

# A World of Innovation





A world of  colour,  light,  energy &  vision

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







## Highlights

- Substantial progress in the commercialisation of the Company's technology in the display industry in partnership with worldwide licensing partner The Dow Chemical Company ("Dow")
- Mechanical completion of Dow's large-scale cadmium-free quantum dot manufacturing plant in South Korea during the year with customer sampling expected to begin in the very near term
- Robust display pipeline with Nanoco and Dow currently working with 11 display OEMs globally from countries including Korea, China, Japan, Taiwan and the USA
- Further joint development agreement announced with Osram for the use of quantum dots in near-chip lighting applications. Other progress in lighting including the development of niche lighting products with Marl International Limited and the formation of a lighting business unit
- Progress in other target markets of solar and life sciences including the award of an Innovate UK grant for solar work with Loughborough University's Centre for Renewable Energy Systems Technology
- Team strengthened with the appointment of David Blain as Chief Financial Officer, Keith Wiggins as Chief Operating Officer, Brendan Cummins as a Non-executive Director and Caroline Watson as Investor Relations Manager
- Moved from AIM to the main market of the London Stock Exchange in May 2015, accompanied by a £20 million fundraising
- Balance sheet remains robust with cash, cash equivalents and deposits at 31 July 2015 of £24.3 million (31 July 2014: £12.2 million)

A world of  display,  lighting,  solar energy & life  sciences.

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## A bright future

Nanoco's ability to innovate keeps it at the cutting edge of technology. Our intellectual property can be used in a wide range of applications.

Developed key 'platform technology' with multiple product applications in major growth sectors worth:

**\$7.5bn**  
by 2022

Source: Market&Markets – Quantum Dots Market by Product, Application, Material & Geography – Forecast & Analysis (2013-2022)

**25m**

units/year of QD TVs shipped by 2020

Source: DisplaySearch – Quantum Dot Technology and Market Forecast Report, 2014



Display

Nanoco's CFQD® technology improves the colour quality of LCD displays and is of compelling interest to the display industry. Nanoco is currently working at various stages of the development process with a total of 11 LCD display OEMs around the world. They range from multi-national organisations to emerging consumer electronics brands from countries including Korea, China, Japan, Taiwan and the USA.

 [for more info go to page 6](#)



\$150m

niche LED lighting market,  
\$850m with further R&D work  
Source: Internal measurement



## Lighting

Similarly to display, Nanoco's CFQD® quantum dots have the potential to change the field of lighting. Using the blue light emitted by LEDs, our CFQD® quantum dots are easily fine-tuned to the desired colour by simply adjusting their size providing lighting manufacturers with an efficient and cost-effective way to tailor their lighting solutions.

 [for more info go to page 8](#)

16.7%

Efficiency, a 30% increase  
from previous year  
Source: Internal measurement



## Solar

Nanoco's solar ink, developed from cadmium-free nanomaterials, has been designed to maximise the absorption of solar energy and to have physical characteristics such that it can be printed by low cost methods and annealed into a photovoltaic film. The technology is based on copper, indium, gallium, selenium ("CIGS") materials.

 [for more info go to page 10](#)

CFQD® quantum dots have the  
potential to enable a huge array  
of life sciences applications



## Life sciences

We have been working with University College London since 2009 on the use of CFQD® quantum dots in the in-vivo imaging of cancer. The fluorescence of Nanoco quantum dots is being used in this work to pinpoint malignant lymph nodes to guide surgeons in the removal of cancerous tissue. Other materials have already been used in this way in clinical practice but Nanoco's quantum dots offer the major advantage of being able to fluoresce for a longer period of time, and their fluorescence can be detected from deeper tissues. This gives surgeons more time and accuracy to visualise the cancer which we believe will lead to a greater improvement in healing rates and patient outcomes.

 [for more info go to page 11](#)

We continued to drive the development of Nanoco during the year and to deliver our strategy for the commercialisation of the Company's nanomaterial technologies. Progress at the Company was accompanied by positive trends in our marketplace, increasing the opportunities open to us.

These trends included the increasing recognition that cadmium-free quantum dots are the preferred option for the protection of human and environmental health compared with cadmium-based technologies.

This was underlined in May this year when Members of the European Parliament (MEPs) voted overwhelmingly (618 to 33) against an EU proposal to prolong the permission to use cadmium-containing quantum dots in Europe under an amendment to the Restriction of Hazardous Substances Directive (RoHS). Along with MEPs, we continue to urge the European Commission to enact anti-cadmium legislation promptly. Following the MEPs' vote in May, the Company has seen increased activity with display OEMs that had previously chosen to pursue other technologies.

Nanoco evolved during the year, continuing to make the transition from a research-based company to an integrated business capable of research, manufacturing and delivering consistent product to customer requirements. This has been a major cultural and organisational shift for the Company. We have strengthened our executive, non-executive and wider team to ensure that the Company successfully manages its development and growth.

In May 2015, Nanoco took a major step in its corporate development when it moved from AIM to the main market of the London Stock Exchange. The move was also accompanied by a fundraising of £20 million (gross) to further advance the Company's commercial leadership in display and exploit other major market opportunities in LED lighting, solar and life sciences.







Whilst last year was a year of progress, the past few weeks have also been particularly exciting with the ongoing commissioning of the mass production plant for cadmium-free quantum dots built in South Korea by our worldwide licensing partner for the display industry, Dow. This plant represents the world's leading mass production plant for cadmium-free quantum dots and both Dow and Nanoco are very proud of this achievement. Customer sampling from the plant is expected to begin in the very near term.

We are pleased to announce today a further follow-on joint development agreement ("JDA") with Osram, one of the world's largest lighting companies. This JDA continues the work carried out to date on a near-chip design for lighting applications.

Nanoco's business is built on robust intellectual property. We continued to reinforce our patent estate during the year and now have about 360 granted or pending patents with worldwide protection.

As Nanoco continues to grow we are creating business units to increase our focus on each area of market opportunity. Reviews of progress in each of the four main areas – Display, Lighting, Solar and Life Sciences – are provided on the following pages.

# Display

## Business unit review



### Delivering the next generation of LCD screen technology.

The display industry has invested billions of dollars in building LCD TV manufacturing capacity and is committed to supporting the further development and evolution of LCD technology. New investment in LCD manufacturing capacity is continuing to come onstream, particularly in China.

Nanoco's CFQD® quantum dot technology improves the colour quality of LCD displays and is of compelling interest to the display industry. Nanoco and Dow are currently working at various stages of the development process with a total of 11 LCD display OEMs around the world. They range from multi-national organisations to emerging consumer electronics brands from countries including Korea, China, Japan, Taiwan and the USA.

Nanoco's technology is applicable to all LCD displays. Innovations in LCD technology are often first introduced in top-end TVs, but the technology is also suited to smartphones and other handheld devices, tablets and laptop computers. LCD TV screens are becoming larger, with TVs with greater than 55 inch screens now readily available, which is another positive trend in the roll-out of our technology.

Nanoco is commercialising its technology in the LCD display industry through a worldwide licensing agreement with Dow. Under the agreement, which was signed in January 2013, Dow is marketing the Company's cadmium-free technology under the brand name TREVISTA™ quantum dots.



In July this year, Dow finished mechanical completion of its large-scale plant in Cheonan, South Korea, for the manufacture of Nanoco cadmium-free quantum dots. Commissioning has been ongoing in preparation for customer sampling, which is expected to begin in the very near term.

The Cheonan plant is based on Nanoco's designs and Nanoco has worked very closely with Dow throughout the construction and commissioning stages, which have been a period of intense activity at

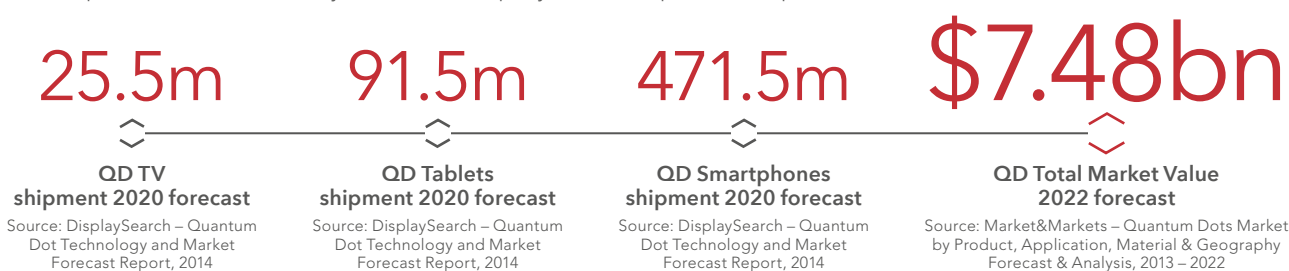
Nanoco. A significant portion of Nanoco's staff has been involved in the various stages of the Cheonan plant.

Dow has also made progress in the marketing of TREVISTA™ Quantum Dots. In January this year, Dow announced a partnering agreement with LG Electronics in connection with the supply of TREVISTA™ Quantum Dots.

It was initially anticipated that LG's quantum dot TVs would be launched on a modest scale using Nanoco CFQD® quantum dots from the Company's Runcorn production plant

with full commercial roll-out anticipated once Dow's plant was on-line. LG continues to work with Dow as plans are progressed for commercial launch, which is ultimately a market timing decision that will be made by LG.

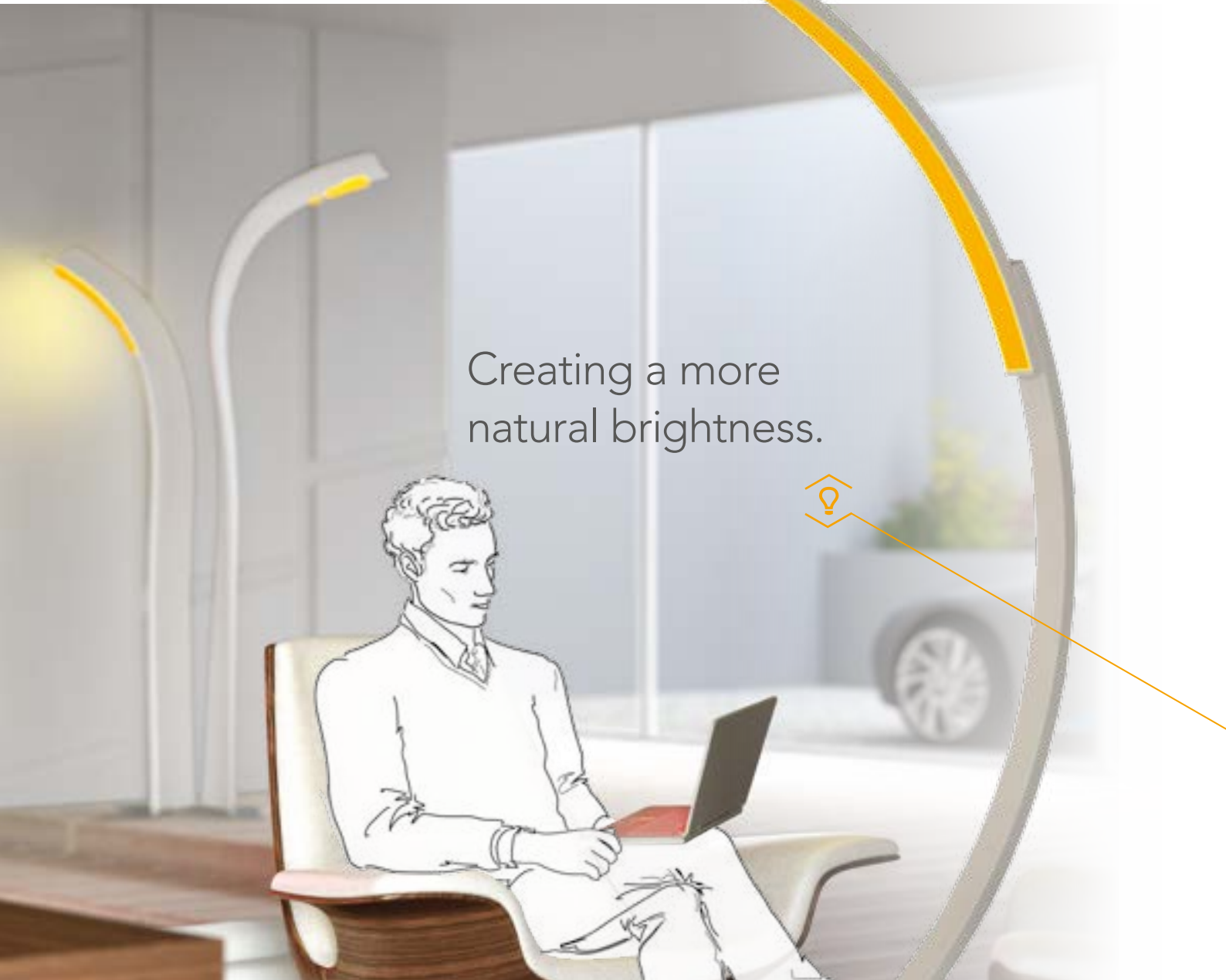
Nanoco received a significant milestone payment from Dow during the year. Fees paid by Dow follow a commonly used structure whereby earn-outs are paid on achievement on agreed total sales milestones up to an agreed cap and royalties are earned on sales achieved for the lifetime of the agreement.





