;
- the Committee will not offer non-performance related incentive payments (for example a "guaranteed sign-on bonus" or "golden hello");
- other elements may be included in the following circumstances:
 - an interim appointment being made to fill an Executive Director role on a short-term basis;
 - if exceptional circumstances require that the Chairman or a Non-executive Director takes on an Executive function on a short-term basis;
 - if an Executive Director is recruited at a time in the year when it would be inappropriate to provide a bonus or long-term incentive award for that year as there would not be sufficient time to assess performance. Subject to the limit on variable remuneration set out below, the quantum in respect of the months employed during the year may be transferred to the subsequent year so that reward is provided on a fair and appropriate basis; and
 - if the Director will be required to relocate in order to take up the position, it is the Company's policy to allow reasonable relocation, travel and subsistence payments. Any such payments will be at the discretion of the Committee;
- the Committee may also alter the performance measures, performance period and vesting period of the annual bonus or LTIP, if the Committee determines that the circumstances of the recruitment merit such alteration. The rationale of any such alterations will be clearly explained in the next Directors' remuneration report; and
- the maximum level of variable remuneration which may be granted (excluding "buyout" awards as referred to below) is 350% of salary, in line with the policy set out on pages 43 to 47.

The Committee may make payments or awards in respect of hiring an employee to "buy out" remuneration arrangements forfeited on leaving a previous employer. In doing so, the Committee will take account of relevant factors, including any performance conditions attached to the forfeited arrangements and the time over which they would have vested or been paid. The Committee will generally seek to structure buyout awards or payments on a comparable basis to the remuneration arrangements forfeited. Any such payments or awards are excluded from the maximum level of variable remuneration referred to above. "Buyout" awards will ordinarily be granted on the basis that they are subject to forfeiture or "clawback" in the event of departure within twelve months of joining the Company, although the Committee will retain discretion not to apply forfeiture or clawback in appropriate circumstances.

Any share awards referred to in this section will be granted as far as possible under the Company's existing share plans. If necessary, and subject to the limits referred to above, recruitment awards may be granted outside of these plans.

Where a position is filled internally, any ongoing remuneration obligations or outstanding variable pay elements shall be allowed to continue in accordance with their terms.

Fees payable to a newly appointed Chairman or Non-executive Director will be in line with the policy in place at the time of appointment.

DIRECTORS' REMUNERATION REPORT CONTINUED

External appointments

The Company recognises that Executive Directors may be invited to become non-executive directors of other companies and that this can help broaden the skills and experience of a Director. Subject to the approval of the Board, Executive Directors are normally permitted to accept external appointments and may retain fees for such appointments where no significant actual or potential conflict of interest arises and provided that the Director is able to maintain his time commitment to the Company.

None of the Executive Directors currently have an external appointment.

Payment for loss of office

The principles on which the determination of payments for loss of office will be approached are set out below:

	Policy
Payment in lieu of notice	The Company has discretion to make a payment in lieu of notice. Such a payment would include base salary and compensation for benefits for the unexpired period of notice, up to a maximum of twelve months' notice.
Annual bonus	This will be at the discretion of the Committee on an individual basis and the decision as to whether or not to award an annual bonus award in full or in part will be dependent on a number of factors, including the circumstances of the individual's departure and their contribution to the business during the annual bonus period in question. Any annual bonus award amounts paid will normally be pro-rated for time in service during the annual bonus period and will, subject to performance, be paid at the usual time (although the Committee retains discretion to pay the annual bonus award earlier in appropriate circumstances). Any such bonus can, at the discretion of the Committee, be paid wholly in cash.
DBP	<p>The extent to which any unvested award will vest will be determined in accordance with the rules of the DBP.</p> <p>Unvested awards will normally lapse on cessation of employment. However, if a participant leaves due to death, ill health, injury, disability, the sale of his employer or any other reason at the discretion of the Committee, the Committee shall determine whether any unvested award will vest at cessation or at the normal vesting date. In either case, the extent of vesting will be determined by the Committee, taking into account, unless the Committee determines otherwise, the period of time elapsed from the date of grant to the date of cessation relative to the deferral period. Awards may then be exercised during such period as the Committee determines.</p> <p>Awards (in the form of nil-cost options) which have vested but remain unexercised at the date of cessation may be exercised if a participant leaves due to death, ill health, injury, disability, the sale of his employer or any other reason at the discretion of the Committee. Awards may then be exercised for such period as the Committee determines.</p>
LTIP	<p>The extent to which any unvested award will vest will be determined in accordance with the rules of the LTIP.</p> <p>Unvested awards will normally lapse on cessation of employment. However, if a participant leaves due to death, ill health, injury, disability, the sale of his employer or any other reason at the discretion of the Committee, the Committee shall determine whether the award is released on the normal release date or the date of cessation (or on some other date). In any case, the extent of vesting will be determined by the Committee taking into account the extent to which the performance condition is satisfied and, unless the Committee determines otherwise, the period of time elapsed from the date of grant to the date of cessation relative to the performance period. Awards may then be exercised during such period as the Committee determines.</p> <p>If a participant leaves for any reason (other than summary dismissal) after an award has vested but before it has been released (i.e. during the holding period), his award will ordinarily continue to the normal release date when it will be released to the extent it vested. The Committee retains discretion to release awards when the participant leaves. If the participant is summarily dismissed, his award will lapse. Awards (in the form of nil-cost options) which have vested and been released but remain unexercised at the date of cessation may be exercised if a participant leaves due to death, ill health, injury, disability, the sale of his employer or any other reason at the discretion of the Committee. Awards may then be exercised for such period as the Committee determines.</p>
Other payments	In appropriate circumstances, payments may also be made in respect of accrued holiday, outplacement and legal fees.

Where a buyout award is made, the leaver provisions would be determined at the time of the award.

The Committee reserves the right to make additional exit payments where such payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of settlement or compromise of any claim arising in connection with the termination of a Director's office or employment.

Where the Committee retains discretion it will be used to provide flexibility in certain situations, taking into account the particular circumstances of the Director's departure and performance.

There is no entitlement to any compensation in the event of Non-executive Directors' fixed-term agreements not being renewed or the agreement terminating earlier.

Consideration of employees' pay

The Committee generally considers pay and employment conditions elsewhere in the Company when considering the Directors' remuneration. When considering base salary increases, the Committee reviews overall levels of base pay increases offered to other employees. Employees are not actively consulted on Directors' remuneration. Employee share ownership is fundamental to the Company's culture and is reflected in the wide participation in our share incentive plans.

Existing contractual arrangements

The Committee retains discretion to make any remuneration payment or payment for loss of office outside the policy in this report:

- where the terms of the payment were agreed before the policy came into effect;
- where the terms of the payment were agreed at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration of the individual becoming a Director of the Company; and
- to satisfy contractual commitments under legacy remuneration arrangements (including the jointly owned EBT share scheme for senior management under which the trustee of the Group-sponsored EBT has acquired shares in the Company jointly with a number of employees, the Company's Long Term Incentive Plan adopted in 2009, and any other share plan in place prior to admission).

For these purposes, "payments" includes the satisfaction of awards of variable remuneration and, in relation to an award over shares, the terms of the payment are agreed at the time the award is granted.

Consultation with shareholders

The Committee considers shareholder feedback received on remuneration matters, as well as any additional comments received during any other meetings with shareholders. Major shareholders were consulted on the introduction of the new DBP and LTIP which shareholders approved at the 2015 AGM and the Committee intends to consult with shareholders in respect of any significant changes to the Executive Directors' remuneration arrangements.

ANNUAL REPORT ON REMUNERATION

This report sets out details of the amounts earned during 2017 and provides details as to how the Committee intends to implement the policy during 2018. This part of the report will be subject to an advisory shareholder vote at the 2018 AGM. This report contains unaudited information except where stated that it is audited.

Remuneration Committee

The Committee comprises Brendan Cummins, who is Chairman of the Committee, and Dr Alison Fielding, each of whom is considered to be independent. Dr Alison Fielding and Brendan Cummins joined the Committee during the year. Gordon Hall (Chairman) and Robin Williams were members of the Committee until their resignations. The Committee may invite anyone it deems appropriate to attend and advise at meetings, including the Chief Executive Officer and the Chief Financial Officer, although no Director is present when his own remuneration is being discussed. The Committee is responsible for establishing a formal and transparent procedure for developing policy on executive remuneration and for setting the remuneration of the Directors and certain senior management, as well as reviewing the performance of the Executive Directors of the Company.

The Committee met four times during the year, its meetings are minuted and its recommendations are presented to the Board.

Policy on other appointments

The Board believes that Directors should be able to accept other appointments where no significant actual or potential conflicts of interest arise and provided that the Director is able to maintain his time commitment to the Company. These other appointments enable Directors to accrue further skills and experience from which the Company benefits. This policy is reviewed annually. None of the Executive Directors currently have any other external appointments.

Advisers to the Committee

The Chief Executive Officer is consulted on the remuneration of those who report directly to him and also of other senior executives. No Executive Director or employee is present or takes part in discussions in respect of matters relating directly to their own remuneration. During the year, the Committee was assisted in its work by the following external consultants:

Adviser	Details of appointment	Services provided by the adviser	Fees paid by the Company for advice to the Remuneration Committee and basis of charge	Other services provided to the Company in the year ended 31 July 2017
Deloitte LLP ("Deloitte")	Appointed by the Remuneration Committee in June 2015.	Various advice on executive remuneration.	The fees for advice in relation to this report provided to the Committee during the financial year were £3,500 (2016: £8,000). Charged on a time/cost basis or fixed fee dependent on nature of project.	Advice regarding employee share plans.

Deloitte is a member of the Remuneration Consultants Group and, as such, voluntarily operates under its Code of Conduct in relation to executive remuneration consulting in the UK. The Remuneration Committee took into account the Code of Conduct when reviewing the appointment of Deloitte. The Committee is satisfied that the remuneration advice provided by Deloitte is objective and independent.

DIRECTORS' REMUNERATION REPORT CONTINUED

ANNUAL REPORT ON REMUNERATION CONTINUED

Single total figure of remuneration for 2017 (audited information)

The remuneration of the Directors who served on the Board of Nanoco Group plc during the year to 31 July 2017 is as follows:

	Base salary and fees £'000	Benefits in kind ⁵ £'000	Annual bonus in cash £'000	Annual bonus in shares £'000	Long-term incentives £'000	Pension £'000	Total 2017 £'000
Executive Directors							
Dr Michael Edelman ¹	311	–	–	–	–	16	327
Dr Nigel Pickett	173	–	–	–	–	9	182
Keith Wiggins	193	–	–	–	–	10	203
David Blain	181	–	–	–	–	9	190
Total Executive Directors	858	–	–	–	–	44	902
Non-executive Directors							
Dr Christopher Richards	75	–	–	–	–	–	75
Brendan Cummins	35	–	–	–	–	–	35
Dr Alison Fielding ²	7	–	–	–	–	–	7
Total Non-executive Directors	117	–	–	–	–	–	117
Former Non-executive Directors							
Gordon Hall ³	17	–	–	–	–	–	17
Robin Williams ⁴	35	–	–	–	–	–	35
Total former Non-executive Directors	52	–	–	–	–	–	52
Total	1,027	–	–	–	–	44	1,071

1 Dr Michael Edelman's remuneration is paid in US Dollars but reported in Sterling for the purpose of this table. The exchange rate used for this purpose varied throughout the year. The rates used were in the range 1.2185 to 1.31096.

2 Dr Alison Fielding was appointed to the Board of Directors on 20 April 2017.

3 Gordon Hall resigned on 31 January 2017.

4 Robin Williams resigned on 13 July 2017.

5 The life cover provided to Executive Directors is contained within a policy covering all employees and it is not possible to identify the proportion of the premium in respect of Directors either individually or as a whole.

The remuneration of the Directors who served on the Board of Nanoco Group plc during the year to 31 July 2016 was as follows:

	Base salary and fees £'000	Benefits in kind ⁷ £'000	Annual bonus in cash £'000	Annual bonus in shares £'000	Long-term incentives £'000	Pension £'000	Total 2016 £'000
Executive Directors							
Dr Michael Edelman ¹	279	–	57	57	–	13	406
Dr Nigel Pickett	172	–	35	34	–	2	243
Keith Wiggins	192	–	38	39	–	9	278
David Blain ²	180	–	36	36	–	9 ⁶	261
Total Executive Directors	823	–	166	166	–	33	1,188
Non-executive Directors							
Dr Christopher Richards ³	28	–	–	–	–	–	28
Gordon Hall	35	–	–	–	–	–	35
Robin Williams	35	–	–	–	–	–	35
Brendan Cummins	25	–	–	–	–	–	25
Total Non-executive Directors	123	–	–	–	–	–	123
Former Non-executive Directors							
Anthony Clinch ⁴	65	–	–	–	–	–	65
Dr Peter Rowley ⁵	17	–	–	–	–	–	17
Total former Non-executive Directors	82	–	–	–	–	–	82
Total	1,028	–	166	166	–	33	1,393

ANNUAL REPORT ON REMUNERATION CONTINUED

Single total figure of remuneration for 2017 (audited information) continued

- 1 Dr Michael Edelman's remuneration is paid in US Dollars but reported in Sterling for the purpose of this table. The exchange rate used for this purpose varied throughout the year. The rates used were in the range 1.3222 to 1.5387.
- 2 David Blain was appointed to the Board on 3 August 2015.
- 3 Dr Christopher Richards was appointed to the Board on 11 November 2015.
- 4 Anthony Clinch resigned on 17 May 2016. He was paid his fee up to the date of resignation and received a further payment of £25,000 in respect of the six-month notice period under his letter of appointment.
- 5 Dr Peter Rowley resigned on 12 April 2016.
- 6 Contributions to David Blain's pension fund remained unpaid at the balance sheet date.
- 7 The life cover provided to Executive Directors is contained within a policy covering all employees and it is not possible to identify the proportion of the premium in respect of either Directors individually or as a whole.

Additional disclosures in relation to single figure table (audited information)

The figures in the single figure table above are derived from the following:

(a) Salary and fees	The amount of salary/fees received in the year. A salary sacrifice arrangement is operated under which executives may elect to sacrifice salary and the Company pays an amount equal to the amount of the salary sacrifice, together with the employer National Insurance saved, into a private pension scheme. Directors' salaries are shown before the salary sacrifice pension contributions.
(b) Benefits	The taxable value of benefits received in the year.
(c) Bonus	The cash value of the bonuses and the market value of awards to be made under the DBP earned in respect of the financial year. Further information in relation to the 2017 bonus is provided on pages 51 to 53.
(d) Long-term incentives	None.
(e) Pension	The pension figure represents the cash value of Company pension contributions and/or cash in lieu of pension contributions paid to the Executive Directors. This does not include the amount of the salary sacrifice paid as a pension but does include the employer National Insurance saved that is paid into a private pension scheme.

Individual elements of remuneration for the year ended 31 July 2017

Base salary

As referred to in the 2016 Directors' remuneration report our Executive Directors' salaries for the year ended 31 July 2017 were \$400,744 in the case of our Chief Executive Officer, £172,559 in the case of our Chief Technology Officer, £192,860 for our Chief Operating Officer and £180,900 for our Chief Financial Officer.

Annual bonus

For the year ended 31 July 2017, the maximum bonus for Dr Michael Edelman, Dr Nigel Pickett, Keith Wiggins and David Blain was 100% of salary. The annual bonuses comprise two elements: achievement of financial and corporate measures (60% of salary) and achievement of personal objectives (40% of salary). The Remuneration Committee determined that 0% of salary should be awarded as a bonus for each Director in relation to achievement of corporate objectives (compared to a maximum of 60%). The Remuneration Committee also determined that each Director should not receive a bonus regardless of performance in relation to personal objectives due to failure to achieve corporate targets and affordability.