# Lighting

Business unit review



Creating a more natural brightness.

LEDs have compelling advantages over traditional lighting, particularly in long service life and reduced power consumption. A limiting factor to the widespread adoption of LEDs remains colour performance as existing products tend to offer either bright cold light or warm dull light. Nanoco's CFQD<sup>®</sup> quantum dots have been shown to transform LEDs so they produce bright, warm light with a high colour rendering index without the loss of lumens. In addition, as Nanoco CFQD<sup>®</sup> quantum dots are tuneable to any specific wavelength, any shade of light can be produced.

This opens up new opportunities, in both general and niche applications, such as the ability to create artificial daylight.

Our general lighting activities gained momentum during the year, particularly in niche lighting. We have been working on these niche applications with Marl International Limited ("Marl"), a privately held UK company, and with other companies. The quantum dots, which are manufactured in Runcorn, are supplied under the Nanoco brand.

*“Nanoco’s CFQD® quantum dots have been shown to transform LEDs so they produce bright, warm light with a high colour rendering index without the loss of lumens.”*

Torsten Schanze, General Manager, Lighting

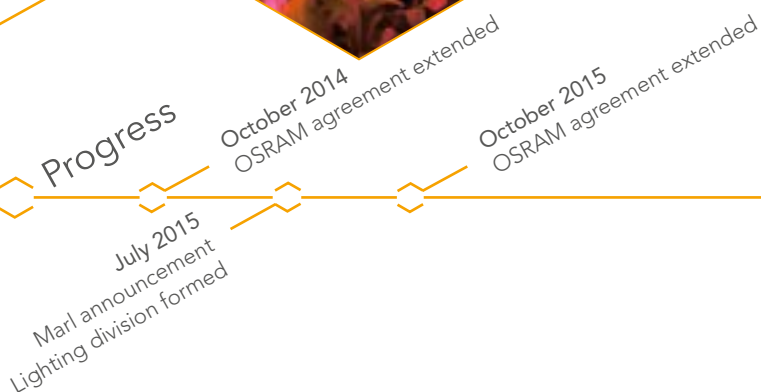
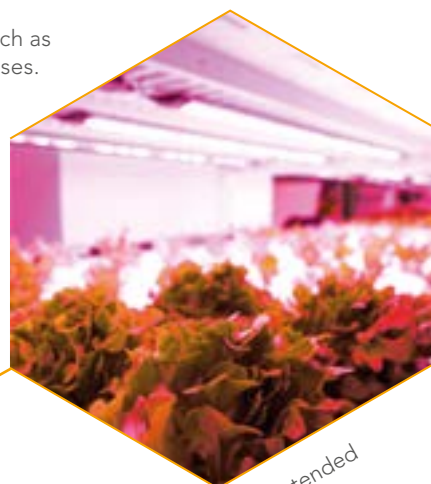


Marl has developed products for architectural lighting, such as panels that reproduce daylight; downlighting for the retail sector; and LEDs for horticulture to assist seed germination and plant growth. Marl has already satisfied initial orders for products containing Nanoco CFQD® quantum dots.

Nanoco has been working under JDAs with Osram, one of the world’s largest lighting companies, since August 2011, and we are pleased to announce today that we have signed a further JDA with Osram. We continue to make good progress in this joint development work, which is focused on encapsulating our quantum dots to optimise them for the operating conditions associated with LEDs. The Company is also working with a number of other lighting companies in Asia, the USA and Europe on both general lighting and niche applications such as the lighting of food in retail premises.

The Company formed a lighting division in July 2015 to accelerate progress in this area. The division, called Nanoco Lighting, is based at the Company’s Manchester headquarters and is headed by Torsten Schanze, General Manager, and Dale Needham as Business Development Director.

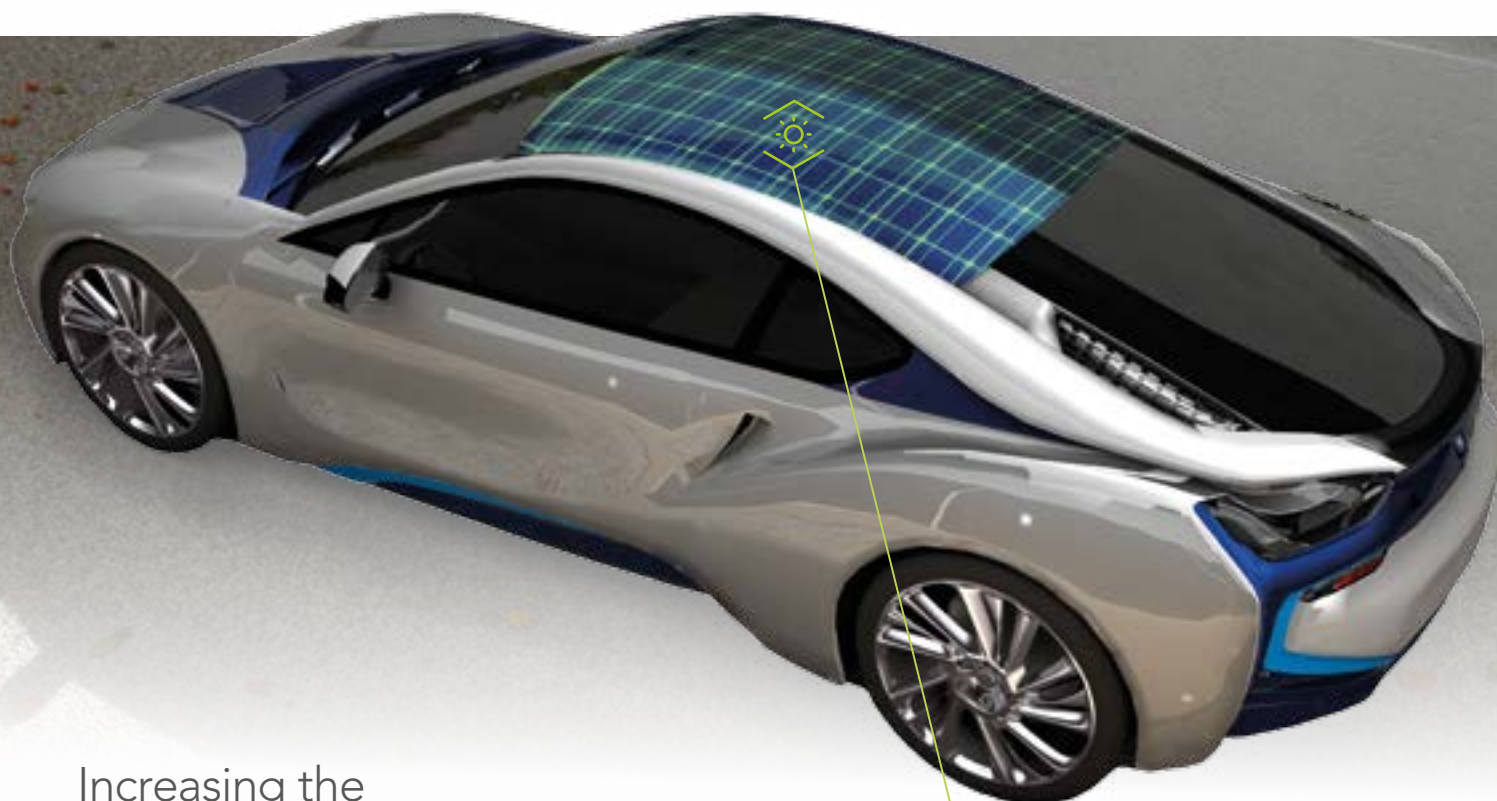
Torsten Schanze, General Manager  
& Dale Needham, Business  
Development Director of Nanoco  
Lighting with the 6500K Cool White  
Ceiling Tile







## Business unit review



Increasing the efficiency of capturing sunlight and converting it into energy.

< \$0.33/watt Target module cost

Target efficiency c.20%

Nanoco's solar ink, developed from cadmium-free nanomaterials, has been designed to maximise the absorption of solar energy and to have physical characteristics such that it can be printed by low cost methods and annealed into a photovoltaic film. The technology is based on CIGS materials.

Thin-film solar panels have considerable potential advantages over traditional panels in that they are potentially more efficient along with being cheaper, more flexible, lighter weight and consequently easier to handle. However, the thin-film solar market is currently dominated by cadmium-containing solar panels.

Our development work on our CIGS materials has been focused on increasing the efficiency of the conversion of light

into electricity and we have now reached a conversion rate of approximately 17%, which we believe is close to the efficiency level required to form the basis for low cost, printable solar panels. We believe that we could achieve a cost performance of less than 0.33\$/W, which is very competitive when compared with existing technologies.

Development work to scale up the CIGS PV technology from small lab-sized cells to larger 300mm x 300mm square cells, or mini-modules, is on-going.

In April 2015, Nanoco was awarded a grant from Innovate UK, the Government agency formerly known as the Technology Strategy Board, to fund a collaborative project with Loughborough University's Centre for Renewable Energy Systems Technology

("CREST"), a major UK centre of photovoltaic research. In the two year project, Nanoco and CREST will work together to optimise the architecture of the mini-modules. Nanoco will receive about £400,000 over the two year period.

Given the resource requirements for eventual production, the Company intends to identify a suitable partner to pursue the solar opportunity. Early stage discussions have already begun with a number of third parties with the objective of forming a partnership, initially to prove the technology on 300mm x 300mm square panels. A portion of the proceeds of the recent £20 million fundraising has been allocated to progress the solar opportunity.



\$1bn

Forecast for Quantum Dots  
in healthcare by 2022

Source: Market&Markets report, 2012

Enabling consultants to make a quicker diagnosis.

We have been working with University College London since 2009 on the use of CFQD® quantum dots in the in-vivo imaging of cancer. The fluorescence of Nanoco CFQD® quantum dots is being used in this work to pinpoint malignant lymph nodes to guide surgeons in the removal of cancerous tissue. Other materials have already been used in this way in clinical practice but Nanoco CFQD® quantum dots offer the major advantage of being able to fluoresce for a longer period of time, and their fluorescence can be detected from deeper tissues, giving surgeons more time and accuracy to visualise the cancer which we believe will lead to a greater improvement in patient outcomes.

Nanoco won a second grant award from Innovate UK, the UK's innovation agency, totalling £308,000, in support of the current phase of this research work at University College London. This grant funded phase commenced in October 2014 and, at the appropriate time, we will seek suitable commercial partners from the healthcare industry.

We see a substantial opportunity for our cadmium-free quantum dot technology in the healthcare sector, both as a cancer diagnostic and as a surgical tool. We are currently developing a detailed business plan to map out the commercialisation of our technology in this target market. Once the business plan is complete, we will set up a life sciences business unit and recruit a leadership team.

### People

The Nanoco board was strengthened considerably during the year at executive and non-executive levels.

In October 2014, Keith Wiggins was appointed to the newly created Board position of Chief Operating Officer. Keith has more than 20 years' experience at Dow and is a great asset to Nanoco. In May this year, Brendan Cummins joined the Board as a Non-executive Director. Brendan has 40 years' experience of the international chemicals sector and is a former CEO of Ciba Inc.

Shortly after the period end, David Blain joined the Company as Chief Financial Officer, following his recruitment in early May this year. David has a wealth of financial and commercial experience and we look forward to his input to the Company. Recently Caroline Watson joined Nanoco as Investor Relations Manager. Caroline has 20 years of experience having worked on both the buy and sell

side of London based financial institutions. Additionally the Company is actively recruiting a commercial director and product engineering director to strengthen the executive team further.

The Nanoco team, most of whom are based in Manchester, UK, had grown to 113 people at the year end, compared with 98 people a year earlier, with most of the increase being technical and scientific staff. We would like to offer our sincere thanks to all at Nanoco for their enthusiasm, commitment and achievement during the year.

### Financial results

Our revenues in the year to 31 July 2015 were £2.03 million (2014: £1.43 million). Our loss before tax was £10.88m (2014: £9.06 million). This increase in loss before tax reflected increased research and development plus additional staff costs and a one-off cost of £0.9 million (2014: Nil) in relation to the move to the main market.

Cash, cash equivalents and deposits at the year-end were £24.31 million (2014: £12.18 million). The increase reflects the proceeds of a placing on 1 May 2015 when the Company moved to the main market.





### Outlook

The past year has been one of rapid development at Nanoco and we continue to configure the organisation to meet the needs of an emerging, global licensing and manufacturing business.

Mechanical completion of Dow's mass production plant in South Korea at the year end marked a major milestone in the commercialisation of our cadmium-free quantum dots in the display industry. The commissioning of the plant is ongoing and proceeding well. Customer sampling from the plant, which was initially expected to start in Q3 CY 2015, is now expected to begin in the very near term. As a result we expect recurring income in the second half of our current financial year rather than in Q4 CY 2015.

The commercialisation of our technology in lighting is also well advanced and, as we develop our other market opportunities in life sciences and solar, we become ever more enthusiastic about the potential for our technology across all four of our target markets. We look forward to the year ahead with confidence.

### Anthony Clinch

*Chairman*  
 13 October 2015

### Dr Michael Edelman

*Chief Executive Officer*  
 13 October 2015



During the year, revenue has benefited from the inclusion of a milestone payment from Dow, triggered by the announcement that it was beginning the construction of the CFQD® quantum dot manufacturing plant in South Korea.



### Results

Revenue for the year increased by £596,000 to £2,029,000 (2014: £1,433,000) and the loss before tax was £10,881,000 (2014: £9,060,000). 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. During the year, revenue has benefited from the inclusion of a milestone payment from Dow, triggered by the announcement that it was beginning the construction of the CFQD® quantum dot manufacturing plant in South Korea, whilst JDA revenue has reduced as work has reached its completion. Almost all JDA revenues in both the current and prior year were denominated in US Dollars having originated primarily from customers in the USA and Asia.

Historically, the Company has disclosed all R&D materials as cost of sales and included all R&D labour costs within administrative expenses. As the revenue from product sales begins to come on stream and with the aim of providing greater transparency, the Company now sets out to disclose as cost of sales, those materials, labour and ancillary costs attributable to product sales and to government grants included within revenue from the rendering of services.

Accordingly the comparatives have been restated and the figure previously reported as cost of sales has been reduced by £1,259,000 and the aggregate sum of administrative expenses and R&D expenses increased by an equivalent amount; with administrative expenses increasing by £1,518,000 and R&D expenses being reduced by £259,000. There has been no impact on the reported loss for the year.

In the current period, cost of sales has reduced by £977,000 and the aggregate sum of administrative expenses and R&D expenses increased by an equivalent amount; with administrative expenses increasing by £1,293,000 and R&D expenses being reduced by £316,000. There is no impact on the reported loss for the year-ended 31 July 2015. Cost of sales comprises the labour, materials and power costs incurred in the generation of revenue from products sold and government grants.

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.

The increase in research and development expenditure of £662,000 to £5,580,000 (2014: £4,918,000) comprises an increase in R&D labour costs associated with the trialling of

production scale-up, partially offset by a decrease in R&D materials costs, as the formulations for production materials become more refined.

Total payroll costs (before the charge for share-based payments) increased by £1,089,000 to £5,623,000 (2014: £4,534,000). The increase in payroll costs is attributable to a number of factors including, the recognition during the year of director and employee bonuses in respect of both the year ended 31 July 2014 and the year ended 31 July 2015, pay increases and regrades and some additional recruitment including that of the newly created role of Chief Operating Officer. Average staffing numbers increased by five heads from an average of 104 heads in 2014 to an average of 109 heads in 2015. During the year, a number of former pure R&D staff were redeployed to assist with production scale-up R&D.

Of the increase in administrative costs of £1,670,000 to £7,130,000 (2014: £5,460,000), £926,000 comprised that element of the costs associated with the move to the main market charged to the Consolidated statement of comprehensive income.

After deducting operating costs the adjusted operating loss\* for the year ending 31 July 2015 was £9,452,000 (2014: adjusted operating loss\* of £8,676,000).



## Revenues



The Group aims to incentivise and retain key staff through the use of equity-settled share awards. The IFRS2 (share-based payment) charge in respect of share schemes totalled £619,000 (2014: £573,000). This increase in the charge reflects the additional options awarded in the year, which totalled 380,000 (2014: 444,000). The total number of share options in issue as at 31 July 2015 were 12.0 million (31 July 2014: 13.4 million). Of these, 8.7 million (2014: 4.1 million) have met their performance criteria and are therefore capable of being exercised. During the year 1.5 million options were exercised (2014: no options exercised) and 0.25 million (2014: 0.1 million) options lapsed or were forfeited. In addition to the above options, a further 0.5 million (31 July 2014: 0.9 million) of shares are jointly owned by the Group's Employee Benefit Trust ("EBT") and certain senior management through a Jointly Owned Agreement ("JOA"). Under the JOA, the employee beneficiaries have the option to acquire the trustee's shares at an agreed option price subject to meeting certain performance criteria. At 31 July 2015, all of the JOA shares had met their performance criteria and were capable of being acquired from the trustees. 0.3 million JOA shares (2014: no JOA shares) were exercised during the year. Details on the various share schemes are provided in note 19 to the accounts.

With interest income (net of interest payments) of £116,000 (2014: £189,000), a decrease of £73,000, the loss before tax was £10,881,000 (2014: loss of £9,060,000).

The tax credit for the year is £1,906,000 (2014: £1,249,000). The tax credit to be claimed, in respect of R&D spend, is £1,800,000 (2014: £1,210,000). There was also a £113,000 credit in respect of the prior year R&D tax claim (2014: £48,000 credit). Overseas corporation tax in respect of the US subsidiary,

Nanoco US Inc., was £7,000 during the year (2014: £9,000). There was no deferred tax credit or charge (2014: nil).

Adjusted basic loss\* per share was 3.36 pence (2014: adjusted loss\* of 3.38 pence). Basic loss per share was 4.05 pence (2014: loss of 3.65 pence).

No dividend has been proposed (2014: nil).

## Cash flow and balance sheet

During the year cash, cash equivalents, deposits and short-term investments increased by £12,129,000 to £24,311,000 (2014: £12,182,000).

The Company raised gross proceeds of £20,000,000 from a placing on 1 May 2015 through the issue of 19,047,619 new ordinary shares at an issue price of 105 pence per share. Issue costs associated with the placing charged to share premium totalled £560,000.

The Group reduced its capital spend in the year, to a total of £385,000 (2014: £494,000). Expenditure incurred in registering patents totalled £533,000 (2014: £536,000) 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 Group's accounting policy.

## Treasury activities and policies

The Group manages its cash deposits prudently and invests its funds across a number of financial institutions which have investment grade credit ratings. The deposits range from instant access to 12-month term deposits and are regularly reviewed by the Board. 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 23 to the financial statements.

## Credit risk

The Group only trades with recognised, creditworthy third parties. Receivable balances are monitored on an on-going 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. The Group is therefore exposed to movements in the US Dollar 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 2015 (2014: none). At the year end the Group had net USD assets of £51,000 (2014: net USD assets of £135,000). 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 re-translation of the closing balance sheet are summarised in note 23 to the financial statements and were based on the year-end position. As US Dollar revenues increase so will the exposure of the Group's profit and loss and equity to movements in the Sterling/US Dollar exchange rate.

## Summary

The Group is in a strong financial position to exploit the exciting opportunities ahead.

## David Blain

Chief Financial Officer  
13 October 2015

\* adjusted figures are stated before the share-based payment charge and that element of the costs associated with the move to the main market charged to the Consolidated statement of comprehensive income.

The principal activity of the Group during the year was the research, development, licensing and manufacture of high performance semi-conducting nanoparticles, called quantum dots, for use in a range of potential commercial applications.

**Business model**

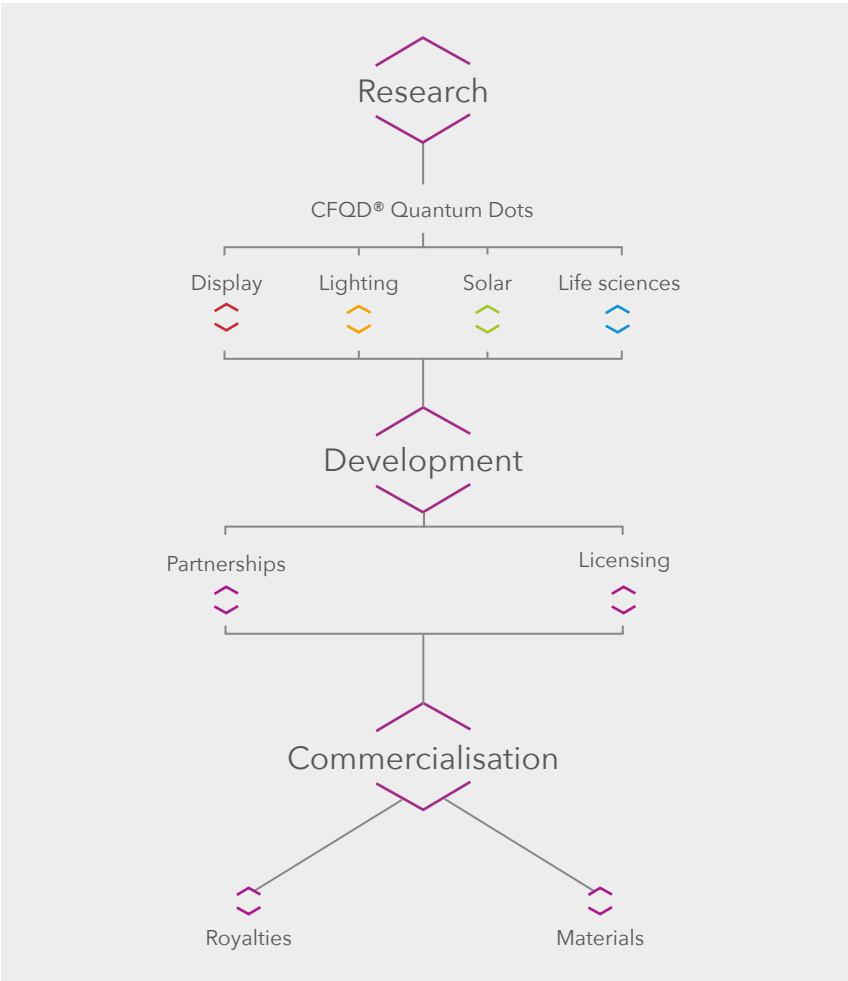
The Group’s business model and strategy is to focus on the research, development and commercialisation of its technology in applications within four distinct industries, namely the consumer electronic display, lighting, solar and life sciences industries.