The financial and corporate measures and their weighting as a percentage of salary for the year ended 31 July 2017 were:

Measure and weighting as a percentage of salary	Threshold performance level	Maximum performance level	Performance achieved	Bonus earned as a percentage of salary
Revenue (35%)	£5 million	£9.8 million	£1.3 million	Nil
EBITDA (20%)	Loss of £8.4 million	Loss of £5 million	Loss of £9.7 million	Nil
Share price (5%)	65p	110p	37.5p	Nil

DIRECTORS' REMUNERATION REPORT CONTINUED

ANNUAL REPORT ON REMUNERATION CONTINUED

Individual elements of remuneration for the year ended 31 July 2017 continued

Annual bonus continued

The annual bonus personal objectives and bonus outturn are summarised in the tables below:

Specific bonus targets have not been disclosed by the Committee where they are considered to be commercially sensitive. The current stage of the Group's development means certain retrospective information could still give competitors insight into the strategic plans of the business, which is not in the interest of shareholders.

Director	Measure	Weighting (% of maximum bonus opportunity)	Achievement	Payout (% of salary)
Dr Michael Edelman	Financial and corporate measures	60	Not achieved as referred to above	0
	Personal objectives:	40		0
	Lead team in defining Nanoco's strategy for the next three to five years		Achieved	
	Ensure licensees are supported to deliver the short and mid-term targets		Partially achieved	
	Ensure Executive team has required support to deliver its objectives		Achieved	
	Manage existing and diversify shareholder base		Achieved	
	Continue to work with the Chairman to improve the Nanoco Board process (as agreed in the Board evaluation)		Ongoing	
Dr Nigel Pickett	Financial and corporate measures	60	Not achieved as referred to above	0
	Personal objectives:	40		0
	Project 1		Achieved	
	Project 2		Partially achieved	
	Project 3		Achieved	
	Project 4		Achieved	
	Project 5		Achieved	
	Project 6		On hold	
	Project 7		On hold	
	Project 8		Achieved	
Project 9		Achieved		
Keith Wiggins	Financial and corporate measures	60	Not achieved as referred to above	0
	Personal objectives:	40		0
	Develop manufacturing options for Nanoco. Different manufacturing scenarios for volumes and capital expenditure required		Achieved	
	Ensure robust supply chain is in place to support Nanoco manufactured and sold product		Partially achieved	
	Ensure Nanoco display launch product fit for purpose and that the display product pipeline is robust. This will be determined by customers choosing Nanoco products		Partially achieved	
	Ensure Merck is supported and technology is transferred as quickly as possible – by year end		Achieved	
	Ensure continued support for Dow, e.g. offer them newest technology on a "pay to play" basis		Achieved	
	Deliver £0.3 million is in Lighting revenue from focused product launch		Not achieved	
Deliver ISO certification by the year end		Achieved		

ANNUAL REPORT ON REMUNERATION CONTINUED

Individual elements of remuneration for the year ended 31 July 2017 continued

Annual bonus continued

Director	Measure	Weighting (% of maximum bonus opportunity)	Achievement	Payout (% of salary)
David Blain	Financial and corporate measures	60	Not achieved as referred to above	0
	Personal objectives:	40		0
	Ensure all management accounts are produced accurately and in a timely manner, the audit and annual reports are completed on time, forecasting systems are formalised and Nanoco complies with all necessary requirements of being a FTSE-listed company		Achieved	
	Implement new accounting system by year end		Achieved	
	Take lead role in developing and improving our shareholder presentations and communication strategy		Ongoing	
	Tighten up and improve Board procedures as agreed in the Board evaluation		Ongoing	
	Ensure new budget and budget systems are rolled out and are used by the organisation by January 2017		Achieved	
	Ensure cash doesn't fall below £5.9 million on the basis that no extraordinary cash calls are required such as capital expenditure and/or merger and acquisition activity		Not achieved	

Long-term incentives vesting in respect of the year ended 31 July 2017

No long-term incentives for Directors vested during the year ended 31 July 2017.

LTIP awards granted in 2017

Awards to the Executive Directors made on 22 November 2016 were as follows:

Director	Type of award	Percentage of salary %	Number of shares	Face value* at grant £'000	Face value at grant less exercise price £'000	% of award vesting at threshold	Performance period Years
Dr Michael Edelman	Share award	131	841,145	434	434	25	3
Dr Nigel Pickett	Share award	151	505,164	261	261	25	3
Keith Wiggins	Share award	192	717,896	370	370	25	3
David Blain	Share award	197	690,913	356	356	25	3

* Face value has been calculated using the share price at the date of grant of £0.5158 in accordance with the rules of the LTIP approved by shareholders at the 2015 AGM.

These awards are subject to the following share price growth and Group revenue performance conditions measured over three financial years ending 31 July 2019.

50% based on share price growth target measured over the three financial years ending 31 July 2019

% of share price element vesting	Share price target
25	£1.05
100	£1.60

To encourage maximum performance, the value of the award accelerates as the share price approaches the 160 pence level. The principle we have agreed in the Remuneration Committee is a curved line vesting. The Company's share price will be averaged across a three-month period (unless the Committee decides to apply a different averaging period) to avoid rewarding short-term spikes in performance.

DIRECTORS' REMUNERATION REPORT CONTINUED

ANNUAL REPORT ON REMUNERATION CONTINUED

LTIP awards granted in 2017 continued

50% based on Group revenue targets measured over the three financial years ending 31 July 2019

% of Group revenue element vesting	Group revenue target
25	2019 threshold revenue target
100	2019 maximum revenue target

Given the Group is entering a new stage in its development, the Directors consider that the Group revenue targets are matters which are commercially sensitive; they provide our competitors with insight into our business plans and expectations and should therefore remain confidential to the Group. However, in order to maintain transparency, the Committee will disclose the Group revenue targets and how the Group has performed against the targets set following the end of the performance period.

A core strategy of the business is to continue the Lighting and Bio-imaging developments with a long-term aim of transforming them into profitable businesses shipping commercial quantities of product. Under the performance underpin if the Committee is not satisfied that appropriate progress has been made across the business it will have the discretion to cancel all or some of the LTIP award.

Deferred Bonus Plan awards granted in FY2017

On 22 November 2016, awards in the form of nil-cost options were granted to the Executive Directors in respect of the 50% of their bonuses for the year ended 31 July 2016 which are delivered in the form of a share award under the Deferred Bonus Plan. The awards will vest on the date on which the Company announces its preliminary results for the year ending 31 July 2018.

Director	Number of shares	Face value of award at grant £'000 ¹
Dr Michael Edelman	108,181	57
Dr Nigel Pickett	66,576	34
Keith Wiggins	74,408	39
David Blain	69,794	36

¹ Face value has been calculated using the average closing mid-market share price for the three days following the announcement of the preliminary results for the year ended 31 July 2016.

Statement of Directors' shareholding and share interests (audited information)

Directors' interests in jointly owned Employee Benefit Trust ("EBT") shares and in share options to acquire ordinary shares of 10 pence in the Company as at 31 July 2017 were:

Share options	Date granted	Exercise price	At 31 July 2016	Exercised during the year	Lapsed	Granted during the year	At 31 July 2017
Dr Michael Edelman	25 Nov 2011	50.00p	500,000	—	—	—	500,000 ¹
	22 Oct 2012	57.00p	1,000,000	—	—	—	1,000,000 ¹
	23 Dec 2015	Nil	443,548	—	—	—	443,548 ²
	22 Nov 2016	Nil	—	—	—	841,145	841,145 ²
	22 Nov 2016	Nil	—	—	—	108,181	108,181 ³
Dr Nigel Pickett	25 Nov 2011	50.00p	500,000	—	—	—	500,000 ¹
	22 Oct 2012	57.00p	750,000	—	—	—	750,000 ¹
	23 Dec 2015	Nil	284,193	—	—	—	284,193 ²
	22 Nov 2016	Nil	—	—	—	505,164	505,164 ²
	22 Nov 2016	Nil	—	—	—	66,576	66,576 ³
Keith Wiggins	14 Oct 2014	10.00p	380,000	—	—	—	380,000 ²
	23 Dec 2015	Nil	317,627	—	—	—	317,627 ²
	22 Nov 2016	Nil	—	—	—	717,896	717,896 ²
	22 Nov 2016	Nil	—	—	—	74,408	74,408 ³
David Blain	23 Dec 2015	Nil	350,000	—	—	—	350,000 ²
	22 Nov 2016	Nil	—	—	—	690,913	690,913 ²
	22 Nov 2016	Nil	—	—	—	69,794	69,794 ³
Jointly owned EBT shares							
Dr Nigel Pickett	7 Apr 2008	Nil	530,089	(530,089)	—	—	—

¹ Vested but unexercised share options.

² Unvested share options still subject to performance conditions.

³ Unvested Deferred Bonus Plan award. Not subject to performance conditions.

ANNUAL REPORT ON REMUNERATION CONTINUED

Statement of Directors' shareholding and share interests (audited information) continued

In order to align the interests of Executive Directors with those of shareholders and to demonstrate the Executive Directors' ongoing personal financial commitment to the business, Executive Directors will be expected to build up a shareholding of 100% of salary (200% of salary for the CEO). Executive Directors are expected to retain 50% of any post-tax shares that vest under any share incentive plans until this shareholding is reached. The Committee expects Executive Directors to have met the shareholding guideline policy by the fifth anniversary of their appointment as an Executive Director.

Both Dr Michael Edelman and Dr Nigel Pickett hold shares substantially in excess of the shareholding guideline (607% and 2,378% of salary respectively using the three-month average closing share price to the end of July 2017).

Non-executive Directors are not subject to the shareholding requirement.

Directors' interests in the shares of the Company, including family and beneficial interests, at 31 July 2017 were:

	Ordinary shares of 10p each			
	31 July 2017 Number	31 July 2017 %	31 July 2016 Number	31 July 2016 %
Dr Christopher Richards	118,830	0.05	43,421	0.02
Dr Michael Edelman	4,931,615	2.07	5,431,615	2.29
Dr Nigel Pickett	10,945,681	4.59	10,945,681	4.62
Keith Wiggins	–	–	–	–
David Blain	14,700	0.01	14,700	0.01
Brendan Cummins	–	–	–	–
Dr Alison Fielding	–	–	–	–
	16,010,826	6.72	16,435,417	6.94

As at 31 July 2017, none of the Directors had any interests in shares of any other Group company.

The Directors participated in the placing announced on 4 October 2017 and approved by shareholders on 14 November 2017 as follows:

	Placing shares purchased	Shareholding post-placing Number	Shareholding post-placing %
Dr Christopher Richards	166,666	285,496	0.10
Dr Michael Edelman	42,735	4,974,350	1.74
Dr Nigel Pickett	166,666	11,112,347	3.89
Keith Wiggins	55,555	55,555	0.02
David Blain	138,888	153,588	0.05
Brendan Cummins	277,777	277,777	0.10
Dr Alison Fielding	–	–	–
	848,287	16,859,113	5.90

The market price for Nanoco shares as at 31 July 2017 was 37.5 pence per share; the highest and lowest prices during the year were 30.25 pence and 75.25 pence respectively.

Details of share options and shares held in the EBT are set out in note 22 to the financial statements.

Dilution

The Company complies with the relevant institutional investor guidelines on employee share plans which state that in any ten-calendar-year period the Company may not issue more than 10% of the issued ordinary share capital of the Company under the LTIP or any other employee share plan adopted by the Company. Including only option grants post-admission to AIM and excluding any awards that have lapsed, the current dilution is 6.85%.

Payments to past Directors and for loss of office (audited)

No payments to past Directors for loss of office were made during the year.

DIRECTORS' REMUNERATION REPORT CONTINUED

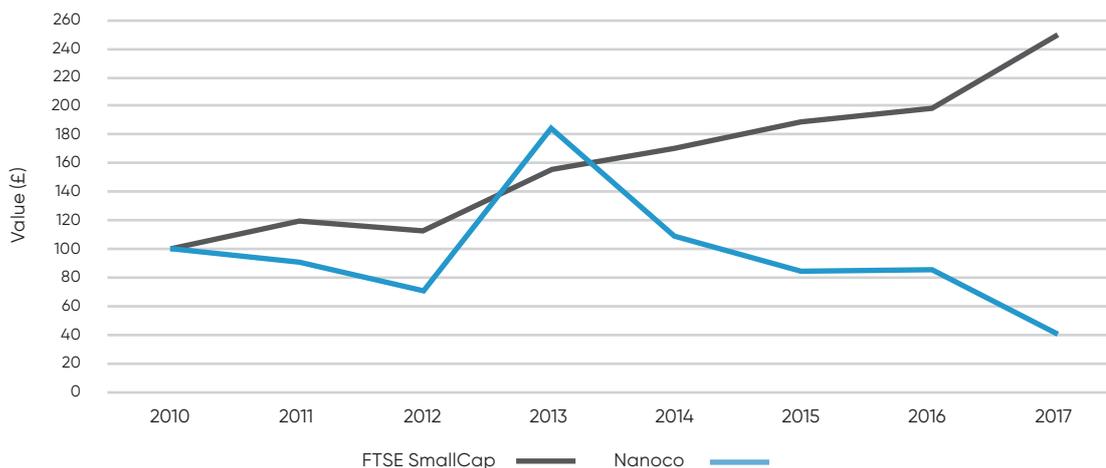
ANNUAL REPORT ON REMUNERATION CONTINUED

Unaudited information

Historical comparative TSR performance graph

The performance graph below shows the Company's total shareholder return ("TSR") against the FTSE SmallCap over the period from 1 August 2010 to 31 July 2017. In the opinion of the Board, the FTSE SmallCap is the most appropriate index against which the TSR of the Company should be measured because it represents a broad equity market index of which the Company is a constituent member.

Total shareholder return



The graph shows the value at 31 July 2017 of £100 invested in the Company's shares on 1 August 2010 compared with the value of £100 notionally invested in the FTSE SmallCap index. The other points plotted are the values at intervening financial year ends.

	2011	2012	2013	2014	2015	2016	2017
Chief Executive Officer remuneration							
Total remuneration £'000*	175	182	707	293	635	406	327
Annual bonus (% of maximum vesting)	33	25	73	56	56	40	–
LTIP (% of maximum vesting)	–	–	–	–	100	–	–

* Dr Michael Edelman's remuneration is paid in US Dollars but reported in Sterling for the purpose of this table. The exchange rate used for this purpose varied during the year.

Percentage increase in the remuneration of the CEO

The table below shows the movement in the salary, benefits and annual bonus for the Chief Executive Officer between the current and previous financial years compared with the cost for the same elements for all employees in the Group.

	Salary			Taxable benefits			Bonus		
	2017 £'000	2016 £'000	Change %	2017 £'000	2016 £'000	Change %	2017 £'000	2016 £'000	Change %
CEO	311	279	11.5*	–	–	–	–	114	(100)
Average for all other employees	43	39	10.3	–	–	–	–	4	(100)

* Dr Michael Edelman's remuneration is paid in US Dollars but reported in Sterling for the purpose of this table. The exchange rate used for this purpose varied during the year. Dr Edelman's salary increased by 0.5% (from \$398,750 in 2016 to \$400,744 in 2017), but is reported in Sterling and the larger increase reflects exchange rate fluctuations.

ANNUAL REPORT ON REMUNERATION CONTINUED

Unaudited information continued

Relative importance of spend on pay

The following table sets out the percentage change in dividends and the overall expenditure on pay (as a whole across the organisation).

	Year ended 31 July 2017 £'000	Year ended 31 July 2016 £'000	% change
Dividends	–	–	–
Overall expenditure on pay	5,705	6,531	(12.6)

Implementation of policy for the year commencing 1 August 2017

Base salary

Base salaries are reviewed annually with effect from 1 August. For the year commencing 1 August 2017 Executive Directors will not receive a base salary increase, which is the same as the wider workforce, as follows:

	2018	2017	% change
Chief Executive Officer – Dr Michael Edelman	\$400,744	\$400,744	–
Chief Technical Officer – Dr Nigel Pickett	£172,559	£172,559	–
Chief Operating Officer – Keith Wiggins	£192,860	£192,860	–
Chief Financial Officer – David Blain	£180,900	£180,900	–

Changes to Non-executive Directors' fees

The proposed Non-executive Directors' fees are as follows:

	2018	2017
Chairman	£75,000	£75,000
NED base fee	£25,000	£25,000
Chair of Committee fee	£10,000	£10,000

Pension

The Company operates a salary sacrifice pension arrangement. For the year commencing 1 August 2017, employer pension contributions above the amount of any salary sacrifice (and the associated employer National Insurance contributions savings) will be capped at 5% of salary.