The Group has been successful in signing development contracts as well as establishing distribution channels with multinational companies to supply materials and has entered into a licensing agreement with Dow in connection with the commercialisation of its CFQD® quantum dots within the electronic display industry.

**Review of the business and future developments**

A review of the Group’s performance during the year and its future prospects are included in the Chairman and Chief Executive Officer’s (“CEO”) report and financial review on pages 4 to 15, which should be read in conjunction with this report.

Business model



## Key performance indicators

At this stage in its development, quantitative key performance indicators are not an effective way of measuring the Group's performance. However, a qualitative summary of performance in the period is provided below and in the Chairman's and CEO's joint review.

The key indicators of performance for the business in its current stage of development are:

### Consumer electronic display

The completion of customer technical milestones and the winning of commercial contracts jointly with Dow, which has the exclusive license to manufacture and sell CFQD® quantum dots. Nanoco is currently working with 11 display OEM organisations in Asia and the US. The Dow mass production plant in Cheonan, South Korea, is currently being commissioned and we look forward to the start of commercial production from the plant, coincidental with which we expect to start commercial production from our in-house plant at Runcorn. Success will be measured by the level of royalty income and in-house revenue generated from this revenue stream.

### Lighting

Lighting revenues continue to flow from the Company's long relationship with Osram, however Nanoco is now actively targeting additional revenue from the sale of lighting related materials. To date the Company has made sales to two further customers and has targeted itself to generate meaningful lighting related material sales during the current financial year.

### Solar

The Company has achieved in its laboratories, efficiency levels which it believes will be of commercial interest to mass producers. The next step is to demonstrate that these levels of efficiency can be replicated on a larger scale. Once the Company is able to demonstrate that it can replicate the

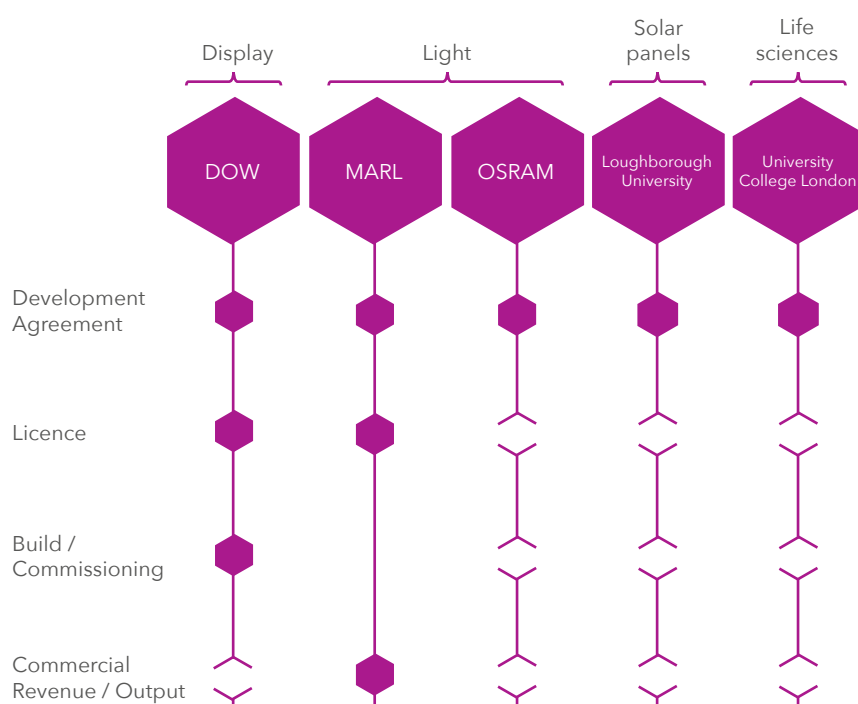
current level of efficiencies on a larger scale, it will seek a partner (such as Dow on the display side) with whom to commercialise this arm of the business.

### Life sciences

The Company is currently part way through a grant funded joint initiative together with University College London. Coincidental with this initiative, the Company is commencing the search for a partner with whom to commercialise the potential of this product.

In addition, the management and control of cash balances is a priority for the group and these are budgeted and monitored closely to ensure that it maintains adequate liquid resources to meet financial commitments as they arise.

## Developments with our partners



The Group has successfully managed to reduce the inherent risk for the business by partnering with Dow, through the licensing of CFQD® quantum dot materials to Dow for use in display applications, and through the continued improvement in its CFQD® quantum dot materials and scale-up processes achieved over the year.

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

### Technology

The electronic display industry is subject to rapid technological changes and the Group is required to continue to develop new and innovative technical applications. The future success of the Group, in common with other technological businesses, will depend upon the Group's ability to respond to the technical challenges associated with rapidly changing technologies and the ability to ensure that the Group's products in the electronic display industry comply with constantly evolving industry standards and meet the constantly evolving expectations and requirements of the OEM customers of Dow (as the Group's exclusive licensee for the exploitation of its CFQD® quantum dot technology in electronic display applications) along with those of the ultimate end consumer. If the Group is unable to satisfy these industry standards or otherwise keep pace with customer expectations and requirements, or experiences significant difficulties or delays in doing so, this would have a material adverse effect on its business.

The Group has to date invested a significant proportion of its financial resources in the development of its CFQD® quantum dot technology for application in the electronic display industry and is currently seeking the commercialisation of that technology through its agreement with Dow. Any failure or significant delay in the commercialisation of that technology, for example due to a failure in the Group's technology, would have a material adverse effect on its business and could negatively affect the development and commercialisation of its other products in the lighting, solar and life sciences industries, which in turn would have a material adverse effect on the Group's business, results of operations and/or financial condition.

There is an inherent market risk within each of the three new divisions (lighting, solar and life sciences) that the Group is targeting within its business expansion strategy, that the Group's technology will not ultimately be adopted by customers (OEMs and/or end user consumers, as applicable), whether because the technology fails to meet OEM or end user consumer's specification requirements, fails to satisfy applicable regulation or otherwise. The failure of the Group to bring its technology to market successfully in any of these industries and/or the failure of customers to adopt it could have a material adverse effect on the Group's results of operations, financial condition and future prospects in the medium to long term.

**The Group's ability to overcome technological risk will be evidenced by future revenue.**

### Intellectual property

The commercial success of the Group depends in large part on its ability, and the ability of any third party with which it may partner, to obtain, maintain, defend or enforce its patents, trademarks and other intellectual property rights so as to preserve its exclusive rights in respect of its technology, to preserve the confidentiality of its own and its third party partners' know-how and to be able to operate without having third parties circumvent the rights that it owns, has licensed or has been licensed. There is a risk that if the Group is, or any of its third party partners are, unable to or otherwise fail to protect or enforce its or their respective rights, its position in the market may be compromised.

The Group's products and technologies may infringe or be alleged to infringe third parties' intellectual property or rights that may be granted in the future. If the Group is sued for infringement, the Group would need to demonstrate that its product or methods either do not infringe the relevant third party rights or that the rights of the third party are invalid and there can be no guarantee that the Group will be successful in defending any such proceedings.

**With the aim of minimising the effect of this risk, the Company closely monitors intellectual property in the areas in which it operates and engages the services of internal and external specialists in this subject.**

### Directors and employees

The success of the Group will depend on the continued service and performance of the Directors and other key employees and whilst it has entered contractual arrangements with these individuals with the aim of securing the services of each of them, retention of these services cannot be guaranteed. The loss of the services of any of the Directors or other key employees could damage the Group's results of operations, financial condition and future prospects. The Group hopes that this risk has been mitigated against through the implementation of key man insurance in respect of Nigel Pickett and Michael Edelman. However, there is no certainty that any claims made under a key man insurance policy will be valid nor that any payments made to the Group pursuant to such policies will be sufficient to cover any resulting losses of the Group. Equally, the ability to attract new employees and in particular senior executives for the business with the appropriate expertise and skills cannot be guaranteed. The Group may experience difficulties in hiring appropriate employees and the failure to do so may have a detrimental effect upon the trading performance of the Group.

**With the aim of minimising the effect of this risk, the Company is putting a proposed Directors' remuneration policy to its shareholders at the 2015 AGM.**

### Relationship with Dow and other key partners

The Group is heavily reliant on its relationship with Dow for the successful commercialisation of its technology in the electronic display industry. Pursuant to the agreement with Dow, Dow has exclusive rights to manufacture its products, provide logistics assistance and distribute the products and equipment. In relation to materials produced by the Group for end use within the electronic display industry, Dow is solely responsible for negotiating and agreeing contracts and pricing for the Group's products. Any material breach by Dow of any of its commitments and obligations under the agreement or a significant delay in satisfying any such commitments and obligations and any termination of the agreement, or any renegotiation of the agreement on detrimental terms, could have a material adverse effect on the Group's business. In the event of any such circumstances arising, the Group's only course of redress may be to pursue Dow in the courts for specific performance and/or damages and any such action could be both time-consuming and costly and, even if successful, may not adequately compensate the Group in respect of the relevant loss of profit and business opportunity.

**With the aim of minimising the effect of this risk, the Company plans to bring revenues on stream from lighting, solar and life sciences, in respect of none of which it is dependent upon Dow.**

### Competition

Despite our knowledge and continual monitoring of the market there may be products and competitors of which Directors are currently unaware that could have a detrimental effect on the trading performance of the Group in the future. In addition, there is a further risk in respect of the group whereby its key OEM customers may elect to do the work the Group currently carries out for them in-house instead of interacting with the Group.

**With the aim of minimising the effect of this risk, the Company continues to work with as wide a spectrum of potential partners as possible, in as wide a spectrum of areas that its technology allows.**



**Product manufacturing**

The Group is continuously working on scaling up production for the manufacture of its CFQD® quantum dots at its Runcorn facility. The Group is currently able to produce small quantities of either CFQD® quantum dots or CFQD® quantum dots in resin directly from its Runcorn facility. The purpose of scale up is to refine and perfect the production process. However, there are inherent risks associated with any scaling up of production in that such scale up could either not work or could detrimentally affect the quality of the product being produced. For example, in the case of CFQD® quantum dots produced for the electronic display industry, it could result in deficiencies with their colour or inconsistencies with their delivery. If the scaling up of production, whether at the Runcorn facility or the new facility being constructed by Dow in South Korea, were not successful then the financial condition and future prospects of the Group may be adversely affected.

Dow is in the process of commissioning a production facility in South Korea which will facilitate the large-scale commercialisation of the Group's technology in the electronic display industry. Any failure to bring, or significant delay in bringing, this facility on-line would have a material adverse effect on the Group's business and its financial condition and future prospects. Similarly, once this facility has commenced operations, if it were to subsequently go off-line for any reason and for any period of time or not achieve its expected performance, it would have a material adverse effect upon the Group's ability to supply its product to the market which in turn would have a material adverse effect upon its business and its financial condition.

**With the aim of minimising the effect of this risk, the Company's partnership with Dow combines its deep in-house knowledge of quantum dot technology with Dow's experience in the scale up of novel speciality chemical applications.**

**Dependence of third party suppliers**

Whilst the Group's contract manufacturers will manage their own supply chains, the Group will continue to hold relationships with (i) key component suppliers (which are likely to be used by contract manufacturers) and (ii) a more extensive supply chain to support its ongoing development activities. Whilst the Group has sought to mitigate the risk attaching to its reliance on third party suppliers through expanding its supplier base and ultimately having the ability to produce materials in-house, a supplier's failure to supply materials or components in a timely manner, or to supply materials and components that meet the Group's quality, quantity or cost requirements, or the Group's inability to obtain substitute sources for these materials and components in a timely manner or on terms acceptable to it, could harm its ability to meet its contractual obligations to its customers.