Annual bonus

For the year ending 31 July 2018, the maximum annual bonus potential will be 100% of base salary for Executive Directors. 50% of any such bonus earned will be paid in cash, whilst the remainder is paid as deferred shares under the DBP vesting after two years, in accordance with the policy adopted at the 2015 AGM. This reflects our stakeholder philosophy, provides a longer-term retention mechanism and provides alignment with shareholders.

Consistent with the 2017 annual bonus, performance will be assessed on the basis of a balanced scorecard approach in respect of performance measures; however, the emphasis on achievement of corporate goals is changed compared to 2017. Up to 80% of the potential maximum annual bonus will be subject to achievement of a combination of financial and corporate measures, whilst the remaining 20% will be based on challenging personal objectives. The financial/corporate measures for FY18 will include annual revenue and EBITDA weighted at 60% and 20% of potential maximum annual bonus respectively. The Committee will disclose the metrics and performance against these on a retrospective basis to the extent that these are not commercially sensitive.

Clawback will apply to any cash bonus paid and malus provisions to any unvested deferred bonus award.

DIRECTORS' REMUNERATION REPORT CONTINUED

ANNUAL REPORT ON REMUNERATION CONTINUED

Unaudited information continued

Implementation of policy for the year commencing 1 August 2017 continued

Long-term incentive

The Committee intends to approve the grant of LTIP awards for the Executive Directors for the year ended 31 July 2018.

The awards for each Director are as follows:

Director	Type of award	Percentage of salary %
Dr Michael Edelman	Share award	100
Dr Nigel Pickett	Share award	100
Keith Wiggins	Share award	100
David Blain	Share award	100

The number of LTIPs awarded will be based on the three-day average share price following the announcement of the Company's results, unless the Committee determines otherwise.

These awards will be subject to the following performance conditions:

50% based on share price growth measured over the three financial years ending 31 July 2020

% of share price element vesting	Share price target
25	£1.05
100	£1.60

To encourage maximum performance, the value of the award accelerates as the share price approaches the 160 pence level. The principle we have agreed in the Remuneration Committee is a curved line vesting. The Company's share price will be averaged across a three-month period (unless the Committee decides to apply a different averaging period) to avoid rewarding for short-term spikes in performance.

50% based on Group revenue targets measured over the three financial years ending 31 July 2020

% of Group revenue element vesting	Group revenue target
25	2020 threshold target
100	2020 maximum target

The revenue targets are considered by the Board to be market sensitive and therefore we will not disclose these measures at the current time. We will disclose the targets in full, along with actual performance against targets, following the end of the performance period.

Performance underpin

A core strategy of the business is to continue the development of our Lighting and Bio-imaging divisions with a long-term aim of transforming them into profitable businesses shipping commercial quantities of product. Under the performance underpin, if the Committee is not satisfied that appropriate progress has been made across the business it will have the discretion to cancel all or some of the LTIP award.

A two-year holding period will apply after the end of the performance period for Executive Directors.

ANNUAL REPORT ON REMUNERATION CONTINUED

Unaudited information continued

Statement of voting

The Company is committed to ongoing dialogue with its shareholders and takes an active interest in trying to ensure that as many shareholders as possible submit their votes in time for any shareholder meetings. The following table sets out the actual voting in respect of the resolutions to approve the Directors' remuneration report at the Company's Annual General Meeting held on 15 December 2016 and the Directors' remuneration policy at the Company's Annual General Meeting held on 10 December 2015.

Resolution	Votes for	% for	Votes against	% against	Votes withheld
To approve the Directors' remuneration report	110,451,079	87.1	16,413,876	12.9	4,433,702
To approve the Directors' remuneration policy	109,395,766	99.8	181,769	0.2	11,681,552

Directors' contracts

Executive Directors

It is the Group's policy that Executive Directors should have contracts with an indefinite term, providing for one year's notice.

	Date of contract	Date of appointment	Notice from the Company	Notice from Director
Dr Michael Edelman	27 June 2006	27 June 2006	12 months	12 months
Dr Nigel Pickett	27 June 2006	27 June 2006	12 months	12 months
Keith Wiggins	1 October 2014	1 October 2014	6 months	6 months
David Blain	3 August 2015	3 August 2015	6 months	6 months

All Directors offer themselves for re-election every three years at the AGM in accordance with the UK Corporate Governance Code. Service contracts are available for inspection at the registered office of the Company.

Non-executive Directors

All Non-executive Directors are appointed for an initial three-year term and then on a rolling annual term. Non-executive Directors' appointments may be terminated on not less than six months' notice from either party.

With effect from 1 August 2017, the notice period for Non-executive Directors was reduced to three months.

	Date of letter of appointment	Date of appointment	Unexpired term of contract on 31 July 2017
Dr Christopher Richards (Chairman)	28 October 2015	11 November 2015	1 year and 4 months
Brendan Cummins	19 May 2015	28 May 2015	10 months
Dr Alison Fielding	20 March 2017	20 April 2017	2 years and 9 months

On behalf of the Board

Brendan Cummins

Remuneration Committee Chairman
16 November 2017

DIRECTORS' REPORT

The Directors present their report and the audited financial statements for the Group and Parent Company for the year ended 31 July 2017.

Financial instruments

Details of the Group's financial risk management objectives and policies are disclosed in note 26 to the financial statements.

Research and development

The principal activity of the Group is research and development, a review of which is included in the Chairman's and Chief Executive Officer's statements on pages 4 and 5 and 6 to 9 respectively.

Total research and development spend was £5,508,000 (2016: £5,995,000). No development expenditure was capitalised in the period (2016: £nil) for the reasons provided in note 3(h) to the accounts.

Dividends

The Directors do not recommend payment of an ordinary dividend (2016: £nil).

Disclosures reported elsewhere in the Annual Report

The strategic review of the business of the Company and its subsidiaries is given on pages 1 to 31. Certain information required for disclosure in this report is provided in other appropriate sections of this Annual Report. These include the:

- Corporate governance report on pages 34 to 36;
- Operating review on pages 6 to 9 in respect of the Group's activities in the fields of research and development (where the outlook section covers likely future developments in the business of the Company and its subsidiaries);
- Finance review on pages 22 to 24;
- Directors' remuneration report on pages 43 to 59;
- Disclosures on the Group's greenhouse gas emissions, Director and employee gender and human rights, which are included in the Sustainability report on pages 25 to 31;
- Going concern statement on page 21; and
- Disclosures on financial instruments in note 26 of the notes to the consolidated financial statements.

The disclosures are, accordingly, incorporated into this report by reference.

Requirements of the Listing Rules

The following table provides references to where the information required by the Listing Rule 9.8.4R is disclosed:

Listing Rule requirement	Location
A statement of the amount of interest capitalised during the period under review and details of any related tax relief	Not applicable
Information required in relation to the publication of unaudited financial information	Not applicable
Details of any long-term incentive schemes	Directors' remuneration report, pages 43 to 59
Details of any arrangements under which a Director has waived emoluments, or agreed to waive any future emoluments, from the Company	No such waivers
Details of any non-pre-emptive issues of equity for cash	No such share allotments
Details of any non-pre-emptive issues of equity for cash by any unlisted major subsidiary undertaking	No such share allotments
Details of UK Parent participation in a placing by a listed subsidiary	No such share participations
Details of any contract of significance in which a Director is or was materially interested	No such contracts
Details of rules regarding the appointment and replacement of Directors	See Directors' report
Details of any contract of significance between the Company (or one of its subsidiaries) and a controlling shareholder	No such contracts
Details of a waiver of dividends by a shareholder	No such waivers
Board statement in respect of relationship agreement with the controlling shareholder	No such agreements

Acquisition of the Company's own shares

The Company made no purchases of its own shares in the period under review. As at 31 July 2017 the authority given by the shareholders at the 2016 Annual General Meeting is for the Company to make market purchases of up to £2,382,246.60 of the nominal value of its ordinary shares at a price per share of not less than 10 pence, and not more than 5% above the average of the middle market quotations for ordinary shares of the Company for the five business days immediately preceding the day of purchase. This authority is being proposed for renewal at the 2017 Annual General Meeting.

Share capital and funding

1,213,750 shares were issued during the year to 31 July 2017 as a result of the exercise of options.

As at 31 July 2017 share capital comprised 238.3 million ordinary shares of 10 pence each (2016: 237.1 million). There is only one class of share and all shares are fully paid. Full details of the Group's and Company's share capital movements during the period are given in note 21 to the financial statements.

Pursuant to the general provisions of the Articles of Association and prevailing legislation, there are no specific restrictions on the size of a holding. The Directors are not aware of any restrictions on the transfer of ordinary shares in the Company other than certain restrictions which may from time to time be imposed by law and regulations, e.g. insider trading laws, and pursuant to the Listing Rules of the Financial Conduct Authority whereby certain employees of the Company require prior approval from the Company to deal in the Company's securities.

The Company is not aware of any agreements between shareholders that may result in restrictions on voting rights and the transfer of securities.

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 £8.0 million net of expenses.

Details of shares under option are provided in note 22 to the financial statements.

Directors and their interests

The following Directors held office throughout the year:

Dr Christopher Richards

Dr Michael Edelman

Dr Nigel Pickett

Keith Wiggins

David Blain

Brendan Cummins

Dr Alison Fielding Appointed 20 April 2017

Gordon Hall Resigned 31 January 2017

Robin Williams Resigned 13 July 2017

Biographies of the Directors at the date of this report can be found on pages 32 and 33.

Details of Directors' remuneration are shown in the Directors' remuneration report on pages 43 to 59.

Directors' interests in the shares of the Company, including family and beneficial interests, at 31 July 2017 and following the placing on 15 November 2017 were:

	Ordinary shares of 10p each					
	15 November 2017 Number	15 November 2017 %	31 July 2017 Number	31 July 2017 %	31 July 2016 Number	31 July 2016 %
Dr Christopher Richards	285,496	0.10	118,830	0.05	43,421	0.02
Dr Michael Edelman	4,974,350	1.74	4,931,615	2.07	5,431,615	2.29
Dr Nigel Pickett	11,112,347	3.89	10,945,681	4.59	10,945,681	4.62
Keith Wiggins	55,555	0.02	–	–	–	–
David Blain	153,588	0.05	14,700	0.01	14,700	0.01
Brendan Cummins	277,777	0.10	–	–	–	–
Dr Alison Fielding	–	–	–	–	–	–
	16,859,113	5.90	16,010,826	6.72	16,435,417	6.93

As at 31 July 2017, none of the Directors had any interests in shares of any other Group company.

No Director had an interest in any contract that was significant in relation to the Group's business at any time during the period.

Directors are subject to re-election at intervals of not more than three years.

DIRECTORS' REPORT CONTINUED

Directors' indemnity insurance

The Group has maintained insurance throughout the year for its Directors and officers against the consequences of actions brought against them in relation to their duties for the Group. Such provision remains in force as at the date of approval of the Directors' report.

Substantial shareholders

The Company is aware that the following had an interest in 3% or more of the issued ordinary share capital of the Company at 31 July 2017 and following the placing on 15 November 2017:

	Number of ordinary shares at 15 November 2017*	% of issued share capital	Number of ordinary shares at 31 July 2017	% of issued share capital
Lombard Odier	57,191,058	20.00	38,976,614	16.36
Hargreaves Lansdown plc	24,973,401	8.73	19,310,151	8.10
Baillie Gifford & Co	18,051,750	6.31	19,078,642	8.01
COGEFI	21,859,271	7.64	17,700,546	7.43
Dr Nigel Pickett	11,112,347	3.89	10,945,681	4.59
Killick Asset Management	10,145,590	3.55	7,406,813	3.11

* This includes notifications of major interests in shares received by 10 November 2017.

Donations

No charitable or political donations were made in the year (2016: £nil).

Additional information for shareholders

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the UK Corporate Governance Code 2016, the Companies Act 2006 and related legislation.

The Articles themselves may be amended by special resolution of the shareholders. The Articles provide that Directors may be appointed by an ordinary resolution of the Company's members or by a resolution of the Directors, provided that, in the latter instance, a Director appointed in this way retires and stands for election at the first Annual General Meeting following his appointment.

The Articles also provide that at every Annual General Meeting at least one-third of the Directors retire by rotation and set out the circumstances in which and how they may be re-elected. The Company's members may remove a Director by passing an ordinary resolution of which special notice has been given. The office of a Director shall be vacated in any of the following events: (a) if (but in the case of a Director holding any executive office subject to the terms of any contract of service between him and the Company) notification in writing, signed by the Director or otherwise authenticated in such manner as the other Directors may accept, is received by the Company from the Director that he is resigning or retiring from office as a Director, and such resignation or retirement has taken effect in accordance with its terms, or if he shall in writing offer to resign or retire and the Directors shall resolve to accept such offer; (b) if he becomes bankrupt or has a receiving order made against him or makes any arrangement or composition with his creditors generally in satisfaction of his debts or shall apply to the court for an interim order under section 253 of the Insolvency Act 1986; (c) if a registered medical practitioner who is treating the Director gives a written opinion to the Company stating that he has become physically or mentally incapable of acting as a Director and may remain so for more than three months; (d) if he is absent from meetings of the Directors for six successive months without leave, and his alternate Director (if any) shall not during such period have attended in his stead, and the Directors resolve that his office be vacated; (e) if he shall be removed from office by notice in writing served upon him signed by all his co-Directors, but so that if he holds an appointment to an executive office which automatically determines as a result, such removal shall be deemed an act of the Company and shall have effect without prejudice to any claim for damages for breach of any contract of service between him and the Company; or (f) if he ceases to be a Director by virtue of any provision of the Companies Act or becomes prohibited by law from being a Director.

The powers of the Directors are determined by applicable legislation and the Company's Articles of Association. As provided in those Articles, the Directors may exercise all the Company's powers provided that the Articles or applicable legislation do not stipulate that any such powers must be exercised by the Company's members. The Directors have been authorised to issue and allot ordinary shares, pursuant to the Articles and have authority to make market purchases of shares. These powers are referred to shareholders at each Annual General Meeting for renewal. Any shares purchased may be cancelled or held as treasury shares.

Employment policies

The Group is committed to ensuring the health and safety of its employees in the workplace. This includes the provision of regular medical checks.

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

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

Compliance with the UK Corporate Governance Code

The statements of compliance with the principles of the UK Corporate Governance Code published by the FRC in 2016 are set out on page 35.

Foreign branches

The Group has just one foreign location, a subsidiary in the United States, which provides management services to the UK business.

Post balance sheet events

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 £8.0 million net of expenses.

Auditor

Ernst & Young LLP has indicated its willingness to continue in office.

Ordinary resolutions to re-appoint Ernst & Young LLP as auditor and to authorise the Directors to agree its audit fee will be proposed at the forthcoming Annual General Meeting.

Annual General Meeting notice

The Annual General Meeting of the Company will be held on 12 January 2018 at 11.00am, at the Company's headquarters at 46 Grafton Street, Manchester M13 9NT. The notice convening the AGM, together with an explanation of the resolutions to be proposed at the meeting, will be sent to shareholders separately from this document.

On behalf of the Board

Dr Michael Edelman

Chief Executive Officer

16 November 2017

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the Group financial statements in accordance with applicable United Kingdom law and regulations.

Company law requires the Directors to prepare Group financial statements for each financial year. Under that law, the Directors are required to prepare Group financial statements under IFRS as adopted by the European Union.