**To the extent that the processes that the Group's suppliers use to manufacture the materials and components are proprietary, the Group may be unable to obtain comparable materials or components from alternative suppliers, which could adversely affect its ability to produce quantum dots in large volumes at low cost.**

**The Group may continue to make losses**

The Group's R&D has always been focused on developing commercial applications. Notwithstanding the commencement of commercialisation of its technology in the electronic display industry through its agreement with Dow, the Group expects to continue to make significant expenditure on R&D in order to develop further its business in the electronic display market and the three new divisions which have previously been identified in its business expansion strategy.

**With the aim of minimising the effect of this risk, the Company is endeavouring to commercialise each of the revenue streams open to it as soon as is practicable.**

### Expansion into new markets

The Group has recently begun the commercialisation of its CFQD® quantum dot technology in the electronic display industry through its agreement with Dow and has targeted lighting, solar and life sciences as three further markets in which to focus its technological development. There are no guarantees that the Group will be able to implement the strategy detailed in its business expansion strategy successfully or at all. The ability of the Group to implement its strategy in a competitive market will require effective management planning and operational controls. If the Group fails to implement its business expansion strategy then this may have a material adverse effect on the Group's results of operations, financial condition and future prospects.

**With the aim of minimising the effect of this risk, the Company is recruiting specialists in those areas where it currently believes it has exposure to risk.**

### Research and development risk

The Group will be engaged in developing new technology solutions to address specific market needs identified by the Directors from time to time. The Group will therefore be involved in complex scientific areas and industry experience indicates this can result in a very high incidence of delay or failure to produce results. Therefore the Group may not be able to develop new technology solutions or may identify specific market needs that cannot be addressed by technology solutions developed by the Group. The ability of the Group to develop new technology relies partly on the recruitment and retention of appropriately qualified staff as the Group grows. The Group maybe unable to find a sufficient number of appropriately highly trained individuals to satisfy its growth rate which could affect its ability to develop new technologies as planned. In addition, novel chemical reagents may face potential regulatory barriers which, by their nature, will vary, for example, by application, geography, and volume of business and thus are difficult to anticipate at present.

**With the aim of minimising the effect of this risk, the Company continually reviews the fields in which it is active with the aim of establishing whether the original opportunity to pursue them still persists and also whether alternative opportunities are available.**

### Regulation

Certain of the Group's competitors produce cadmium-based quantum dots. The use of cadmium ("Cd") in QD applications was prohibited within the EU pursuant to the RoHS legislation, and is only now permitted to be used in limited quantities due to a temporary derogation, currently under review. The use of Cd in QDs is also limited elsewhere in the world through legislative restrictions. This prohibition places the Group, with its focus on CFQD® quantum dots, at a significant competitive advantage within the EU in particular but also within those other jurisdictions where the use of cadmium is restricted. In the event that the strict regulations surrounding the use of cadmium are softened or the current EU exemption review ultimately approves the use of cadmium, the Group will be subject to greater competition and certain OEM customers might decide not to adopt the Group's technology, the occurrence of any of which events may have a material adverse effect on the Group's results of operations, financial condition and future prospects.

The failure of the Group's technology to comply with specific regulatory requirements (though such specific regulatory requirements are unknown at this current time) could place the Group at a competitive disadvantage whilst the costs of complying with such regulatory requirements could be prohibitive and undermine the Group's ability to commercialise its technology profitably. Whilst the Group's current technology complies with regulations, such regulatory requirements may change over time. New technology developed by the Group maybe subject to enhanced regulatory requirements. The life sciences industry, in particular in relation to in-vivo imaging, is subject to a high level of regulation and technologies require prior regulatory approvals before being accepted for use. Even where the Group's technology obtains the requisite regulatory approval in a specific jurisdiction, regulatory authorities may still impose significant restrictions on the indicated uses or marketing of such products, or impose on-going requirements for potentially costly post-approval studies.

**With the aim of minimising the effect of this risk, the Company envisages partnering with several multi-national businesses with which it works and is additionally engaging specialist third party input.**

## Making an impact

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



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

- **Shareholders**

Nanoco seeks to increase shareholder value over the long term.

- **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 of its products and for the performance of its research and development projects.

### Health and safety

Nanoco recognises that a safe, secure and healthy working environment is essential and contributes to productivity and improved performance. The health and safety of all of our employees, contractors and visitors are serious matters and are ultimately the responsibility of the CEO. Health and safety is a standing item on each Board and executive team agenda. The Group's health and safety policy is reviewed annually.

Health and safety reports are reviewed monthly and there is a continuous effort to find ways to improve working conditions and safety at work. Regular safety audits of both the Manchester and Runcorn research and development laboratories are conducted and any recommendations made as a result are carried out to ensure full compliance with all appropriate regulations.

Risk assessments for chemicals ("COSHH"), fire and other hazards are carried out regularly and safe operating procedures are documented and regularly reviewed.

Staff are trained in specific operating procedures and in general safety procedures and safety awareness. There is formal consultation with staff representatives on a monthly basis and a regular safety discussion in every work team.

The Group has an excellent safety record and there have been no incidents to report to the authorities across all our operations.

### Environment

Nanoco is committed to protecting the environment in which 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 widely used by our competitors in their quantum dot products. 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 to 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 PDF of the annual report and accounts rather than hard copies. Interested parties are encouraged to visit the Group's website or use the regulatory news services instead of hard copy. Employees are also encouraged to recycle paper, plastic, glass, cardboard and cans wherever possible.



### **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.

The Group has not been able, for the year under review nor the previous year, to provide the information outlined above, due to both its UK premises being on multi-occupancy sites and as a consequence, the Group needing to place reliance upon its respective landlords to provide the data needed to determine the emissions. The data needed will be forthcoming for the next financial year and the Group will seek specialist advice as to the method of measurement most appropriate to it.

In the absence of significant amounts of revenue, 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.

### **Waste**

During the year, the Group generated 60.0 tonnes of waste and recycled 50.1 tonnes of this. Due to a change in waste contractor a year ago, comparative figures cannot be supplied for the year ended 31 July 2014, however, comparative figures will be provided in future. The Group engages a specialist contractor to destroy batches of chemicals and other materials no longer required.

### **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.

A video conferencing system is in place to link the Group's Manchester and Boston facilities benefiting communication between senior management at each site. This is expected to reduce considerably 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.



## Diversity

### Gender diversity

Although there are no female members on the Board or executive management team, there were seven female members out of 22 on the senior management team as at 31 July 2015 (32%). Women constituted 25% (2014: 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 15 different nationalities including British, American, Australian, Chinese, German, Greek, 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, engineering, electronics, fast moving consumer goods, airline, publishing and financial industries.

Nanoco has business development people in America, Japan, 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 ground of age; disability; gender or gender reassignment; marriage and civil partnership status; pregnancy and 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 Company's equal opportunities policy is reviewed annually and is available to employees on the Company intranet. A copy can be obtained upon request from the Company Secretary.

### 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-company meetings, senior team meetings which then cascade information down, regular team meetings and cross-functional working group meetings and management one-to-one updates with their team members. Communication media used includes the company intranet, all-company 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 promote 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 have procedures for emergency domestic leave.

Remuneration is 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 new Company share option scheme is due to be launched during the next financial year. 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.

### 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 Company 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:

- Anti-bribery and corruption policy
- Whistleblowing policy
- Equal opportunities policy

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

### The community

Whilst the Group does not believe that it has a mandate from shareholders for the Company 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

### Anthony Clinch

*Chairman*  
13 October 2015

### Dr Michael Edelman

*Chief Executive Officer*  
13 October 2015

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**Anthony Clinch**  
Non-executive Chairman

Anthony Clinch joined the Nanoco Board in 2010 and took over as Chairman from Dr. Peter Rowley in 2013. Anthony is a member of the entrepreneurship assessment panel at Imperial College Business School and a member of the chemistry faculty advisory board at the same institution. He was until June 2014 Chairman of the advisory board of CABB International GmbH, an international manufacturer of fine and intermediate chemicals, former Chairman of the Valence Group an international specialist investment bank and senior advisor to CVC Capital Partners. He was Managing Director of CVC Capital Partners and an employee between 1987 and 2007 and was responsible for, and a Non-executive Director of a number of CVC Capital Partners' international investments. He previously worked for Citibank in several managerial roles in Corporate Banking. He is a chartered engineer and a member of the Institution of Engineering and Technology, having spent his early career with Rolls Royce Ltd. He holds an MSc. in Management Science and Operational Research and a BSc. in Aeronautical Engineering from Imperial College. Tony is a member of the Nominations Committee.

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**Dr Michael Edelman**  
Chief Executive Officer

Nanoco is led by Michael Edelman. Michael joined Nanoco in 2004, led the initial fundraising and spun Nanoco out of the University of Manchester. Prior to Nanoco, Michael held a number of executive roles including 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, has a PhD in organo-metallic chemistry from the University of Sussex, UK, and undergraduate degree in classics and chemistry from Tufts University, Boston, MA, USA.

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**Dr Nigel Pickett**  
Chief Technology Officer

Nanoco's technology team is led by Nigel Pickett who is a co-founder of Nanoco and inventor of Nanoco's key quantum dot scale up technology. Nigel graduated from Newcastle University in 1991 and chose to remain at Newcastle to pursue a PhD in the field of main group organo-metallics. After graduation in 1994 he undertook a postdoctoral fellowship at St. Andrews University, Scotland, in the field of precursor design for MOVPE growth and synthesis of nanoparticles using 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. Nigel co-founded Nanoco Technologies in 2001.

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**Keith Wiggins**  
Chief Operations Officer

Keith Wiggins was appointed to the Board on 1 October 2014. Keith is a highly experienced chemicals industry executive. He 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 specialty 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 specialty 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.

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**5 David Blain**  
Chief Financial Officer

David Blain, who was appointed to the Board on 3 August 2015, is a chartered accountant with considerable operational, commercial and strategic experience gained at a number of businesses quoted on the London Stock Exchange. He joined Nanoco from the role of Chief Financial Officer of Inspired Capital plc, an AIM listed finance provider. 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 11 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.

**6 Dr Peter Rowley**  
Non-executive Director

Peter Rowley joined the Nanoco Board in 2006 and was Non-executive Chairman until April 2013. Previously he led the management buyout of Victrex from ICI in 1993, followed by the successful listing of Victrex PLC on the London Stock Exchange in 1995. He joined ICI in 1968 and progressed through a number of positions in the organisation. In 1983 he became international business manager for the widely used polymer PTFE and in 1989 he was appointed General Manager for ICI Advanced Materials Asia Pacific. Peter has a PhD in organic chemistry from King's College London. Peter is a member of the Audit, Remuneration and Nominations Committees.

**7 Gordon Hall**  
Non-executive Director

Gordon Hall joined the Nanoco board coincidental with its admission to AIM in 2009, having previously been a board member of Evolute Group plc. After an early career in teaching, Gordon built up substantial international sales, management and development expertise with Rank Xerox and Abbott Laboratories. He became Chief Executive Officer of Shield Diagnostic Limited (subsequently Axis Shield PLC) in 1990 and was responsible for listing the company on the London Stock Exchange. More recently Gordon has been involved with a range of different companies and he is currently a Non-executive Director of Quoram PLC, which is also listed on AIM. Gordon is Chairman of the Remuneration and Nominations Committees and a member of the Audit Committee.

**8 Robin Williams**  
Non-executive Director

Robin Williams was appointed to the Board on 9 July 2014. Robin has an engineering science degree from Oxford University and qualified as ACA. He spent the early part of his career in financial advisory, before co-founding Britton Group plc as CEO. He built this to a successful international packaging group which was sold to a US trade buyer in 1998. He then became an Executive Director of Hepworth plc. After leading a non-core business disposal programme, he played a key part in the sale of the group to a German trade buyer. For the past ten years, he has been a Non-executive Director or Chairman in a wide variety of public sector and private companies and has been Chairman of two plc audit committees, currently at Xaar plc. Robin is Chairman of the Audit Committee and a member of the Remuneration and Nominations Committees.

**9 Brendan Cummins**  
Non-executive Director

Brendan Cummins was appointed to the Board on 28 May 2015. He is a highly experienced chemicals industry executive with 40 years of industry and leadership experience. Most recently, 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 1971 in Ireland and went on to hold many senior international positions at Ciba-Geigy and at Ciba Inc. in locations including Switzerland, China, Hong Kong and Singapore. A qualified accountant, he is currently a Non-executive Director of Ashland Inc., a global speciality chemical company quoted on the New York Stock Exchange. Brendan is a member of the Audit and Remuneration Committees.

# Directors' report

The Directors present their report and the audited financial statements for the Group and Parent Company for the year ended 31 July 2015.

## Financial instruments

Details of the Group's financial risk management objectives and policies are disclosed in note 23 to the financial statements.

## Research and development

The principal activity of the Group is research and development and its subsequent commercialisation, a review of which is included in the Chairman's and CEO's joint review on pages 4 to 13.

Total research and development spend was £5,580,000 (2014: £4,918,000). No development expenditure was capitalised in the period (2014: £nil) for the reasons provided in note 3(g) to the accounts.

## Dividends

The Directors do not recommend payment of an ordinary dividend (2014: £nil).

## 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 32 to 49
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	The placing which took place coincidental with the Company's move to the main market was a non pre-emptive issue of equity for cash
Details of any non pre-emptive issues of equity for cash by any unlisted major subsidiary undertaking	No such share allotments
Details of parent participation in participation in a placing by a listed subsidiary	No such share participants
Details of any contract of significance in which a Director is or was materially interested	No such contracts
Details of any contract of significance between the Company (or one of its subsidiaries) and a controlling shareholder	No such contracts
Details of 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 2015, the authority given by the shareholders at the 2014 Annual General Meeting for the Company to make market purchases of up to £32,457,912.35 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 quotation for ordinary shares of the Company for the five business days immediately preceding the day of purchase had not been utilised. Although this authority is being proposed for renewal at the 2015 Annual General Meeting (taking due account of the share capital increase in May 2015), there are no imminent plans for the Company to purchase any of its shares.

### Share capital and funding

On 1 May 2015, coincidental with the Company's move from AIM to admission to the premium listing segment of the Official List and to trading on the main market for listed securities of the London Stock Exchange, a total of 19,047,619 ordinary shares of 10 pence were allotted at £1.05 per share. The gross amount raised before expenses totalled £20 million.

In addition to the above, the Company issued 784,947 shares on 22 October 2014, 15,000 shares on 5 November 2014 and a further 699,576 on 26 June 2015 on the exercise of share options, the shares issued had an average exercise price of 55.1 pence.

As at 31 July 2015 share capital comprised 237.1 million ordinary shares of 10p each (216.5 million as at 31 July 2014). There is only one class of share and all shares (with the exception of jointly owned shares issued to the EBT) are fully paid. Full details of the Group's and Company's share capital movements during the period are given in note 18 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, eg insider trading laws, and pursuant to the Listing Rules of the Financial Conduct Authority whereby certain employees of the Company require the 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.

Details of shares under option are provided in note 19 to the financial statements. Shares held by the Employee Benefit Trust are able to be voted by the Trustees.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

### Change of control

There are no significant agreements to which the Company is a party that take effect, alter or terminate upon a change of control of the Company following a takeover bid. There are no agreements between the Company and its Directors or employees for compensation for loss of office or employment that occurs because of a takeover bid.

### Additional information for shareholders

With regard to the appointment and replacement of Directors, the Company is governed by its articles of association, the 2012 UK Corporate Governance Code, the Companies Act 2006 and related legislation. In particular, the articles of association require that, at every Annual General Meeting, each Director who has been in office more than three years since his appointment or last re-appointment shall retire from office and be eligible for re-election.

The articles themselves maybe amended by a special resolution of the shareholders.

The Board has adopted a schedule of matters reserved to the Board, the effect of which is that any matter outside the ordinary course of business of the Company must be considered and approved by the Directors.

### Directors and their interests

The following Directors held office throughout the year:

Anthony Clinch	
Dr Michael Edelman	
Dr Nigel Pickett	
Colin White	Resigned 31 December 2014
Keith Wiggins	Appointed 1 October 2014
David Blain	Appointed 3 August 2015
Dr Peter Rowley	
Gordon Hall	
Robin Williams	
Brendan Cummins	Appointed 28 May 2015

Biographies of the Directors can be found on pages 26 to 27.

Details of Directors' remuneration are shown in the Directors' remuneration report on pages 32 to 49.



# Directors' report continued

## Directors and their interests continued

Directors' interests in the shares of the Company, including family and beneficial interests, at 31 July 2015 were:

	Ordinary shares of 10p each			
	31 July 2015 Number	31 July 2015 %	31 July 2014 Number	31 July 2014 %
Anthony Clinch	57,640	0.02%	57,640	0.03%
Dr Michael Edelman	6,988,640	2.94%	6,988,640	3.22%
Dr Nigel Pickett	10,945,681	4.61%	10,945,681	5.01%
Colin White	–	–	320,411	0.15%
Keith Wiggins	–	–	–	–
Dr Peter Rowley	50,000	0.02%	1,571,820	0.73%
Gordon Hall	100,000	0.04%	100,000	0.11%
Robin Williams	9,523	0.00%	–	–
Brendan Cummins	–	–	–	–
	<b>18,151,484</b>	<b>7.66%</b>	<b>19,663,781</b>	<b>9.08%</b>

Note:

1. There have been no changes in Directors' interests between 31 July 2015 and 13 October 2015.
2. As at 31 July 2015, none of the Directors had any interests in shares of any other group company.
3. In October 2014, Dr Peter Rowley and his wife transferred 1,571,820 ordinary shares into family trusts of which neither he nor his wife is a beneficiary.

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

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

## 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 2015:

	Number of 10p ordinary shares at 31 July 2015	% of issued share capital
Henderson Global Investors	35,365,416	14.9%
Baillie Gifford & Co	27,289,600	11.5%
Richard I Griffiths	17,812,000	7.5%
Universities Superannuation Scheme	11,676,893	4.9%
Nigel Pickett	10,945,681	4.6%
FIL Investment International	9,787,638	4.1%
Standard Life Investments	7,778,457	3.3%

The following parties notified the Company that their shareholdings had changed since 31 July 2015 – Henderson Global Investors increase to 15.0%, Baillie Gifford & Co increase to 13.0%. Apart from the above, there were no other notified significant changes in the holdings between the 31 July 2015 and the date the Annual Report and Accounts were signed.

## Donations

No charitable or political donations were made in the year (2014: £nil).

## 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 FCA in September 2012 are set out on page 50.

### **Foreign branches**

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

### **Going concern**

The Chairman's and CEO's review on pages 4 to 15 outlines the business activities of the Group along with the factors which may affect its future development and performance. The Group's financial position is discussed in the Financial review on pages 14 to 15 along with details of its cash flow and liquidity. Note 23 to the financial statements sets out the Group's financial risks and the management of those risks.

Having prepared management forecasts and made appropriate enquiries, the Directors are satisfied that the Group has adequate resources for the foreseeable future. Accordingly they have continued to adopt the going concern basis in preparing the Group and Company financial statements.

### **Auditor**

Ernst and 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 their 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 10 December 2015 at 10.30am, 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*  
13 October 2015

# Directors' remuneration report

## Statement from the Chairman of the Remuneration Committee

### Dear shareholder

As the Chairman of Nanoco's Remuneration Committee (the "Committee"), I am pleased to present our first Directors' remuneration report since the Company's shares were admitted to trading on the main market of the London Stock Exchange ("admission") on 1 May 2015. In accordance with the requirements of the applicable remuneration reporting regulations this report is presented in two sections:

- The **Directors' Remuneration policy** – this sets out our forward-looking remuneration policy for Directors and will be subject to a binding vote at the 2015 AGM on 10 December 2015.
- The **Annual Report on remuneration** – this provides details of the amounts earned by Directors in respect of the year ended 31 July 2015 and how the Directors' Remuneration policy will be operated for the year commencing 1 August 2015. This will be subject to an advisory vote at the 2015 AGM.

### Our approach to remuneration

During the year the Committee has undertaken a detailed review of the Group's incentive arrangements to ensure that following admission the policy is aligned to the strategic direction of the Group and our stakeholder philosophy. After extensive consultation with, and good support from, our major shareholders, shareholder approval for a deferred bonus plan (the "DBP") and a new long-term incentive plan (the "LTIP") is being sought at the AGM. The new share plans have been 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 Company's development and which is perceived as valuable, a fair reflection of performance and which is aligned with sustainable shareholder value creation.

With these principles in mind, the overall 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 summary of the key terms of the new DBP and LTIP is set out in the notice of the AGM.

### Remuneration decisions in respect of the year ended 31 July 2015

As referred to in the prospectus prepared prior to admission, our Executive Directors' salaries for the year ending 31 July 2015 were increased to \$394,800 in the case of our Chief Executive Officer and £170,000 in the case of our Chief Technology Officer. These increases were made to bring the salaries of the Executive Directors up to a level within a market competitive range compared to companies of comparable size and complexity and took account of the calibre and experience of the individuals as demonstrated through the recent performance of the Company. Our Chief Operating Officer was appointed on a salary of £190,000 in October 2014.

The 2015 bonus objectives for the Executive Directors related to the implementation of strategic/transformational goals and business development. Having tested individual performance against the targets originally set, the Committee determined that aggregate bonuses payable to Dr Michael Edelman, Dr Nigel Pickett and Keith Wiggins would be at circa 30% of salary.

Share options were granted to staff and Executive Directors on 25 November 2011 and 22 October 2012 with exercise prices of 50 pence and 57 pence per share respectively, being the opening share price on the dates of grant. The options granted to Executive Directors were subject to commercial targets. The targets for the options were assessed by the Committee and determined to have been met on 31 July 2015, as set out on page 45.

Further details regarding the base salary increases, bonus payments earned and share options vesting in respect of the year ending 31 July 2015 for the Executive Directors are set out on pages 43 to 45.

### Remuneration in the year commencing 1 August 2015

As part of their recruitment, the Committee granted an award of nominal cost options to the new Chief Operating Officer (Keith Wiggins) over 380,000 shares under the current long term incentive plan in October 2014 and has committed to granting an award of nominal cost options to the new Chief Financial Officer (David Blain) over 350,000 shares with the normal LTIP annual awards, which will be made following shareholder approval of the new LTIP at the 2015 AGM. The recruitment award granted to Keith Wiggins, has been amended since it was originally granted and is now subject to share price growth and Group revenue performance conditions measured over the three financial years ending 31 July 2017, in line with the new LTIP (see page 45 for further details). The recruitment award to be granted to David Blain will be subject to the same share price growth and Group revenue performance conditions for the three financial years ending 31 July 2018 as the other Executive Directors (see below for further details).

### Remuneration in the year commencing 1 August 2015 continued

The year commencing 1 August 2015 will be the Company's first full financial year since admission and in which remuneration arrangements for the Executive Directors will be determined in accordance with the Directors' Remuneration policy set out on pages 34 to 42. Following consultation with our major shareholders the following changes in executive remuneration are proposed for the year commencing 1 August 2015:

- Executive Directors will receive a 1% base salary increase. No base salary increase was awarded to David Blain, as his base salary of £180,000 was reviewed upon his appointment as an Executive Director.
- The Company operates a salary sacrifice pension arrangement. For the year commencing 1 August 2015, 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.
- As outlined above, following a detailed review of the Group's incentive arrangements shareholder approval for the DBP and LTIP is being sought at the AGM.
- In line with market practice for a fully listed Company of our size, going forward, the maximum bonus and long-term incentive opportunity will each be 100% of base salary (although larger LTIP awards maybe granted in exceptional circumstances).
- The increase in the maximum annual bonus potential to 100% of base salary for Executive Directors is being made in conjunction with the introduction of the DBP for employees at all levels. Under the DBP, for which shareholder approval is being sought at the AGM, 50% of any bonus earned will be paid in cash, whilst the remainder will be paid as deferred shares, vesting after two years. This reflects our stakeholder philosophy, provides a longer term retention mechanism and provides alignment with shareholders.
- The new LTIP has been designed to reflect current market and best practice, including:
  - Annual awards of conditional shares or nil/nominal cost options; and
  - Awards will be subject to a three-year performance period and a two-year holding period will apply post the end of the performance period for Executive Directors.
- It is recognised that the Company's transition from a research and development Company to a commercial product driven organisation presents a number of challenges defining meaningful and appropriate performance metrics and targets. It is proposed that for the initial awards to be granted under the new LTIP the performance metrics will be a combination of:
  - Share price growth (which is a key measure of value delivered to shareholders and should reflect the achievement of commercial milestones) for 50% of the award; and
  - Group revenue targets (which is a core metric for measuring the successful growth of the Company and development of new commercial products) 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 new 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 actual performance measures and targets for LTIP awards to be granted in respect of the year commencing 1 August 2015 are set out on page 49.