Under company law the Directors must not approve the Group financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period. In preparing the Group financial statements the Directors are required to:

- present fairly the financial position, financial performance and cash flows of the Group;
- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- make judgements that are reasonable;
- provide additional disclosures when compliance with the specific requirements in IFRS as adopted by the European Union is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance; and
- state whether the Group financial statements have been prepared in accordance with IFRS as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the Group financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for preparing the Directors' report, the Directors' remuneration report and the corporate governance statement in accordance with the Companies Act 2006 and applicable regulations, including the requirements of the Listing Rules and the Disclosure Guidance and Transparency Rules.

The financial statements for the year ended 31 July 2017 are included in the 2017

Annual Report, which is published by the Company in hardcopy printed form and available to download on the Group's website on the internet. The maintenance and integrity of the Nanoco website is the responsibility of the Directors; the work carried out by the auditor does not involve consideration of these matters and, accordingly, the auditor accepts no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' remuneration

The Directors' remuneration report on pages 43 to 59 sets out the remuneration policies operated by the Company and disclosures on Directors' remuneration and other disclosable information relating to Directors and officers and their interests.

Internal control

The Board, through the Audit Committee, has reviewed the assessment of risks and the internal control framework that Nanoco operates and has considered the effectiveness of the system of internal control in operation in the Group for the year covered by this report and up to the date of its approval by the Board of Directors. The Board has concluded that, given the size of the organisation, appropriate controls have been established and complied with.

The UK Corporate Governance Code

The Board considers that the Company applies the principles of the UK Corporate Governance Code of the Financial Reporting Council, as described under "Corporate governance" on pages 34 to 36 and has complied with all relevant principles and provisions of the Code. We did not comply with the requirement in E.2.4 to give 14 clear working days' notice of the general meeting we held on 14 November 2017. The reason for the non-compliance was the desire to conclude the meeting as early as possible as completion of the fundraising had a direct impact on the publication of the Company's preliminary results announcement and its report and accounts for the year ended 31 July 2017 as the proceeds of the fundraising were relevant in assessing the going concern status of the Company. The Directors strongly believed that it was in the best interests of the Company for the going concern status of the Company to be secured prior to the publication of the Company's preliminary results announcement and its report and accounts for the year ended 31 July 2017, which were required to be published by 30 November 2017. As required by the Listing Rules of the Financial Conduct Authority, the auditor has considered the Directors' statement of compliance in relation to those points of the Code which are specified for their review.

The Directors consider that the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's and the Group's performance, business model and strategy.

Auditor

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

- so far as the Director is aware, there is no relevant audit information of which the Group's auditor is unaware; and
- the Director has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Ernst & Young LLP has expressed its willingness to continue in office as auditor and a resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.

Directors' responsibility statement

In accordance with the FCA's Disclosure Guidance and Transparency Rules, the Directors listed on pages 32 and 33 confirm, to the best of their knowledge, that:

1. the financial statements have been prepared in accordance with IFRS as adopted by the European Union and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and Company and the undertakings included in the consolidation taken as a whole; and
2. the management report, which is incorporated into the Directors' report, includes a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties faced by the Group.

Annual Report

The Annual Report for the year ended 31 July 2017, comprising the Strategic report, the Directors' remuneration report, the Directors' report, the financial statements and additional information for investors, has been approved by the Board of Directors.

By order of the Board

David Blain
Company Secretary
16 November 2017

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF NANOCO GROUP PLC

Opinion

In our opinion:

- Nanoco Group plc's Group financial statements and parent company financial statements ("the financial statements") give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 July 2017 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of Nanoco Group plc which comprise:

Group	Parent company
Consolidated statement of comprehensive income for the year then ended	Statement of changes in equity for the year then ended
Consolidated statement of changes in equity for the year then ended	Statement of financial position as at 31 July 2017
Consolidated statement of financial position as at 31 July 2017	Cash flow statement for the year then ended
Consolidated cash flow statement for the year then ended	Related notes 1 to 29 to the financial statements
Related notes 1 to 29 to the financial statements	

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs(UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on pages 18 and 19 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on pages 18 and 19 in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement set out on page 21 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation set out on pages 20 and 21 in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Overview of our audit approach

Key audit matters	<ul style="list-style-type: none"> • Revenue recognition – occurrence of revenue under supply and licence agreements • Going concern • Carrying value of intellectual property, tangible fixed assets and assets held for sale
Audit scope	<ul style="list-style-type: none"> • The Group comprises two components based on geographical location, being the UK and US. • We performed an audit of the complete financial information of the UK component and audit procedures on specific balances of the US component. • These two components accounted for 100% of operating expenses, 100% of revenue, 100% of loss before taxation and 100% of total assets.
Materiality	<ul style="list-style-type: none"> • Overall Group materiality of £216,000, which represents 2% of operating expenses.

INDEPENDENT AUDITOR'S REPORT CONTINUED

TO THE MEMBERS OF NANOCO GROUP PLC

Key audit matters

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

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Revenue recognition – occurrence of revenue under supply and licence agreements (royalties and licence revenue £615,000 and products sold £470,000) (2016: £156,000 and £204,000)</p> <p><i>Refer to the Audit Committee report (page 38); accounting policies (page 76); and note 4 of the Consolidated financial statements (page 82).</i></p> <p>All revenue streams are susceptible to manipulation by management in order to improve reported performance or success.</p> <p>Supply and licence agreements with partners can be significant in delivering the Group's revenue during its pre-commercialisation phase. There is a risk of inappropriate revenue recognition if the treatment of payments received does not reflect the substance of each agreement. Inappropriate judgements applied by management could result in material misstatement in the income statement.</p> <p>In the prior year the risk relating to the occurrence of revenue did not include revenue from products sold as there had been no sales of materials under the new supply and licence agreements and the amount of revenue from other sources was not material.</p>	<p>We understood and assessed the design and implementation of the key controls around the revenue recognition process. We did not seek to obtain reliance on the control framework.</p> <p>We agreed invoiced amounts to contract terms and receipt of payment and, as applicable, to evidence supporting shipment or the achievement of any performance obligations under the contracts, notably the transfer of technology and sharing of intellectual property.</p> <p>We focused on evaluating whether the allocation of revenues between the different components of the supply and licence agreements reflected the substance of the agreement in accordance with IAS 18. The value of revenue recognised would be different if the components were deemed to be economically linked and thus the attributed amounts per the contract would require re-allocation in order to reflect appropriately the fair value consideration for services rendered or goods delivered. We compared the terms of different contracts, made inquiries of management, compared to other revenues derived from similar sources pre and post-year end, and evaluated the differences in licence fees, royalties and prices of materials under those contracts. Based on these procedures, we concluded that royalties and the pricing of materials supplied under the agreements were not economically linked to the upfront licence fee and that the recognition of revenue in the period was appropriate.</p> <p>We tested adjustments recorded in revenue, such as releases of deferred licence revenue, for evidence of management bias or override of controls.</p> <p>There were no new licence agreements in the current year. We read minutes of Board meetings and other committee meetings for evidence of changes in contractual terms in existing agreements.</p>	<p>Based on the procedures performed, we did not identify any evidence of material misstatement in the revenue recognised in the year.</p>
<p>Going concern</p> <p><i>Refer to the Strategic report (page 21); Audit Committee report (page 38); Statement of financial position (page 73); and accounting policies (page 75).</i></p> <p>At 31 July 2017 the Group had cash, cash equivalents and short-term investments and cash on deposit of £5.7 million (2016: £14.5 million) and incurred an operating loss of £10.9 million (2016: £12.8 million).</p> <p>The Strategic Report on pages 18 and 19 identifies the Group's principal risks and uncertainties. Judgement is required by the directors in assessing whether any material uncertainties exist which cast significant doubt as to the Group's ability to meet its liabilities and whether the mitigating actions identified by management are achievable.</p> <p>Judgement is also required in assessing whether the disclosures provided in the financial statements adequately describe the risks and underlying assumptions.</p> <p>This risk is consistent with the previous year.</p>	<p>We understood and assessed the design and implementation of the key controls around management's assessment of the going concern basis. We did not seek to obtain reliance on the control framework.</p> <p>We obtained and reviewed the going concern assessment prepared by management including financial forecasts. We tested the financial forecasts to ensure integrity of the model, that they reflected an accurate starting position and that they were consistent with the budget that had been approved by the directors.</p> <p>We tested the sensitised forecasts prepared by management in which there were no revenues during the forecast period and which incorporated the proceeds of the placing which was completed prior to the approval of the financial statements. We evaluated the headroom under these sensitised forecasts which formed the basis of management's conclusions regarding going concern, and also ran further sensitivities in relation to the cost base to test the impact of changes in certain forecast costs on the going concern assumption.</p> <p>We inspected the approval of the placing by the shareholders and tested the proceeds to subscription agreements or to the Company's bank statements.</p> <p>We compared the costs reported in the consolidated statement of comprehensive income with those that had been budgeted by management to evaluate the accuracy of previous financial forecasts and management's ability to control the Company's cost base.</p> <p>We read board minutes and the Company's risk register for inconsistencies with the risks considered in the going concern assessment.</p> <p>We read the disclosures in the Annual Report and Accounts to confirm that they were consistent with our understanding of the going concern assessment that had been undertaken by the directors and that they appropriately reflected the risks and mitigating actions that had been considered.</p>	<p>We concluded that we concurred with management's view that it is appropriate to adopt the going concern basis of accounting in preparing the financial statements.</p> <p>We concluded that adequate disclosure has been provided in the financial statements.</p>

Key audit matters continued

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Carrying value of intellectual property (£2,619,000; 2016: £2,423,000), tangible fixed assets (£865,000; 2016: £1,260,000) and assets held for sale (£535,000; 2016: £nil)</p> <p><i>Refer to the accounting policies (page 79); note 11 (page 86); note 12 (page 86) and note 13 (page 87).</i></p> <p>At 31 July 2017 the carrying value of the Group's non-current assets, excluding assets held for sale, was £3.5 million (2016: £3.7 million). The Group's operating loss for the year then ended was £10.9 million (2016: £12.8 million). There is a risk that the carrying value of the Group's non-current assets might not be recoverable.</p> <p>In the year ended 31 July 2017 the Company recorded an impairment loss of £77,000 in respect of intangible fixed assets and has presented assets with a carrying value of £535,000 at 31 July 2017 as assets held for sale.</p> <p>Any inappropriate judgements in measuring the recoverable amount of the non-current assets and assets held for sale could result in a material misstatement in the consolidated statement of comprehensive income and in the statement of financial position.</p> <p>This risk area is consistent with the prior year except that it also now includes assets held for sale of £535,000 (2016: £nil).</p>	<p>We understood and assessed the design and implementation of the key controls around management's assessment of the carrying value of intellectual property and tangible fixed assets. We did not seek to obtain reliance on the control framework.</p> <p>We tested the completeness of management's impairment review by reading Board minutes and minutes of other committee meetings, making inquiries of management regarding the registration and protection of patents and checking for consistency with other judgements such as going concern and capitalisation of development costs and our understanding of the Company's licence agreements.</p> <p>We made inquiries of management to understand the process by which patents that were of no value to the Company and which should be allowed to lapse were identified.</p> <p>We obtained the financial forecasts prepared by management and tested the integrity of the forecasts, consistency with the budget approved by management and those forecasts used in the going concern assessment and that the calculation of recoverable amount had been performed in accordance with the accounting framework.</p> <p>We performed sensitivity analyses to evaluate the impact on the recoverable amount of delays in forecast revenues by a year and increases in the discount rate applied to forecast cash flows. We also assessed the carrying balance if only guaranteed revenues under the licence agreements materialised. None of the scenarios that we tested resulted in a forecast impairment loss.</p> <p>We compared the carrying value of non-current assets with the market capitalisation of the Company and we evaluated the results of the placing that was completed prior to the approval of the financial statements.</p> <p>We made inquiries of management, read board minutes and made inquiries of the corporate finance specialists engaged to support the disposal of the assets that are presented as assets held for sale to evaluate the directors' commitment to completing the divestment and their expectation that proceeds less cost to sell will exceed the carrying amount.</p>	<p>We concluded that we agreed with management's judgement that the carrying value of the non-current assets and assets held for sale at 31 July 2017 were not impaired.</p>

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of Group-wide controls and changes in the business environment when assessing the level of work to be performed at each entity.

The Group's subsidiaries are described in note 14 to the financial statements. We view the Group as having two components based on geographical location, being the UK and US. The Group's processes and controls are consistent across the Group and lie primarily in one location, Manchester, with responsibility being with Group management for the preparation of financial information and for judgemental processes and significant risk areas. The US-based subsidiary predominantly provides management and technical expertise to the Group. All of our audit procedures were performed by the group audit team.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, we performed full scope audit procedures in respect of the UK component. For the US component we performed specific scope audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile. This was consistent with the approach that we followed in the previous year.

The reporting components where we performed audit procedures accounted for 100% (2016: 100%) of the Group's operating expenses, 100% (2016: 100%) of the Group's revenue, 100% (2016: 100%) of loss before taxation and 100% (2016: 100%) of the Group's total assets. For the current year, the full scope component contributed 96% (2016: 92%) of the Group's operating expenses, 100% (2016: 100%) of the Group's revenue and 100% (2016: 100%) of the Group's total assets. The specific scope component contributed 4% (2016: 8%) of the Group's operating expenses, 0% (2016: 0%) of the Group's revenue and 0% (2016: 0%) of the Group's total assets. The audit scope of this component may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group.

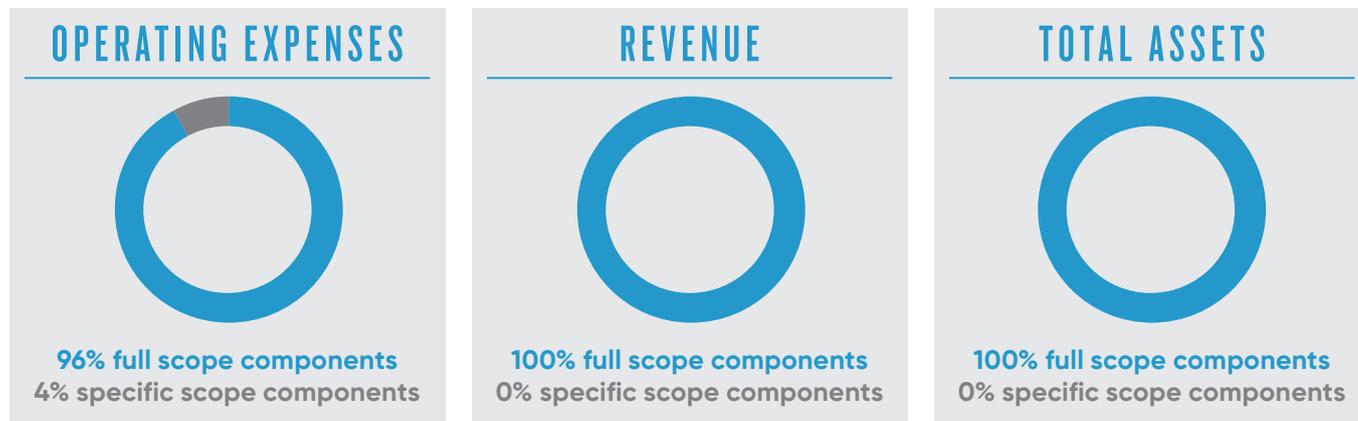
INDEPENDENT AUDITOR'S REPORT CONTINUED

TO THE MEMBERS OF NANOCO GROUP PLC

An overview of the scope of our audit continued

Tailoring the scope continued

The charts below illustrate the coverage obtained from the work performed by our audit teams.



Involvement with component teams

All audit work performed for the purposes of the audit was undertaken by the group audit team.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £216,000 (2016: £236,000), which is 2% (2016: 2%) of operating expenses, which we measured using the basis described in the table below. It was considered inappropriate to calculate materiality using Group profit before tax due to the loss-making position of the Group. It was also considered inappropriate to use revenue to calculate materiality as revenue reported by the Group relates to its pre-commercialisation activities. Operating expenses represent a measure of the rate at which the Group is using its cash resources in reaching its strategic objective of commercialising its technology. We therefore considered operating expenses to be the most appropriate performance metric on which to base our materiality calculation as we considered that to be the most relevant performance measure to the stakeholders of the entity.

STARTING BASIS	<ul style="list-style-type: none"> • Research and development expenses of £5,508,000 (2016: £5,995,000) • Administrative expenses of £6,784,000 (2016: £7,367,000)
ADJUSTMENTS	<ul style="list-style-type: none"> • Exclude non-cash items: <ul style="list-style-type: none"> • Depreciation – decrease basis by £741,000 (2016: £991,000) • Amortisation – decrease basis by £405,000 (2016: £298,000) • Impairment expense – decrease basis by £77,000 (2016: £nil) • Share-based payments – decrease basis by £242,000 (2016: £270,000)
MATERIALITY	<ul style="list-style-type: none"> • Totals £10,827,000 operating expenses (2016: £11,768,000) • Materiality of £216,000 (2% of operating expenses) (2016: £236,000; 2%)

Our initial materiality was based on forecast operating expenses. We reassessed initial materiality as actual operating expenses were lower than forecast operating expenses.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% (2016: 75%) of our planning materiality, namely £108,000 (2016: £177,000). Our objective in adopting this approach was to ensure that total uncorrected and undetected audit differences in all accounts did not exceed our materiality level.

Our application of materiality continued

Performance materiality continued

We have reduced the performance materiality from 75% to 50% as a result of audit findings in the previous year in relation to deficiencies in the effectiveness of controls designed to prevent or correct material errors in respect of revenue recognition.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £22,000 to £103,000 (2016: £36,000 to £168,000).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £10,800 (2016: £11,800), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report set out on pages 1 to 64, including the strategic report, the corporate governance statement, the Remuneration Committee report, the Directors' remuneration report, the Audit Committee report, the Nomination Committee report, the Directors' report and the Statement of Directors' responsibilities set out on page 64, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable set out on page 64** – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit Committee reporting set out on page 38** – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code set out on page 35** – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

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

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

Matters on which we are required to report by exception

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

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

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

INDEPENDENT AUDITOR'S REPORT CONTINUED

TO THE MEMBERS OF NANOCO GROUP PLC

Responsibilities of directors

As explained more fully in the Directors' responsibilities statement set out on page 64, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are: to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are the UK Companies Act 2006, the UK Corporate Governance Code and the UK Listing Rules.
- We understood how Nanoco Group plc is complying with those frameworks by the oversight of those charged with governance (i.e. considering the potential for override of controls or other inappropriate influence over the financial reporting process, such as efforts by management to manage earnings in order to influence the perceptions of analysts as to the entity's performance and profitability), the culture of honesty and ethical behaviour and whether a strong emphasis is placed on fraud prevention, which may reduce opportunities for fraud to take place, and fraud deterrence, which could persuade individuals not to commit fraud because of the likelihood of detection and punishment.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by misreporting of revenue, management's journal entries or bias in the use of judgements and estimates.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved making enquiries of the Group's legal advisers, reading the minutes of the Board of Directors and Audit Committee, testing manual journal entries and testing estimates for unexpected changes in assumptions.

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

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

Other matters we are required to address

- We were appointed by management on 13 August 2008 to audit the financial statements of the company for the year ending 31 July 2008 and subsequent financial periods. Our appointment was subsequently ratified at the annual general meeting of the company.

The period of total uninterrupted engagement including previous renewals and reappointments is 10 years, covering the years ending 2008 to 2017. Within this time period, the initial year was prior to the company's shares being listed.

- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent company and we remain independent of the Group and the parent company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit Committee.

Jennifer Hazlehurst (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor
Manchester
16 November 2017

Notes:

- 1 The maintenance and integrity of the Nanoco Group plc website is the responsibility of the directors; the work carried out by the auditor does not involve consideration of these matters and, accordingly, the auditor accepts no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- 2 Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 JULY 2017

	Notes	2017 £'000	2016 £'000
Revenue	4	1,326	474
Cost of sales		(257)	(177)
Gross profit		1,069	297
Other operating income	5	281	284
Operating expenses			
Research and development expenses		(5,508)	(5,995)
Administrative expenses		(6,784)	(7,367)
Operating loss	6	(10,942)	(12,781)
- before share-based payments		(10,700)	(12,511)
- share-based payments	22	(242)	(270)
Finance income	8	44	193
Finance expense	8	-	(12)
Loss on ordinary activities before taxation		(10,898)	(12,600)
Taxation	9	1,788	1,993
Loss on ordinary activities after taxation for the year and total comprehensive loss for the year		(9,110)	(10,607)
Loss per share			
Basic and diluted loss for the year	10	(3.82)p	(4.47)p

The loss for the current and preceding year arises from the Group's continuing operations and is attributable to the equity holders of the Parent.

The basic and diluted loss per share are the same as the effect of share options is anti-dilutive.

The notes on pages 75 to 96 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 JULY 2017

Group	Issued equity capital £'000	Share-based payment reserve £'000	Merger reserve £'000	Revenue reserve £'000	Total £'000
At 31 July 2015	58,057	2,445	(1,242)	(30,160)	29,100
Loss for the year and total comprehensive loss for the year	–	–	–	(10,607)	(10,607)
Share-based payments	–	270	–	–	270
At 31 July 2016	58,057	2,715	(1,242)	(40,767)	18,763
Loss for the year and total comprehensive loss for the year	–	–	–	(9,110)	(9,110)
Issue of share capital on exercise of options (note 21)	552	–	–	–	552
Share-based payments	–	242	–	–	242
At 31 July 2017	58,609	2,957	(1,242)	(49,877)	10,447

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 JULY 2017

Company	Issued equity capital £'000	Share-based payment reserve £'000	Capital redemption reserve £'000	Revenue reserve £'000	Total £'000
At 31 July 2015	135,925	2,445	4,402	(25,292)	117,480
Profit for the year and total comprehensive profit for the year	–	–	–	167	167
Share-based payments	–	270	–	–	270
At 31 July 2016	135,925	2,715	4,402	(25,125)	117,917
Profit for the year and total comprehensive profit for the year	–	–	–	30	30
Issue of share capital on exercise of options (note 21)	552	–	–	–	552
Share-based payments	–	242	–	–	242
At 31 July 2017	136,477	2,957	4,402	(25,095)	118,741

STATEMENT OF FINANCIAL POSITION**AT 31 JULY 2017**

Registered no. 05067291

	Notes	31 July 2017 Group £'000	31 July 2017 Company £'000	31 July 2016 Group £'000	31 July 2016 Company £'000
Assets					
Non-current assets					
Tangible fixed assets	11	865	–	1,260	–
Intangible assets	12	2,619	–	2,423	–
Investment in subsidiaries	14	–	66,564	–	66,322
		3,484	66,564	3,683	66,322
Current assets					
Inventories	15	188	–	208	–
Trade and other receivables	16	669	47,957	2,045	42,988
Income tax asset	9	1,837	–	1,970	–
Short-term investments and cash on deposit	17	–	–	5,000	5,000
Cash and cash equivalents	17	5,706	4,670	9,511	4,057
		8,400	52,627	18,734	52,045
Assets held for sale	13	535	–	–	–
Total assets		12,419	119,191	22,417	118,367
Liabilities					
Current liabilities					
Trade and other payables	18	1,318	–	2,443	–
Financial liabilities	19	–	–	32	–
Deferred revenue	20	102	–	531	–
		1,420	–	3,006	–
Non-current liabilities					
Other payables	18	–	450	–	450
Deferred revenue	20	552	–	648	–
		552	450	648	450
Total liabilities		1,972	450	3,654	450
Net assets		10,447	118,741	18,763	117,917
Capital and reserves					
Issued equity capital	21	58,609	136,477	58,057	135,925
Share-based payment reserve	22	2,957	2,957	2,715	2,715
Merger reserve	23	(1,242)	–	(1,242)	–
Capital redemption reserve	23	–	4,402	–	4,402
Retained earnings	24	(49,877)	(25,095)	(40,767)	(25,125)
Total equity		10,447	118,741	18,763	117,917

The Parent Company's result for the period ended 31 July 2017 was a profit of £30,000 (2016: £167,000). There were no other recognised gains or losses in either the current or prior year.

Approved by the Board and authorised for issue on 16 November 2017.

The notes on pages 75 to 96 form an integral part of these financial statements.

Dr Michael Edelman

Director

16 November 2017

CASH FLOW STATEMENTS
FOR THE YEAR ENDED 31 JULY 2017

	Notes	31 July 2017 Group £'000	31 July 2017 Company £'000	31 July 2016 Group £'000	31 July 2016 Company £'000
(Loss)/profit before tax		(10,898)	30	(12,600)	167
Adjustments for:					
Net finance income	8	(44)	(30)	(181)	(167)
Depreciation of tangible fixed assets	11	741	–	991	–
Amortisation of intangible assets	12	482	–	298	–
Share-based payments	22	242	–	270	–
Changes in working capital:					
Decrease in inventories		20	–	–	–
Decrease/(increase) in trade and other receivables		1,365	–	(1,143)	–
(Decrease)/increase in trade and other payables		(1,125)	–	503	–
(Decrease)/increase in deferred revenue	20	(525)	–	1,179	–
Cash outflow from operating activities		(9,742)	–	(10,683)	–
Research and development tax credit received		2,000	–	1,830	–
Overseas corporation tax paid		(79)	–	(7)	–
Net cash outflow from operating activities		(7,821)	–	(8,860)	–
Cash flow from investing activities					
Purchases of tangible fixed assets	11	(374)	–	(189)	–
Purchases of intangible fixed assets	12	(1,185)	–	(900)	–
Cash advance to subsidiary	17	–	(4,980)	–	(11,153)
Decrease in cash placed on deposit	17	5,000	5,000	15,000	15,000
Interest received		55	41	224	198
Net cash inflow from investing activities		3,496	61	14,135	4,045
Cash flow from financing activities					
Proceeds from issues of ordinary share capital		552	552	–	–
Interest paid		–	–	(12)	–
Loan repayment	19	(32)	–	(63)	–
Net cash inflow/(outflow) from financing activities		520	552	(75)	–
(Decrease)/increase in cash and cash equivalents		(3,805)	613	5,200	4,045
Cash and cash equivalents at the start of the year		9,511	4,057	4,311	12
Cash and cash equivalents at the end of the year		5,706	4,670	9,511	4,057
Monies placed on deposit at the end of the year		–	–	5,000	5,000
Cash, cash equivalents and deposits at the end of the year	17	5,706	4,670	14,511	9,057

The notes on pages 75 to 96 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Reporting entity

Nanoco Group plc ("the Company"), a public company limited by shares, is on the premium list of the London Stock Exchange. The Company is incorporated and domiciled in England, UK. The registered number is 05067291 and the address of its registered office is 46 Grafton Street, Manchester M13 9NT.

These Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") for the year ended 31 July 2017.

The financial statements of Nanoco Group plc and its subsidiaries ("the Group") for the year ended 31 July 2017 were authorised for issue by the Board of Directors on 16 November 2017 and the statements of financial position were signed on the Board's behalf by Dr Michael Edelman.

The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the Parent Company's income statement.

The significant accounting policies adopted by the Group are set out in note 3.

2. Basis of preparation

(a) Statement of compliance

The Group's and Parent Company's financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") and IFRS Interpretations Committee ("IFRIC") interpretations as they apply to the financial statements of the Group for the year ended 31 July 2017.

(b) Basis of measurement

The Parent Company and Group financial statements have been prepared on the historical cost basis. There were no assets or liabilities that were measured at fair value at 31 July 2017.

(c) Going concern

In assessing whether the going concern basis is an appropriate basis for preparing the 2017 Annual Report, the Directors have utilised their detailed forecasts for the period to 31 July 2019 which take into account the Group's current and expected business activities, its cash balance of £5.7 million as shown in its balance sheet at 31 July 2017, the cash raised of £8.0 million following shareholder approval of the placing on 14 November 2017, the principal risks and uncertainties it faces and other factors impacting its future performance.

The key assumptions underpinning the assessment during the period cover the following areas:

- commercialisation of CFQD[®] products through existing contractual arrangements;
- ability to manufacture and supply sufficient CFQD[®] products to meet partner demand; and
- continued investment in research and development.

The principal, plausible downside stress tests in accordance with the Group's principal risks and uncertainties are:

- a significant reduction in projected CFQD[®] sales volumes due to either a reduction in demand from the Group's partners or an inability to supply;
- lower selling prices and higher manufacturing costs;
- can Wah Hong produce final products that meet our quality standards;
- can Wah Hong generate sufficient demand at attractive price levels to generate sufficient operating margins for the Group and achieve targets for future milestone payments;
- how long will it take our licence partners (Dow and Merck) to contract new customers and supply products in volume to generate royalty income and achieve targets for milestone payments;
- likelihood of new inventions making CFQD[®] products obsolete; and
- higher investment in research and development.

Various sensitivity analyses have been performed to reflect possible downside scenarios as referred to above. Even in the worst case scenario whereby the Group achieves no cash revenues for the twelve months following the date of this Annual Report, the Company and the Group have sufficient resources to continue in operational existence for the foreseeable future.

At the time of approving the financial statements the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the 2017 Annual Report.

(d) Functional and presentational currency

These financial statements are presented in Pounds Sterling, which is the presentational currency of the Group and the functional currency of the Company. All financial information presented has been rounded to the nearest thousand.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. Basis of preparation continued

(e) Use of estimates and judgements

The preparation of financial statements requires management to make estimates and judgements that affect the amounts reported for assets and liabilities as at the reporting date and the amounts reported for revenues and expenses during the year. The nature of estimation means that actual amounts could differ from those estimates. Estimates and judgements used in the preparation of the financial statements are continually reviewed and revised as necessary. While every effort is made to ensure that such estimates and judgements are reasonable, by their nature they are uncertain and, as such, changes in estimates and judgements may have a material impact on the financial statements.

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements.

Equity-settled share-based payments

The determination of share-based payment costs requires: the selection of an appropriate valuation method; consideration as to the inputs necessary for the valuation model chosen; and judgement regarding when and if performance conditions will be met. Inputs required for this arise from judgements relating to the future volatility of the share price of Nanoco and comparable companies, the Company's expected dividend yields, risk-free interest rates and expected lives of the options. The Directors draw on a variety of sources to aid in the determination of the appropriate data to use in such calculations. The share-based payment expense is most sensitive to vesting assumptions (below) and to the future volatility of the future share price factor. Further information is included in note 3.

Outlook

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are those relating to the estimation of the number of share options that will ultimately vest (note 22). The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Impairment of intellectual property and tangible fixed assets

Management judgement is required to determine the carrying value of these assets. As the Group has not, to date, made a profit the carrying value of these assets may need to be impaired. During the year an extensive review was undertaken to identify which patents are of no further value to Nanoco and should be allowed to lapse. As a consequence, patents with a value of £77,000 (2016: £nil) have been fully impaired in these financial statements. Judgements are based on the information available at each reporting date, which includes the progress with testing and certification and progress on, for example, establishment of commercial arrangements with third parties. Management has adopted the prudent approach of amortising patent registration costs over a ten-year period, which is substantially shorter than the life of the patent. For external patents acquired the same rule is adopted unless the remaining life of the patent is shorter, in which event the cost of acquisition is amortised over the remaining life of the patent.

Taxation

Management judgement is required to determine the amount of tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies. Further information is included in note 9.

Research and development

Careful judgement by the Directors is applied when deciding whether the recognition 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. Judgements are based on the information available at each reporting date which includes the progress with testing and certification and progress on, for example, establishment of commercial arrangements with third parties. In addition, all internal activities related to research and development of new products are continuously monitored by the Directors. Further information is included in note 3.

Revenue recognition

Judgements are required as to whether and when contractual milestones have been achieved and in turn the period over which development revenue should be recognised. Management judgements are similarly required to determine whether services or rights under licence agreements have been delivered so as to enable licence revenue to be recognised. Further information is included in note 3.