### Remuneration in the year commencing 1 August 2015

- In line with best practice, clawback will apply to any cash bonus paid and malus provisions will apply to any unvested deferred bonus awards and awards granted under the new LTIP.
- The Company is also introducing shareholding guidelines, in accordance with which Executive Directors will be expected to build up a shareholding of 100% of salary (200% of salary for the CEO).

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 remuneration report, please contact me through the Company Secretary.

**Gordon Hall**

*Chairman of the Remuneration Committee*

13 October 2015

## Directors' remuneration report continued

This remuneration report for the year ended 31 July 2015 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 2014). The Regulations require the auditors to report to the Company's members on certain parts of the Directors' remuneration report and to state whether, in their opinion, those parts of the report have been properly prepared in accordance with the accounting regulations.

### Directors' remuneration policy

This part of the report sets out the Company's Directors' Remuneration policy. This policy will be put forward for shareholder approval at the AGM on 10 December 2015 and will take binding effect from that date.

The Directors' Remuneration policy is not audited.

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

Element & purpose	Operation	Maximum opportunity	Performance measures
<b>Base salary</b> 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 maybe reviewed more frequently if required). When determining base salary levels, consideration is given to the following: <ul style="list-style-type: none"> <li>• Role, responsibility and experience of the individual;</li> <li>• Corporate and individual performance;</li> <li>• Market conditions including typical pay levels for comparable roles in companies of a similar size and complexity; and</li> <li>• The range of salary increases awarded across the Group.</li> </ul>	Whilst there is no maximum salary, increases will normally be in line with the wider workforce. However larger increases may be awarded in but not limited to the following circumstances: <ul style="list-style-type: none"> <li>• Where an Executive Director has been promoted or has had a change in scope or responsibility;</li> <li>• To take account of an individual's development or performance in role (eg a newly appointed Executive Director being moved to be aligned with the market over time);</li> <li>• Where there has been a change in market practice; or</li> <li>• Where there has been a change in the size and/or complexity of the business.</li> </ul>	N/A
<b>Benefits</b> Provide a market competitive benefits package and promote the well-being 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 of four times salary 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 insurance, 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



Element & purpose	Operation	Maximum opportunity	Performance measures						
<b>Retirement benefits</b> Provide market competitive post-employment benefits to recruit and retain Directors of the calibre required for the business.	<p>The Company currently operates a salary sacrifice pension arrangement 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 Contributions ("NIC") saved, into a private pension scheme.</p> <p>Executive Directors are also eligible to participate in the Company's defined contribution scheme (or such other pension plan as maybe deemed appropriate). In appropriate circumstances, such as where contributions exceed the annual or lifetime allowance, Executive Directors maybe permitted to take a cash supplement instead of contributions to a pension plan (this would not count towards the bonus or LTIP opportunity).</p>	<p>For the year commencing 1 August 2015, employer pension contributions above the amount of any salary sacrifice and employer NIC saved, will be capped at 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 circumstances including but not limited to a change in the scope of the role, increase in responsibility and/ or a change in the size and/or complexity of the business.</p>	N/A						
<b>Annual bonus</b> 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>Performance targets are set annually and pay-out 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 the balance would be 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. The percentage of maximum bonus payable for the different levels of performance would be no greater than:</p> <table><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. 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%								

## Directors' remuneration report continued

Element & purpose	Operation	Maximum opportunity	Performance measures
<b>Long-term incentive plan ("LTIP")</b> To reflect stakeholder philosophy, provide a longer term retention mechanism and provide alignment with shareholders.	<p>The Committee intends to make long-term incentive awards under the new LTIP which will be put to shareholders for approval at the 2015 AGM. Under the new LTIP, awards of conditional shares, restricted stock or nil/nominal 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 new 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. 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. 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>For details of award levels and metrics for 2015 see the Annual Report on remuneration.</p>
<b>Shareholding requirement</b> To align Directors to shareholder interests	<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 (ie 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 (ie a clawback provision).

Under the new LTIP which will be put to shareholders for approval at the 2015 AGM, 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.

#### Explanation of performance measures chosen

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

**Notes to the policy table** continued**Annual bonus**

Ordinarily, 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 defining meaningful and appropriate performance metrics and targets, it is proposed that for the initial awards granted under the new LTIP performance will be measured using 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 new 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. It is the Committee's view that these are the most appropriate performance measures for determining LTIP vesting for the initial 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 Company 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 initial awards given the current negative earnings of the Company, as the Company moves towards positive EPS, it may be considered an appropriate metric once the Company 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 will be 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. The 'market value' of a share for the purposes of determining the number of shares subject to the LTIP or DBP award will be the average share price over the three dealing days following the announcement of results preceding the grant date, unless the committee determines that an alternative basis should apply.

**Early vesting of awards**

As described on page 41, 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 new 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 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 Company.

## Directors' remuneration report continued

### Remuneration outcomes in different performance scenarios

The charts below set out an illustration of the remuneration policy for 2016. 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 pay-out  
No vesting under the LTIP

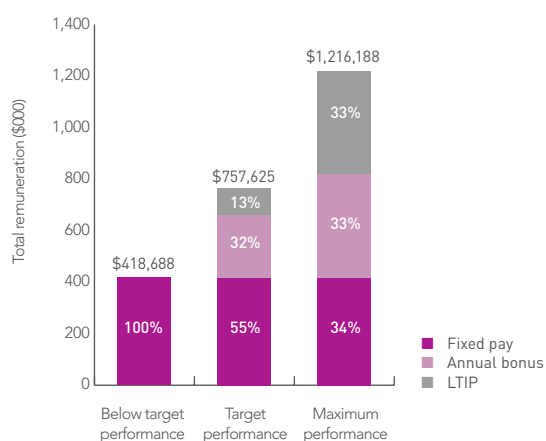
#### Target performance

Fixed remuneration  
60% annual bonus pay-out  
25% vesting under the LTIP

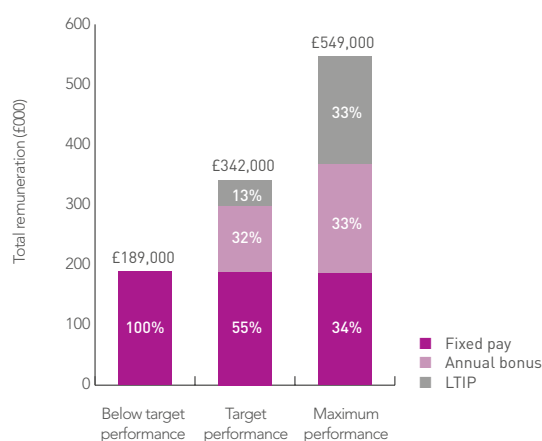
#### Maximum performance

Fixed remuneration  
100% annual bonus pay-out  
100% vesting under the LTIP

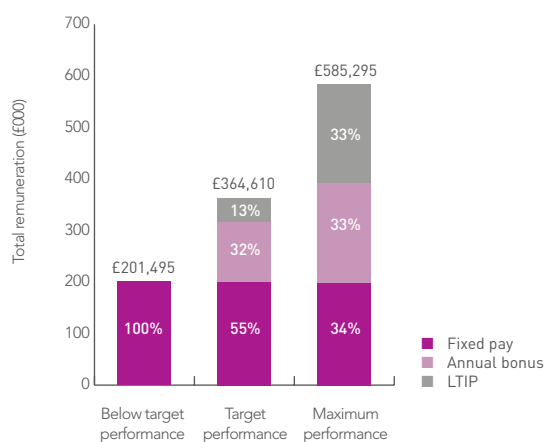
#### Dr Michael Edelman



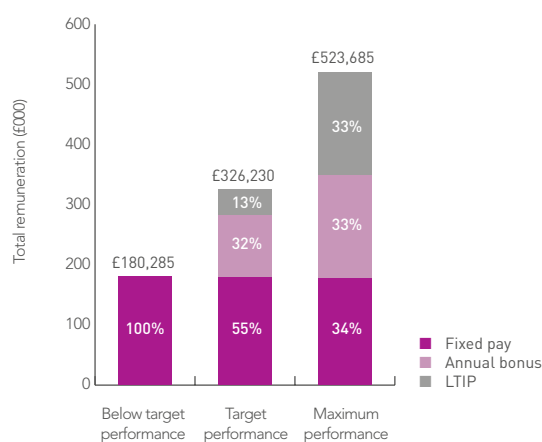
#### David Blain



#### Keith Wiggins



#### Dr Nigel Pickett



## Remuneration outcomes in different performance scenarios continued

Fixed pay currently comprises the following elements:

	Current base salary	Benefits*	Pension**	Total
Chief Executive Officer – Dr Michael Edelman	\$398,750	–	\$19,938	\$418,688
Chief Financial Officer – David Blain	£180,000	–	£9,000	£189,000
Chief Operating Officer – Keith Wiggins	£191,900	–	£10,000	£201,900
Chief Technical Officer – Dr Nigel Pickett	£171,700	–	£9,000	£180,700

\* No benefits are currently provided to the Executive Directors.

\*\* Based on 5% employer pension contribution/cash supplement in lieu of pension which applies for the year ended 31 July 2016.

The values illustrated assume a constant share price and 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 maybe 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 to 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 for 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 maybe 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 maybe transferred to the subsequent year so that reward is provided on a fair and appropriate basis;
  - 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 for any such alterations will be clearly explained in the next Directors' remuneration report.
- 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 34 to 42.



## Directors' remuneration report continued

### Remuneration policy on recruitment continued

The Committee may make payments or awards in respect of hiring an employee to 'buyout' 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 12 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' 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	3 months	3 months
David Blain	3 August 2015	3 August 2015	3 months	3 months

David Blain and Keith Wiggins were appointed after the notice of last AGM was issued and offer themselves for election at the 2015 AGM. Service contracts are available for inspection at the registered office address 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.

	Date of letter of appointment	Date of appointment	Unexpired term of contract on 31 July 2015
Anthony Clinch (Chairman)	30 March 2015	30 March 2010	32 months
Gordon Hall	30 March 2015	9 July 2007	32 months
Dr Peter Rowley	30 March 2015	30 April 2009	32 months
Robin Williams	30 March 2015	9 July 2014	32 months
Brendan Cummins	19 May 2015	28 May 2015	34 months

Brendan Cummins was appointed since the last AGM and offers himself for election at the 2015 AGM.

In accordance with the Company's Articles of Association, Peter Rowley retires and, being eligible, offers himself for re-election.

Letters of appointment are available for inspection at the registered office address of the Company.

### 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 commitments 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	
<b>Payment in lieu of notice</b>	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 12 months' notice.
<b>Annual bonus</b>	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.
<b>DBP</b>	<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 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>
<b>LTIP</b>	<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 (ie 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 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>
<b>Mitigation</b>	The Committee's practice is that if an Executive Director's employment is terminated any compensation payment will be calculated in accordance with normal legal principles including the application of mitigation to the extent appropriate to the circumstances of the termination.
<b>Other payments</b>	In appropriate circumstances, payments may also be made in respect of accrued holiday, outplacement and legal fees.

Where a buy-out award is made then 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.