3. Significant accounting policies

The accounting policies set out below are consistent with those of the previous financial year and are applied consistently by Group entities.

(a) Basis of consolidation

The Group financial statements consolidate the financial statements of Nanoco Group plc and the entities it controls (its subsidiaries) drawn up to 31 July each year.

Subsidiaries are all entities over which the Group has the power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee), exposure, or rights, to variable returns from its involvement with the investee and ability to use its power over the investee to affect its returns. All Nanoco Group plc's subsidiaries are 100% owned. Subsidiaries are fully consolidated from the date control passes.

3. Significant accounting policies continued

(a) Basis of consolidation continued

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The costs of an acquisition are measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at fair value at acquisition date irrespective of the extent of any minority interest. The difference between the cost of acquisition of shares in subsidiaries and the fair value of the identifiable net assets acquired is capitalised as goodwill and reviewed annually for impairment. Any deficiency in the cost of acquisition below the fair value of identifiable net assets acquired (i.e. discount on acquisition) is recognised directly in the consolidated statement of comprehensive income.

In the consolidated financial statements, income and cash flow statement items for Group entities with a functional currency other than Sterling are translated into Sterling at monthly average exchange rates, which approximate to the actual rates, for the relevant accounting periods.

All intra-group transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Subsidiaries' accounting policies are amended where necessary to ensure consistency with the policies adopted by the Group.

(b) Foreign currency transactions

Transactions in foreign currencies are initially recorded in the functional currency by applying the spot rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies (including those of the Group's US subsidiary) are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to the consolidated statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(c) Segmental reporting

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. As at the reporting date the Company operated with only a single segment, being the research, development and manufacture of products and services based on high performance nanoparticles.

(d) Revenue recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable for the sale of goods or services, excluding discounts, rebates, VAT and other sales taxes or duties.

The Group's revenues to date comprise amounts earned under joint development agreements, individual project development programmes and material supply and licence agreements and revenue from the sale of quantum dot products.

Revenues received in advance of work performed from development programmes are recognised on a straight-line basis over the period that the development work is being performed as measured by contractual milestones. Revenue is not recognised where there is uncertainty regarding the achievement of such milestones and where the customer has the right to recoup advance payments.

Contractual payments received from licence agreements are recognised as revenue when goods, services or rights and entitlements are supplied. Upfront licence fees, where control over the intellectual property has been retained by the Group, are taken to income on a straight-line basis over the initial period of the contract in accordance with the continuing obligations under the contract.

Revenue from the sale of products is recognised at the point of transfer of risks and rewards of ownership, which is generally on shipment of product.

(e) Government grants

Government grants are recognised when it is reasonable to expect that the grants will be received and that all related conditions are met, usually on submission of a valid claim for payment.

Government grants of a revenue nature are recognised as other operating income in the consolidated statement of comprehensive income.

Government grants relating to capital expenditure are deducted in arriving at the carrying amount of the asset.

(f) Cost of sales

Cost of sales comprises the labour, materials and power costs incurred in the generation of revenue from products sold.

Revenue from royalties and licences and revenue from the rendering of services, which comprise payments from customers to gain preferential treatment in terms of supply or pricing, do not have an associated cost of sale.

(g) Operating loss

Operating losses are stated after research and development and administration expenses but before finance charges and taxation.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

3. Significant accounting policies continued

(h) Research and development

Research costs are charged in the consolidated statement of comprehensive income as they are incurred. Development costs will be capitalised as intangible assets when it is probable that future economic benefits will flow to the Group. Such intangible assets will be amortised on a straight-line basis from the point at which the assets are ready for use over the period of the expected benefit, and will be reviewed for impairment at each reporting date based on the circumstances at the reporting date.

The criteria for recognising expenditure as an asset are:

- it is technically feasible to complete the product;
- management intends to complete the product and use or sell it;
- there is an ability to use or sell the product;
- it can be demonstrated how the product will generate probable future economic benefits;
- adequate technical, financial and other resources are available to complete the development, use and sale of the product; and
- expenditure attributable to the product can be reliably measured.

Development costs are currently charged against income as incurred since the criteria for their recognition as an asset are not met, the exception being the costs of filing and maintenance of intellectual property as these are considered to generate probable future economic benefits and are capitalised as intangible assets (see note 12).

(i) Lease payments

Rentals payable under operating leases, which are leases where the lessor retains a significant proportion of the risks and rewards of the underlying asset, are charged in the consolidated statement of comprehensive income on a straight-line basis over the expected lease term.

Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(j) Finance income and expense

Finance income comprises interest income on funds invested and changes in the fair value of financial assets at fair value through the consolidated statement of comprehensive income. Interest income is recognised as interest accrues using the effective interest rate method.

Finance expense comprises interest expense on borrowings. All borrowing costs are recognised using the effective interest method.

(k) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the consolidated statement of comprehensive income except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current income tax assets (including research and development income tax credit) and liabilities for the current and prior periods are measured at the amount expected to be recovered from, or paid to, the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are measured on an undiscounted basis using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date and which are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profits will be available against which differences can be utilised. An asset is not recognised to the extent that the transfer of economic benefits in the future is uncertain.

Deferred income tax assets and liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the Group to make a single payment.

3. Significant accounting policies continued

(l) Property, plant and equipment

Property, plant and equipment assets are recognised initially at cost. After initial recognition, these assets are carried at cost less any accumulated depreciation and any accumulated impairment losses. Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes costs directly attributable to making the asset capable of operating as intended.

Depreciation is computed by allocating the depreciable amount of an asset on a systematic basis over its useful life and is applied separately to each identifiable component.

The following bases and rates are used to depreciate classes of assets:

Laboratory infrastructure	–	straight line over remainder of lease period (two to ten years)
Fixtures and fittings	–	straight line over five years
Office equipment	–	straight line over three years
Plant and machinery	–	straight line over five years

The carrying values of tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable, and are written down immediately to their recoverable amount. Useful lives and residual values are reviewed annually and where adjustments are required these are made prospectively.

A tangible fixed asset item is derecognised on disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the derecognition of the asset is included in the consolidated statement of comprehensive income in the period of derecognition.

(m) Intangible assets

Intangible assets acquired either as part of a business combination or from contractual or other legal rights are recognised separately from goodwill provided they are separable and their fair value can be measured reliably. This includes the costs associated with acquiring and registering patents in respect of intellectual property rights.

Where consideration for the purchase of an intangible asset includes contingent consideration, the fair value of the contingent consideration is included in the cost of the asset.

Where intangible assets recognised have finite lives, after initial recognition their carrying value is amortised on a straight-line basis over those lives. The nature of those intangibles recognised and their estimated useful lives are as follows:

Patents	–	straight line over ten years
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(n) Impairment of assets

At each reporting date the Group reviews the carrying value of its plant, equipment and intangible assets to determine whether there is an indication that these assets have suffered an impairment loss. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an assessment of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying value of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, an appropriate valuation model is used and these calculations are corroborated by valuation multiples or other available fair value indicators. Impairment losses on continuing operations are recognised in the consolidated statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of comprehensive income unless the asset is carried at a revalued amount, in which case the reversal is treated as a valuation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

The carrying values of plant and equipment as at the reporting date have not been subjected to impairment charges.

An impairment loss in the year in respect of intangible fixed assets is described in note 12.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

3. Significant accounting policies continued

(o) Assets held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction, rather than through continuing use. They are measured at the lower of carrying amount and fair value less costs to sell, which are incremental costs directly attributable to the disposal of the asset. The carrying value is assessed at each reporting period.

Property, plant and equipment and intangible assets are not amortised once classified as held for sale. Assets classified as held for sale are presented separately as current assets in the statement of financial position.

(p) Investments in subsidiaries

Investments in subsidiaries are stated in the Company statement of financial position at cost less provision for any impairment.

(q) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost based on latest contractual prices includes all costs incurred in bringing each product to its present location and condition. Net realisable value is based on estimated selling price less any further costs expected to be incurred to disposal. Provision is made for slow-moving or obsolete items.

(r) Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes party to the contractual provisions of the relevant instrument and derecognised when it ceases to be party to such provisions. Such assets and liabilities are classified as current if they are expected to be realised or settled within twelve months after the balance sheet date. Financial assets and liabilities are initially recognised at fair value and subsequently measured at either fair value or amortised cost including directly attributable transaction costs.

The Group has the following categories of financial assets and liabilities:

Loans and receivables

(i) Trade and other receivables

Trade receivables, which generally have 30 to 60-day terms, are recognised and carried at the lower of their original invoiced value and recoverable amount. The time value of money is not material.

Provision is made when there is objective evidence that the Group will not be able to recover balances in full. Significant financial difficulties faced by the customer, probability that the customer will enter bankruptcy or financial reorganisation and default in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying value of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated statement of comprehensive income within administrative expenses.

When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables.

(ii) Cash, cash equivalents and short-term investments

Cash and cash equivalents comprise cash at hand and deposits with maturities of three months or less. Short-term investments comprise deposits with maturities of more than three months, but no greater than twelve months.

Financial liabilities at amortised cost

(i) Trade and other payables

Trade and other payables are non-interest bearing and are initially recognised at fair value. They are subsequently measured at amortised cost using the effective interest rate method.

(ii) Loans

Obligations for loans and borrowings are measured initially at fair value and subsequently interest-bearing loans are measured at fair value.

(s) Share capital

Proceeds on issue of shares are included in shareholders' equity, net of transaction costs. The carrying amount is not re-measured in subsequent years.

(t) Shares held by the Employee Benefit Trust ("EBT")

Following the exercise on 2 August 2016 upon which jointly owned shares were transferred to the sole beneficiary, there are no further shares held in the EBT.

3. Significant accounting policies continued

(u) Share-based payments

Equity-settled share-based payment transactions are measured with reference to the fair value at the date of grant, recognised on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest. Fair value is measured using a suitable option pricing model.

At each reporting date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions and the number of equity instruments that will ultimately vest. The movement in cumulative expense since the previous reporting date is recognised in the consolidated statement of comprehensive income, with a corresponding entry in equity.

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

Where awards are granted to the employees of the subsidiary company, the fair value of the awards at grant date is recorded in the Company's financial statements as an increase in the value of the investment with a corresponding increase in equity via the share-based payment reserve.

(v) Defined contribution pension scheme

The Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The amounts charged against profits represent the contributions payable to the scheme in respect of the accounting period.

(w) New accounting standards and interpretations

The following amendments to IFRS became mandatory in this reporting period. The Group has applied the following standards and amendments for the first time for the reporting period commencing 1 August 2016:

- Disclosure initiative – amendments to IAS 1 Presentation of Financial Statements;
- Clarification of acceptable methods of depreciation and amortisation – amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets;
- Accounting for acquisitions of interests in joint operations – amendments to IFRS 11; and
- Annual improvements to IFRS 2012–2014 cycle.

The adoption of these amendments did not have an impact on the current period or any prior period.

New standards not yet adopted

The IASB has published three new accounting standards relevant to the Group that will be mandatory in future periods. These standards have not been early adopted in these consolidated financial statements. The Group's initial assessment of the future impact of these new standards is as follows:

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

The new financial instruments standard introduces changing to accounting for credit losses, including related disclosures. The new standard also introduces changes to how financial assets are measured on an ongoing basis to align with the asset's cash flow characteristics and the business model in which the asset is held. In addition the Company will be required to measure expected losses in respect of balances due from other Group companies.

As the Group does not have any complex financial instruments, this is not expected to impact on reported performance.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

3. Significant accounting policies continued

(w) New accounting standards and interpretations continued

New standards not yet adopted continued

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

The new revenue standard provides a clearer and more detailed five-step model for revenue recognition and disclosure in a framework that is designed to improve comparability of revenue amounts over a range of industries, companies and geographical boundaries. The standard can significantly change an issuer's timing of recognition of revenue, among other changes.

Revenue is often not only a key performance measure in its own right, but also a starting point for other performance measures, such as operating income, net income and earnings per share; key analytical ratios, such as margins, return on equity and return on assets; and valuation metrics, such as revenue multiples and price-to-earnings ratios.

The standard is effective for Nanoco in the year ending 31 July 2019. The new standard provides enhanced detail and a five-step revenue recognition approach to reflect the transfer of goods and services to customers.

IFRS 15 requires the identification of deliverables in contracts with customers that qualify as performance obligations. The transaction price receivable from customers must be allocated between the Company's performance obligations under contracts on a relative stand-alone basis. Where goods or services sold together are concluded to be distinct performance obligations, revenue allocated to such goods or services is recognised when the control of goods passes to the customer or as the service is delivered.

Detailed reviews of revenue arrangements are under way and will continue into 2017/18 as we finalise our assessment of the impact of the new standard. Key matters arising from the assessment relate to the identification of performance obligations and determining when they are satisfied.

Based on work to date we expect that one contract will be impacted by IFRS 15 in that an upfront licence fee, currently recognised over the life of the agreement (seven and a half years) under IAS 18, will be recognised over time, based on the number of units of product sold under IFRS 15 thereby deferring revenues and profits recognised under IAS 18 in the early years of the agreement. We continue to work on other agreements but we do not expect them to be significantly impacted by the implementation of IFRS 15.

When IFRS 15 is adopted, it can be applied either on a fully retrospective basis, requiring the restatement of the comparative periods presented in the financial statements, or with the cumulative retrospective impact of IFRS 15 applied as an adjustment to equity on the date of adoption. When the latter approach is applied it is necessary to disclose the impact of IFRS 15 on each line item in the financial statements in the reporting period. A cumulative retrospective approach as modified in accordance with the standard is expected to be taken.

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

The new leases standard changes the previous lease accounting model so a lessee will now reflect more assets and liabilities arising from leases on its balance sheet. This can substantially affect key financial ratios, including ratios related to debt covenants or debt-to-equity ratios.

The Group expects to recognise certain assets and liabilities (as outlined in note 25) on initial recognition of this standard, although it is not expected to have a major impact on the consolidated income statement as the Group only has a limited number of off-balance sheet leases classified as operating leases under current lease accounting requirements per IAS 17 Leases.

4. Segmental information

Operating segments

At 31 July 2017 the Group operated as one segment, being the research, development and manufacture of products and services based on high performance nanoparticles. This is the level at which operating results are reviewed by the chief operating decision maker (i.e. the Chief Executive Officer) 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.

	31 July 2017 £'000	31 July 2016 £'000
Analysis of revenue		
Products sold	470	204
Rendering of services	241	114
Royalties and licences	615	156
	1,326	474

There were two material customers who generated revenue of £832,000 and £150,000 (2016: one material customer amounting to £114,000).

4. Segmental information continued

Operating segments continued

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

	31 July 2017 £'000	31 July 2016 £'000
Revenue		
UK	167	20
Europe (excluding UK)	843	42
Asia	163	135
USA	153	277
	1,326	474

All the Group's assets are held in the UK and all of its capital expenditure arises in the UK. The loss on ordinary activities before taxation and attributable to the single segment was £10,898,000 (2016: £12,600,000).

5. Other operating income

	31 July 2017 £'000	31 July 2016 £'000
Government grants	213	284
Other income - insurance proceeds	68	–
	281	284

6. Operating loss

	31 July 2017 £'000	31 July 2016 £'000
Operating loss is stated after charging:		
Depreciation of tangible fixed assets (see note 11)	741	991
Amortisation of intangible assets (see note 12)	405	298
Impairment of intangible assets (see note 12)	77	–
Staff costs (see note 7)	5,947	6,801
Foreign exchange losses	43	4
Research and development expense*	5,508	5,995
Share-based payments	242	270
Operating lease rentals (see note 25):		
Land and buildings	733	723

* Included within research and development expense are staff costs totalling £4,011,000 (2016: £4,590,000) also included in note 7.

Auditor's remuneration

Audit services:

– Fees payable to Company auditor for the audit of the Parent and the consolidated accounts	60	20
– Auditing the accounts of subsidiaries pursuant to legislation	30	23
Fees payable to Company auditor for other services:		
– Assurance services in connection with the review of interim results	22	8
– Services relating to corporate finance transactions not covered above	30	–
Total auditor's remuneration	142	51

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

7. Staff costs

	31 July 2017 £'000	31 July 2016 £'000
Wages and salaries	4,947	5,622
Social security costs	453	567
Pension contributions	305	342
Share-based payments	242	270
	5,947	6,801
Directors' remuneration (including benefits in kind) included in the aggregate remuneration above comprised:		
Emoluments for qualifying services	1,071	1,227

Directors' emoluments (excluding social security costs and long-term incentives, but including benefits in kind) disclosed above include £327,000 paid to the highest paid Director (2016: £349,000).

Pension contributions into money purchase pension schemes were made for four Directors (2016: four).

Aggregate gains made by Directors during the year following the exercise of share options and jointly owned EBT shares were £nil (2016: £nil).

Not included in the costs reported above are share awards to be made to Directors under the Deferred Bonus Plan amounting to £nil (2016: £166,000) which are included in the Directors' remuneration report. The awards are recognised in the income statement by way of a share-based payment charge over the deferral period as required by IFRS 2.

An analysis of the highest paid Director's remuneration is included in the Directors' remuneration report.

The average number of employees during the year (including Directors) was as follows:

Group	31 July 2017 Number	31 July 2016 Number
Directors	8	9
Laboratory and administrative staff	102	120
	110	129

8. Finance income and expense

Group	31 July 2017 £'000	31 July 2016 £'000
Finance income		
Bank interest receivable	44	193
Finance expense		
Loan interest payable	—	(12)
	44	181

Bank interest receivable includes £nil (2016: £12,000), which is receivable after the year end.

9. Taxation

The tax credit is made up as follows:

Group	31 July 2017 £'000	31 July 2016 £'000
Current income tax		
Research and development income tax credit receivable	(1,837)	(1,970)
Adjustment in respect of prior years	(30)	(30)
Overseas corporation tax	79	7
	(1,788)	(1,993)
Deferred tax		
Charge for the year	—	—
Total income tax credit	(1,788)	(1,993)

The adjustments in respect of prior years relate to research and development income tax credits. The research and development income tax for the year ended 31 July 2016 was submitted in May 2017 and the repayment was received in June 2017. The income tax receivable shown in the statement of financial position is the R&D tax credit receivable reported above.

9. Taxation continued

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

Group	31 July 2017 £'000	31 July 2016 £'000
Loss on ordinary activities before taxation	(10,898)	(12,600)
Tax at standard rate of 19.67% (2016: 20%)	(2,143)	(2,520)
Effects of:		
Expenses not deductible for tax purposes	78	243
Additional reduction for research and development expenditure	(1,405)	(1,556)
Surrender of research and development relief for repayable tax credit	2,492	2,758
Research and development tax credit receivable	(1,837)	(1,970)
Share options exercised (CTA 2009 Pt 12 deduction)	(17)	–
Overseas corporation tax	79	7
Losses and share-based payment charges carried forward not recognised in deferred tax	995	1,075
Adjustment in respect of prior years	(30)	(30)
Tax credit in income statement	(1,788)	(1,993)

The Group has accumulated losses available to carry forward against future trading profits of £29.1 million (2016: £24.3 million).

Deferred tax liabilities/(assets) provided/(recognised) at a standard rate of 17% (2016: 20%) are as follows:

	31 July 2017 £'000	31 July 2016 £'000
Accelerated capital allowances	83	189
Share-based payments	–	(189)
Tax losses	(83)	–
	–	–

The Group also has deferred tax assets, measured at a standard rate of 17% (2016: 20%), in respect of share-based payments of £369,000 (2016: £455,000) and tax losses of £4,951,000 (2016: £4,850,000) which have not been recognised as an asset as it is not yet probable that future taxable profits will be available against which the assets can be utilised.

10. Earnings per share

Group	31 July 2017 £'000	31 July 2016 £'000
Loss for the financial year attributable to equity shareholders	(9,110)	(10,607)
Share-based payments	242	270
Loss for the financial year before share-based payments	(8,868)	(10,337)
Weighted average number of shares		
Ordinary shares in issue	238,180,510	237,077,578
Adjusted loss per share before share-based payments (pence)	(3.72)	(4.36)
Basic loss per share (pence)	(3.82)	(4.47)

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

11. Property, plant and equipment

Group	Laboratory infrastructure £'000	Office equipment, fixtures and fittings £'000	Plant and machinery £'000	Total £'000
Cost				
At 1 August 2015	2,578	230	4,652	7,460
Additions	67	26	96	189
At 31 July 2016	2,645	256	4,748	7,649
Additions	10	139	225	374
Reclassified as assets held for sale (note 13)	–	–	(203)	(203)
At 31 July 2017	2,655	395	4,770	7,820
Depreciation				
At 1 August 2015	2,007	161	3,230	5,398
Provided during the year	394	47	550	991
At 31 July 2016	2,401	208	3,780	6,389
Provided during the year	213	55	473	741
Reclassified as assets held for sale (note 13)	–	–	(175)	(175)
At 31 July 2017	2,614	263	4,078	6,955
Net book value				
At 31 July 2017	41	132	692	865
At 31 July 2016	244	48	968	1,260

The aggregate original cost of tangible assets now fully depreciated but considered to be still in use is £5,081,000 (2016: £3,301,000).

12. Intangible assets

Group	Patents £'000
Cost	
At 1 August 2015	2,803
Additions	900
At 31 July 2016	3,703
Additions	1,185
Reclassified as assets held for sale (note 13)	(597)
At 31 July 2017	4,291
Amortisation	
At 1 August 2015	982
Provided during the year	298
At 31 July 2016	1,280
Provided during the year	405
Impairment charge	77
Reclassified as assets held for sale (note 13)	(90)
At 31 July 2017	1,672
Net book value	
At 31 July 2017	2,619
At 31 July 2016	2,423

Contingent consideration of \$150,000 is payable in respect of a purchase of patents made during the year. The amount is payable if the Group reaches a revenue target in a future reporting period. The addition is recorded above at the Directors' estimate of fair value of the consideration payable.

12. Intangible assets continued

Intangible assets are amortised on a straight-line basis over ten years. Amortisation provided during the period is recognised in administrative expenses. The Group does not believe that any of its patents in isolation are material to the business. The aggregate original cost of intangible assets now fully depreciated but considered to be still in use is £161,000 (2016: £154,000).

During the year an extensive review was undertaken to identify which patents are of no further value to Nanoco and should be allowed to lapse. As a consequence, patents with a value of £77,000 (2016: £nil) have been fully impaired in these financial statements. This impairment charge is recognised within administrative expenses.

13. Assets held for sale

	Plant and machinery £'000	Intellectual property £'000	Total £'000
At 1 August 2016	–	–	–
Reclassified during the period	28	507	535
At 31 July 2017	28	507	535

These assets represent those held for sale following the Board's decision to dispose of the equipment and intellectual property arising from the Group's studies on solar power generation using CIGS (copper indium gallium selenide) materials. The Directors consider that these assets will be disposed of within twelve months through a sale transaction. Upon reclassification no re-measurement was necessary and therefore there have been no gains or losses recognised. All of the assets are held by the one operating segment.

14. Investment in subsidiaries

Company	Shares £'000	Loans £'000	Loan impairment £'000	Total £'000
At 1 August 2015	63,235	23,103	(20,286)	66,052
Increase in respect of share-based payments	–	270	–	270
At 31 July 2016	63,235	23,373	(20,286)	66,322
Increase in respect of share-based payments	–	242	–	242
At 31 July 2017	63,235	23,615	(20,286)	66,564

By subsidiary	Shares £'000	Loans £'000	Loan impairment £'000	Total £'000
Nanoco Tech Limited	63,235	–	–	63,235
Nanoco Life Sciences Limited	–	20,286	(20,286)	–
Nanoco Technologies Limited	–	3,329	–	3,329
At 31 July 2017	63,235	23,615	(20,286)	66,564

Loans to subsidiary undertakings carry no interest and are repayable on demand. Further information in relation to these loans is given in note 27.

Subsidiary undertakings	Country of incorporation	Principal activity	Share of issued ordinary share capital	
			31 July 2017	31 July 2016
Nanoco Life Sciences Limited	England and Wales	Research and development	100%	100%
Nanoco Tech Limited	England and Wales	Holding company	100%	100%
Nanoco Technologies Limited*	England and Wales	Manufacture and development of nanoparticles	100%	100%
Nanoco 2D Materials Limited***	England and Wales	Research and development	100%	–
Nanoco US Inc.**	USA	Management services	100%	100%

All subsidiaries incorporated in England and Wales are registered at 46 Grafton Street, Manchester M13 9NT. Nanoco US Inc. is registered at 33 Bradford Street, Concord, MA 01742.

With the exception of the two companies footnoted below all other shareholdings are owned by Nanoco Group plc.

* Share capital is owned by Nanoco Tech Limited.

** Nanoco US Inc. is a wholly owned subsidiary of Nanoco Tech Limited. It was formed in July 2013 primarily in order to provide the services of US-located staff to the rest of the Group.

***Nanoco 2D Materials Limited was incorporated on 6 February 2017.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

15. Inventories

	31 July 2017 Group £'000	31 July 2017 Company £'000	31 July 2016 Group £'000	31 July 2016 Company £'000
Raw materials, finished goods and consumables	188	–	208	–

A total of £80,000 (2016: £85,000) was included in cost of sales with respect to inventory during the year.

16. Trade and other receivables

	31 July 2017 Group £'000	31 July 2017 Company £'000	31 July 2016 Group £'000	31 July 2016 Company £'000
Trade receivables	111	–	1,455	–
Prepayments and accrued income	329	–	422	12
Inter-company short-term loan to subsidiary	–	47,957	–	42,976
Other receivables	229	–	168	–
	669	47,957	2,045	42,988

Trade receivables are non-interest bearing and are generally due and paid within 30 to 60 days. The Directors consider that the carrying amount of trade and other receivables approximates to their fair value and that no impairment is required at the reporting date. Therefore there is no provision for impairment at the balance sheet date (2016: £nil).

Trade receivables are denominated in the following currency:

	31 July 2017 Group £'000	31 July 2017 Company £'000	31 July 2016 Group £'000	31 July 2016 Company £'000
US Dollars	15	–	1,032	–
Euros	53	–	423	–
Sterling	43	–	–	–
	111	–	1,455	–

At 31 July the analysis of trade receivables that were past due but not impaired was as follows:

	Not yet due £'000	Due but not impaired £'000	Past due but not impaired >90 days £'000	Past due but not impaired 120 to 150 days £'000	Total £'000
2017	105	6	–	–	111
2016	1,374	30	8	43	1,455

17. Cash, cash equivalents and deposits

	31 July 2017 Group £'000	31 July 2017 Company £'000	31 July 2016 Group £'000	31 July 2016 Company £'000
Short-term investments and cash on deposit	–	–	5,000	5,000
Cash and cash equivalents	5,706	4,670	9,511	4,057
	5,706	4,670	14,511	9,057

Under IAS 7, cash held on long-term deposits (being deposits with maturity of greater than three months and no more than twelve months) that cannot readily be converted into cash has been classified as a short-term investment. The maturity on this investment was less than twelve months at the reporting date.

Cash and cash equivalents at 31 July 2017 include deposits with original maturity of three months or less of £nil (2016: £5,000,000).

An analysis of cash, cash equivalents and deposits by denominated currency is given in note 26.

18. Trade and other payables

	31 July 2017 Group £'000	31 July 2017 Company £'000	31 July 2016 Group £'000	31 July 2016 Company £'000
Current				
Trade payables	814	–	1,093	–
Other payables	136	–	185	–
Accruals	368	–	1,165	–
	1,318	–	2,443	–
Non-current				
Long-term loan from subsidiary	–	450	–	450
	–	450	–	450

The Directors consider that the carrying amount of trade and other payables approximates to their fair value. Interest is not charged on inter-company loans (2016: no interest). The average credit period taken is 37 days (2016: 45 days).

19. Financial liabilities

	31 July 2017 Group £'000	31 July 2017 Company £'000	31 July 2016 Group £'000	31 July 2016 Company £'000
Other loan				
Current	–	–	32	–
	–	–	32	–

The loan was unsecured, bore interest at 2% above base rate, was repayable in quarterly instalments and was fully repaid in 2017.

20. Deferred revenue

	31 July 2017 Group £'000	31 July 2017 Company £'000	31 July 2016 Group £'000	31 July 2016 Company £'000
Current	102	–	531	–
Non-current	552	–	648	–
	654	–	1,179	–

Deferred revenue arises under IFRS where upfront licence fees are accounted for on a straight-line basis over the initial term of the contract or where performance criteria have not been satisfied in the accounting period.

21. Issued equity capital

Group	Number	Share capital £'000	Share premium £'000	Reverse acquisition reserve £'000	Total £'000
Allotted, called up and fully paid ordinary shares of 10p					
At 31 July 2015 and 31 July 2016	237,077,578	23,708	112,217	(77,868)	58,057
Shares issued on exercise of options	1,213,750	121	431	–	552
At 31 July 2017	238,291,328	23,829	112,648	(77,868)	58,609

The balances classified as share capital and share premium include the total net proceeds (nominal value and share premium respectively) on issue of the Company's equity share capital, comprising ordinary shares.

The retained loss and other equity balances recognised in the Group financial statements reflect the consolidated retained loss and other equity balances of Nanoco Tech Limited immediately before the business combination which was reported in the year ended 31 July 2009. The consolidated results for the period from 1 August 2008 to the date of the acquisition by the Company are those of Nanoco Tech Limited. However, the equity structure appearing in the Group financial statements reflects the equity structure of the legal parent, including the equity instruments issued under the share-for-share exchange to effect the transaction. 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

21. Issued equity capital *continued*
Shares issued on exercise of options

1,213,750 options were exercised this year (2016: nil) with an average exercise price of 45.5 pence.

Company	Number	Share capital £'000	Share premium £'000	Total £'000
Allotted, called up and fully paid ordinary shares of 10p				
At 31 July 2015 and 31 July 2016	237,077,578	23,708	112,217	135,925
Shares issued on exercise of options	1,213,750	121	431	552
At 31 July 2017	238,291,328	23,829	112,648	136,477

22. Share-based payment reserve

Group and Company	£'000
At 31 July 2015	2,445
Share-based payments	270
At 31 July 2016	2,715
Share-based payments	242
At 31 July 2017	2,957

The share-based payment reserve accumulates the corresponding credit entry in respect of share-based payment charges. Movements in the reserve are disclosed in the consolidated statement of changes in equity.

A charge of £242,000 has been recognised in the statement of comprehensive income for the year (2016: £270,000).

Share option schemes

The Group operates the following share option schemes, all of which are operated as Enterprise Management Incentive ("EMI") schemes insofar as the share options being issued meet the EMI criteria as defined by HM Revenue & Customs. Share options issued that do not meet EMI criteria are issued as unapproved share options, but are subject to the same exercise performance conditions.

Nanoco Group plc Long Term Incentive Plan ("LTIP")
Grant in November 2011

Share options were granted to staff and Executive Directors on 25 November 2011. The options granted to Executive Directors were subject to commercial targets being achieved. The exercise price was set at 50 pence, being the average closing share price on the day preceding the issue of the share options. The fair value benefit is measured using a binomial model, taking into account the terms and conditions upon which the share options were issued. Share options issued to staff vest over a three-year period from the date of grant and are exercisable until the tenth anniversary of the award, but are not subject to performance conditions.

Grant in October 2012

Share options were granted to staff and Executive Directors on 22 October 2012. The options granted to Executive Directors were subject to commercial targets being achieved. The exercise price was set at 57 pence, being the average closing share price on the day preceding the issue of the share options. The fair value benefit is measured using a binomial model, taking into account the terms and conditions upon which the share options were issued. Share options issued to staff vest over a three-year period from the date of grant and are exercisable until the tenth anniversary of the award, but are not subject to performance conditions.

Grant in May 2014

Share options were granted to certain staff on 23 May 2014. The exercise price was set at 89 pence, being the average closing share price on the day preceding the issue of the share options. The fair value benefit is measured using a binomial model, taking into account the terms and conditions upon which the share options were issued. The options vest at the end of three years from the date of grant and are exercisable until the tenth anniversary of the award. The awards are not subject to performance conditions. Vesting of the award is subject to the employee remaining a full-time member of staff at the point of vesting. No options were granted to Executive Directors.

Grant in October 2014

Share options were granted to an Executive Director on 14 October 2014. The exercise price was set at 10 pence, being the nominal value of the share. The fair value benefit is measured using a binomial model, taking into account the terms and conditions upon which the share options were issued. The options vest at the end of three years from the date of grant and are exercisable until the tenth anniversary of the award. The awards are subject to performance conditions which were amended during the year so as to be in line with the 2015 LTIP scheme. As a result of the modification, the fair value of the award was reduced. However, in accordance with IFRS 2 no change was made to the charge in the financial statements. Vesting of the award is subject to the employee remaining a full-time member of staff at the point of vesting.

22. Share-based payment reserve continued

Share option schemes continued

Nanoco Group plc 2015 Long Term Incentive Plan ("LTIP") Grant in December 2015

Following approval of the new scheme at the 2015 AGM, share options were granted to four Executive Directors at nil cost. The fair value benefit is measured using a stochastic model, taking into account the terms and conditions upon which the share options were issued. The options vest at the end of the three-year performance period subject to meeting the performance criteria (as detailed in the Directors' remuneration report on page 53) and are exercisable after a two-year holding period until the tenth anniversary of the award.

Grant in April 2016

Share options were granted to an employee on 12 April 2016 at nil cost. The fair value benefit is measured using a stochastic model, taking into account the terms and conditions upon which the share options were issued. The options vest at the end of a three-year performance period subject to meeting performance criteria and are exercisable until the tenth anniversary of the award.

Grant in November 2016

Options were granted to the Executive Directors and all eligible staff on 22 November 2016 at nil cost. The fair value benefit is measured using a stochastic model, taking into account the terms and conditions upon which the share options were issued and are subject to a two-year holding period. The options vest at the end of a three-year performance period subject to meeting performance criteria and are exercisable until the tenth anniversary of the award.

Other awards

Share options are awarded to management and key staff as a mechanism for attracting and retaining key members of staff. The options are issued at either market price on the day preceding grant or, in the event of abnormal price movements, at an average market price for the week preceding grant date. On 14 October 2015, unapproved options were granted to a member of staff with an exercise price of 56.5 pence. These options vest over a three-year period from the date of grant with performance conditions and are exercisable until the tenth anniversary of the award. Vesting of the award is subject to the employee remaining a full-time member of staff at the point of vesting. The fair value benefit is measured using a binomial valuation model, taking into account the terms and conditions upon which the share options were issued.

Shares held in the Employee Benefit Trust ("EBT")

The Group operates a jointly owned EBT share scheme for senior management under which the trustee of the Group-sponsored EBT acquired shares in the Company jointly with a number of employees. The shares were acquired pursuant to certain conditions set out in jointly owned agreements ("JOA"). Subject to meeting the performance criteria conditions set out in the JOA, the employees are able to exercise an option to acquire the trustee's interests in the jointly owned EBT shares at the option price. The jointly owned EBT shares issued on 1 September 2006 had met the option conditions on 1 August 2010 and the option to gain sole ownership was exercised by the option holder on 2 August 2016.

The fair value benefit is measured using a binomial valuation model, taking into account the terms and conditions upon which the jointly owned shares were issued.

The following tables illustrate the number and weighted average exercise prices of, and movements in, share options and jointly owned EBT shares during the year.

Group and Company	Share options Number	EBT Number	2017 total Number	2016 total Number
Outstanding at 1 August	13,477,933	530,089	14,008,022	12,534,322
Granted during the year	4,158,821	–	4,158,821	1,695,368
Exercised during the year	(1,213,750)	(530,089)	(1,743,839)	–
Forfeited/cancelled	(286,688)	–	(286,688)	(221,668)
Outstanding at 31 July	16,136,316	–	16,136,316	14,008,022
Exercisable at 31 July	9,784,814	–	9,784,814	11,528,654

Weighted average exercise price of options

Group and Company	2017 Pence	2016 Pence
Outstanding at 1 August	48.9	51.9
Granted during the year	–	5.0
Exercised during the year	31.7	–
Forfeited/cancelled	22.6	61.7
Outstanding at 31 July	38.6	48.9

The weighted average exercise price of options granted during the year to 31 July 2017 was nil (2016: 5 pence). The range of exercise prices for options outstanding at the end of the year was nil–110 pence (2016: nil–110 pence).

For the share options outstanding as at 31 July 2017, the weighted average remaining contractual life is 6.4 years (2016: 6.1 years).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

22. Share-based payment reserve continued

Weighted average exercise price of options continued

The following table lists the inputs to the models used for the years ended 31 July 2017 and 31 July 2016.

Group and Company	Market performance-linked grants		Non-market performance-linked grants	
	2017	2016	2017	2016
Expected volatility	59%	54%	n/a	n/a
Risk-free interest rate	0.26%	0.85%	n/a	n/a
Expected life of options (years average)	3	3	3	n/a
Weighted average exercise price	nil	5.0p	nil	n/a
Weighted average share price at date of grant	49p	56.5p	49p	n/a
Model used	Stochastic	Stochastic	Binomial	Binomial

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

Certain awards are subject to a holding period after vesting. A Finnerty model has been used to determine a discount for the lack of marketability of the shares.

23. Merger reserve and capital redemption reserve

Merger reserve

Group	£'000
At 31 July 2015, 31 July 2016 and 31 July 2017	(1,242)

The merger reserve arises under section 612 of the Companies Act 2006 on the shares issued by Nanoco Tech Limited to acquire Nanoco Technologies Limited as part of a simple Group reorganisation on 27 June 2007.

Capital redemption reserve

Company	£'000
At 31 July 2015, 31 July 2016 and 31 July 2017	4,402

The capital redemption reserve arises from the off-market purchase of deferred shares on 4 May 2005 and their subsequent cancellation.

24. Movement in revenue reserve and treasury shares

Group	Retained deficit £'000	Treasury shares £'000	Total revenue reserve £'000
At 31 July 2015	(30,063)	(97)	(30,160)
Loss for the year	(10,607)	–	(10,607)
At 31 July 2016	(40,670)	(97)	(40,767)
Loss for the year	(9,110)	–	(9,110)
Exercise of options	(77)	77	–
At 31 July 2017	(49,857)	(20)	(49,877)

During the year, the option to convert jointly owned EBT shares into sole ownership was exercised (2016: nil) for an aggregate consideration of £1 (2016: £nil).

Retained deficit represents the cumulative loss attributable to the equity holders of the Parent Company.

Treasury shares include the value of Nanoco Group plc shares issued as jointly owned equity shares and held by the Nanoco Group-sponsored EBT jointly with a number of the Group's employees. At 31 July 2017 no shares in the Company were held by the EBT (2016: 530,089). In addition there are 12,222 (2016: 12,222) treasury shares not held by the EBT.

24. Movement in revenue reserve and treasury shares continued

Company	Retained deficit £'000	Treasury shares £'000	Total revenue reserve £'000
At 31 July 2015	(25,195)	(97)	(25,292)
Profit for the year	167	–	167
At 31 July 2016	(25,028)	(97)	(25,125)
Profit for the year	30	–	30
Exercise of options	(77)	77	–
At 31 July 2017	(25,075)	(20)	(25,095)

25. Commitments

Operating lease commitments

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

	31 July 2017 Group £'000	31 July 2016 Group £'000
Land and buildings:		
Not later than one year	779	594
After one year but not more than five years	2,039	1,551
After five years	–	226
	2,818	2,371

26. Financial risk management

Overview

This note presents information about the Group's exposure to various kinds of financial risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Executive Directors report regularly to the Board on Group risk management.

Capital risk management

The Company reviews its forecast capital requirements on a half-yearly basis to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders.

The capital structure of the Group consists of equity attributable to equity holders of the Parent, comprising issued share capital, reserves and retained earnings as disclosed in notes 21 to 24 and in the Group statement of changes in equity. At 31 July 2017 total equity was £10,447,000 (2016: £18,763,000).

The Company is not subject to externally imposed capital requirements.

Liquidity risk

The Group's approach to managing liquidity is to ensure that, as far as possible, it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages all of its external bank relationships centrally in accordance with defined treasury policies. The policies include the minimum acceptable credit rating of relationship banks and financial transaction authority limits. Any material change to the Group's principal banking facility requires Board approval. The Group seeks to mitigate the risk of bank failure by ensuring that it maintains relationships with a number of investment-grade banks.

At the reporting date the Group was cash positive with no outstanding borrowings, apart from a long-term loan which is being repaid on a quarterly basis in line with the terms of the loan agreement.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

26. Financial risk management continued
Categorisation of financial instruments

Financial assets/(liabilities)	Loans and receivables £'000	Financial liabilities at amortised cost £'000	Group £'000	Loans and receivables Company £'000
31 July 2017				
Trade receivables	111	–	111	–
Inter-company short-term loan to subsidiary	–	–	–	47,957
Trade and other payables	–	(1,318)	(1,318)	–
Inter-company long-term loan from subsidiary	–	–	–	(450)
	111	(1,318)	(1,207)	47,507
31 July 2016				
Trade receivables	1,455	–	1,455	–
Inter-company short-term loan to subsidiary	–	–	–	42,976
Short-term investments and cash on deposit	5,000	–	5,000	5,000
Trade and other payables	–	(2,443)	(2,443)	–
Inter-company long-term loan from subsidiary	–	–	–	(450)
Financial liabilities	–	(32)	(32)	–
	6,455	(2,475)	3,980	47,526

The values disclosed in the above table are carrying values. The Board considers that the carrying amount of financial assets and liabilities approximates to their fair value.

The main risks arising from the Group's financial instruments are credit risk and foreign currency risk. The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below.

Credit risk

The Group's principal financial assets are cash, cash equivalents and deposits. The Group seeks to limit the level of credit risk on the cash balances by only depositing surplus liquid funds with multiple counterparty banks that have investment-grade credit ratings.

The Group trades only with recognised, creditworthy third parties. Receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The Group's maximum exposure is the carrying amount as disclosed in note 16, which was neither past due nor impaired. All trade receivables are ultimately overseen by the Chief Financial Officer and are managed on a day-to-day basis by the UK credit control team. Credit limits are set as deemed appropriate for the customer.

The maximum exposure to credit risk in relation to cash, cash equivalents and deposits is the carrying value at the balance sheet date.

Foreign currency risk

The Group is exposed to currency risk on sales and purchases that are denominated in a currency other than the respective functional currency of the Company. These are primarily US Dollars ("USD") and Euros. Transactions outside of these currencies are limited.

Almost all of the Company's revenue is denominated in USD. The Group purchases some raw materials, certain services and some assets in USD which partly offsets its USD revenue, thereby reducing net foreign exchange exposure.

The Group may use forward exchange contracts as an economic hedge against currency risk, where cash flow can be judged with reasonable certainty. Foreign exchange swaps and options may be used to hedge foreign currency receipts in the event that the timing of the receipt is less certain. There were no open forward contracts as at 31 July 2017 or at 31 July 2016.

26. Financial risk management continued

Foreign currency risk continued

The split of Group assets between Sterling and other currencies at the year end is analysed as follows:

Group	31 July 2017				31 July 2016			
	GBP £'000	EUR £'000	USD £'000	Total £'000	GBP £'000	EUR £'000	USD £'000	Total £'000
Cash, cash equivalents and deposits	5,659	7	40	5,706	14,477	5	29	14,511
Trade receivables	43	53	15	111	–	423	1,032	1,455
Trade payables	(503)	(5)	(306)	(814)	(546)	(49)	(498)	(1,093)
	5,199	55	(251)	5,003	13,931	379	563	14,873

Sensitivity analysis to movement in exchange rates

The following table demonstrates the sensitivity to a reasonably possible change in the Sterling rate against other currencies used within the business, with all other variables held constant, of the Group's loss before tax (due to foreign exchange translation of monetary assets and liabilities) and the Group's equity.

Increase/(decrease)	Impact on loss before tax and Group equity 2017 £'000	Impact on loss before tax and Group equity 2016 £'000
10%	(32)	(83)
5%	(16)	(39)
(5)%	18	35
(10)%	39	68

Interest rate risk

As the Group has no significant borrowings the risk is limited to the reduction of interest received on cash surpluses held at bank which receive a floating rate of interest. The principal impact to the Group is to interest-bearing cash and cash equivalent balances held, which are as set out below:

Group	31 July 2017			31 July 2016		
	Fixed rate £'000	Floating rate £'000	Total £'000	Fixed rate £'000	Floating rate £'000	Total £'000
Cash, cash equivalents and deposits	–	5,706	5,706	5,000	9,511	14,511
Company						
Cash, cash equivalents and deposits	–	4,670	4,670	5,000	4,057	9,057

The exposure to interest rate movements is immaterial.

Maturity profile

Set out below is the maturity profile of the Group's financial liabilities at 31 July 2017 based on contractual undiscounted payments, including contractual interest.

2017	Less than one year £'000	One to five years £'000	Greater than five years £'000	Total £'000
Financial liabilities				
Trade and other payables	1,318	–	–	1,318
	1,318	–	–	1,318
2016				
Financial liabilities				
Trade and other payables	2,443	–	–	2,443
Other loans (including contractual interest)	32	–	–	32
	2,475	–	–	2,475

Trade and other payables are due within three months.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

26. Financial risk management continued

Maturity profile continued

The Directors consider that the carrying amount of the financial liabilities approximates to their fair value.

As all financial assets are expected to mature within the next twelve months, an aged analysis of financial assets has not been presented.

The Company's financial liability, a long-term loan from a subsidiary undertaking, is due after more than five years.

27. Related party transactions

The Group

There were no sales to, purchases from or, at the year end, balances with any related party.

The Company

The following table summarises inter-company balances at the year end between Nanoco Group plc and subsidiary entities:

	Notes	31 July 2017 £'000	31 July 2016 £'000
Long-term loans owed to Nanoco Group plc by			
Nanoco Life Sciences Limited		20,286	20,286
Nanoco Technologies Limited*		3,329	3,087
	14	23,615	23,373
Less provision against debt owed by Nanoco Life Sciences Limited	14	(20,286)	(20,286)
		3,329	3,087
Short-term loan owed to Nanoco Group plc by			
Nanoco Technologies Limited**	16	47,957	42,976
Long-term loan owed by Nanoco Group plc to			
Nanoco Tech Limited	18	(450)	(450)

* The movement in the long-term loan due from Nanoco Technologies Limited relates to the recharge in respect of the expense for share-based payments for staff working for Nanoco Technologies Limited and is included in investments.

** The movement in the short-term loan due from Nanoco Technologies Limited relates to transfers of cash balances between the entities for the purposes of investing short-term funds and the funding of trading losses.

There are no formal terms of repayment in place for these loans and it has been confirmed by the Directors that the long-term loans will not be recalled within the next twelve months.

None of the loans are interest bearing.

28. Compensation of key management personnel (including Directors)

	2017 £'000	2016 £'000
Short-term employee benefits	1,218	1,370
Pension costs	73	60
Benefits in kind	32	–
Share-based payments	188	190
	1,511	1,620

The key management team comprises the Directors and two members of staff (2016: two) who are not Directors of the Company. The staff members of the team are the supply chain and compliance director and the applications development director.

29. Post balance sheet events

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 £8.0 million net of expenses.

INVESTOR INFORMATION

Directors

Dr Christopher Richards	Non-executive Chairman
Dr Michael Edelman	Chief Executive Officer
Dr Nigel Pickett	Chief Technology Officer
Keith Wiggins	Chief Operating Officer
David Blain	Chief Financial Officer
Dr Alison Fielding	Non-executive Director
Brendan Cummins	Senior Independent Non-executive Director

Secretary

David Blain

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