## Directors' remuneration report continued

### 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 will be put to shareholders for approval at the 2015 AGM and the Committee intends to consult with shareholders in respect of any significant changes to the Executive Director remuneration arrangements.

### ANNUAL REPORT ON REMUNERATION

This report sets out details of the amounts earned during 2015 and provides details as to how the Committee intends to implement the policy during 2016. This part of the report will be subject to an advisory shareholder vote at the 2015 AGM. This report contains unaudited information except where stated that it is audited.

### Remuneration Committee

The Committee comprises Gordon Hall, who is Chairman of the Committee, Dr Peter Rowley, Robin Williams and Brendan Cummins, each of whom is considered to be independent. Both Robin Williams and Brendan Cummins joined the Committee during the year. The Committee may invite anyone it deems appropriate to attend and advise at meetings, including the Chief Executive Officer and 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 five times during the year, its meetings are minuted and its recommendations are presented to the Board.

### Advisors 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. 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 2015
Deloitte LLP (Deloitte)	Appointed by the Remuneration Committee in June 2015.	Advice on review of incentive arrangements and design of new DBP and new LTIP. Advice on the reporting regulations in connection with the disclosure of Directors' remuneration.	The fees for advice provided to the Committee during the financial year were £7,500. Charged on a time/cost basis or fixed fee dependent on nature of project.	None

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.

### Single total figure of remuneration for 2015 – Executive Directors (audited information)

The remuneration of the Directors, who served on the Board of Nanoco Group PLC during the year to 31 July 2015, is as follows:

	Base salary & fees £000	Annual bonus £000	Pension £000	Benefits in kind £000	Long-term incentives £000	Total 2015 £000
<b>Executive Directors:</b>						
Dr Michael Edelman <sup>1</sup>	252	70	–	–	313	<b>635</b>
Dr Nigel Pickett	170	60	10	–	266	<b>506</b>
Keith Wiggins <sup>2</sup>	160	50	–	6	–	<b>216</b>
<b>Total Executive Directors</b>	<b>582</b>	<b>180</b>	<b>10</b>	<b>6</b>	<b>579</b>	<b>1,357</b>
<b>Non-executive Directors:</b>						
Anthony Clinch	50	–	–	–	–	<b>50</b>
Dr Peter Rowley	26	–	–	–	–	<b>26</b>
Gordon Hall	26	–	–	–	–	<b>26</b>
Robin Williams	35	–	–	–	–	<b>35</b>
Brendan Cummins	6	–	–	–	–	<b>6</b>
<b>Total Non-executive Directors</b>	<b>143</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>143</b>
<b>Former Directors:</b>						
Colin White <sup>3</sup>	91	–	–	–	220	<b>311</b>
	<b>816</b>	<b>180</b>	<b>10</b>	<b>6</b>	<b>799</b>	<b>1,811</b>

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.

2 Keith Wiggins was appointed to the Board on 1 October 2014.

3 Colin White resigned on 31 December 2014.

The remuneration of the Directors, who served on the Board of Nanoco Group PLC during the year to 31 July 2014, was as follows:

	Base salary & fees £000	Annual bonus £000	Pension £000	Benefits in kind £000	Long-term incentives £000	Total 2014 £000
<b>Executive Directors:</b>						
Dr Michael Edelman <sup>1</sup>	179	50	–	64	–	<b>293</b>
Dr Nigel Pickett	136	57	8	–	–	<b>201</b>
Colin White	138	52	–	–	–	<b>190</b>
<b>Total executive Directors</b>	<b>453</b>	<b>159</b>	<b>8</b>	<b>64</b>	<b>–</b>	<b>684</b>
<b>Non-executive Directors:</b>						
Anthony Clinch	23	–	–	–	–	<b>23</b>
Dr Peter Rowley	15	–	–	–	–	<b>15</b>
Gordon Hall	15	–	–	–	–	<b>15</b>
Michael Bretherton <sup>2</sup>	8	–	–	–	–	<b>8</b>
Robin Williams <sup>3</sup>	4	–	–	–	–	<b>–</b>
<b>Total Non-executive Directors</b>	<b>61</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>61</b>
	<b>518</b>	<b>159</b>	<b>8</b>	<b>64</b>	<b>–</b>	<b>749</b>

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.

2 Michel Bretherton resigned on 4 April 2014.

3 Robin Williams was appointed to the Board on 9 July 2014.

## Directors' remuneration report continued

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

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

<b>(a) Salary &amp; fees</b>	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>(b) Benefits</b>	The taxable value of benefits received in the year. In the 2014 table, this relates to legacy arrangements in relation to the jointly owned EBT shares for the Chief Executive Officer.
<b>(c) Bonus</b>	The cash value of the bonuses earned in respect of the financial year, both pre and post Admission. A description of both bonus plans in place during the year is provided below.
<b>(d) Long-term incentives</b>	<p>The share options granted on 25 November 2011 and 22 October 2012 were subject to commercial revenue targets. The targets were met in full therefore these share options vested in full on 31 July 2015. The value shown in respect of the year ended 31 July 2015 is the 75.5 pence share price on 31 July 2015 less the exercise price of 50 and 57 pence per share for the 2011 and 2012 options respectively, multiplied by the number of shares subject to the achieved performance conditions.</p> <p>One third of the 22 October 2012 share options are still subject to a service condition until 22 October 2015.</p>
<b>(e) Pension</b>	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 ending 31 July 2015

#### Base salary

As referred to in the prospectus prepared prior to admission, our Executive Directors' salaries for the year ending 31 July 2015 were increased to \$394,800 in the case of our Chief Executive Officer and £170,000 in the case of our Chief Technology Officer. These increases were made to bring the salaries of the Executive Directors up to a level within a market competitive range compared to companies of comparable size and complexity, and took account of the calibre and experience of the individuals as demonstrated through the recent performance of the Company. Our Chief Operating Officer was appointed on a salary of £190,000 in October 2014.

#### Annual bonus

For the year ended 31 July 2015, the maximum cash bonus for Dr Michael Edelman, Dr Nigel Pickett and Keith Wiggins was 50% of salary. The annual bonus objectives and bonus out turn are summarised in the tables below:

Director	Measure	Weighting (% of maximum bonus opportunity)	Achievement	Payout (% of salary)
<b>Dr Michael Edelman</b>	Revenue targets of \$4m	50%	Partially achieved	<b>28%</b>
	Capital raising	20%	Raised £20m at 105p	
	Commercial contracts	10%	Achieved	
	Main market listing	10%	Successful transition from AIM to main market listing	
	Personal objectives	10%	Partially achieved	
<b>Dr Nigel Pickett</b>	Project 1	25%	Achieved	<b>35%</b>
	Project 2	15%	Ongoing	
	Project 3	15%	Ongoing	
	Project 4	15%	Not achieved	
	Project 5	15%	Achieved	
	Personal objectives	15%	Achieved	
<b>Keith Wiggins</b>	Revenue target of \$4m	30%	Partially achieved	<b>31%</b>
	Expanding Nanoco's operations to encompass a manufacturing facility in addition to a R&D facility	30%	Partially achieved, with major operational changes	
	Project 6	10%	Achieved	
	Personal objectives	30%	Achieved	

Specific bonus targets have not been disclosed by the Committee where they are considered to be commercially sensitive. The current stage of the Company'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.



### Long-term incentives vesting in respect of the year ending 31 July 2015

Market value options were granted to Dr Michael Edelman, Dr Nigel Pickett and Colin White on 25 November 2011 and 22 October 2012. The options granted to Executive Directors were subject to commercial revenue targets.

The Remuneration Committee determined that the performance conditions for the 2011 and 2012 share options were met on 31 July 2015. In making this decision the Remuneration Committee took into account the following key matters:

- The signing of a commercial agreement with Dow.
- Dow having secured a commercial agreement with LG.
- Dow having committed to build a manufacturing plant in South Korea to create large scale manufacturing capacity.
- Dow's manufacturing plant having been assembled and being commissioned.

The Remuneration Committee determined that these achievements and milestones reached sufficiently satisfy the performance criteria in full.

### Retirement benefits

Dr Nigel Pickett received a pension contribution of 1% of base salary (£1,700) under the Group's defined contribution pension scheme plus a pension contribution of £8,556 (equivalent to the National Insurance saved from his pension salary sacrifice).

### LTIP awards granted in 2015

As set out in the table below, as part of his recruitment, the Committee granted an award to the new Chief Operating Officer (Keith Wiggins) over 380,000 shares in October 2014. The exercise price was set at a nominal cost of 10 pence per share.

Director	Type of award	Face value* as a 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
Keith Wiggins	Share award	234%	380,000	£445	£407	25	3

\* Face value has been calculated using the share price on the date of grant of £1.17.

This recruitment award is subject to the following share price growth and Group revenue performance conditions measured over three financial years ending 31 July 2017.

### 50% based on share price growth target measured over three financial years ending 31 July 2017

% of share price element vesting	Share price target
25%	£1.60
100%	£2.10

Straight-line vesting will apply between these points. Share price will also 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 three financial years ending 31 July 2017

% of Group revenue element vesting	Group revenue target
25%	2017 threshold revenue target
100%	2017 maximum revenue target

Given the Company 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 Company. However, in order to maintain transparency the Committee will disclose the Group revenue targets and how the Company has performed against the targets set following the end of the performance period.

A core strategy of the business is to continue the development of our lighting, solar and life sciences segments 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.

## Directors' remuneration report continued

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

Directors' interests in jointly owned EBT shares and in share options to acquire ordinary shares of 10 pence in the Company as at 31 July 2015 were:

Share options:	Date granted	Exercise price	At 31 July 2014	Exercised during the year	Lapsed	Granted during the year	At 31 July 2015
Dr Michael Edelman:	25 Nov 2011	50.00p	500,000	—	—	—	500,000 <sup>1</sup>
	22 Oct 2012	57.00p	1,000,000	—	—	—	1,000,000 <sup>2</sup>
Dr Nigel Pickett:	25 Nov 2011	50.00p	500,000	—	—	—	500,000 <sup>1</sup>
	22 Oct 2012	57.00p	750,000	—	—	—	750,000 <sup>2</sup>
Colin White	25 Nov 2011	50.00p	500,000	—	—	—	500,000 <sup>1</sup>
	22 Oct 2012	57.00p	750,000	—	(250,000)	—	500,000 <sup>2</sup>
Keith Wiggins	14 Oct 2014	10.00p	—	—	—	380,000	380,000 <sup>3</sup>
<b>Jointly owned EBT shares:</b>							
Dr Nigel Pickett	7 April 2008	Nil	530,089	—	—	—	530,089

1 Vested but unexercised shares options.

2 2/3rds of the share options are vested but unexercised with the remaining 1/3rd still subject to a service condition.

3 Unvested share options still subject to performance conditions.

The options granted on 25 November 2011 and 22 October 2012 were granted under the terms of the Nanoco Group PLC long-term incentive plan. Service conditions of 1 year, 2 years and 3 years apply to equal tranches of each award and each award is exercisable following both the achievement of commercial revenue targets and completion of the service requirement. The options have a ten-year life from grant to lapse.

The options granted during the year to Keith Wiggins were nominal value options. No options have been granted since the year end.

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 executives to have met the shareholding guideline policy by the fifth anniversary of their appointment as an Executive Director or the introduction of the guidelines, if later.

Both Dr Michael Edelman and Dr Nigel Pickett hold shares substantially in excess of the shareholding guideline (circa 2700% and 6200% of salary respectively using the three month average closing share price to the end of July 2015). As a new Director, Keith Wiggins will be expected to meet the shareholding guideline by the fifth anniversary of his appointment and to retain 50% of any shares (on a post-tax basis) vesting under any incentive plans until this has been met.

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 2015 were:

	Ordinary shares of 10 pence each			
	31 July 2015 Number	31 July 2015 %	31 July 2014 Number	31 July 2014 %
Anthony Clinch	57,640	0.02%	57,640	0.03%
Dr Michael Edelman	6,988,640	2.94%	6,988,640	3.22%
Dr Nigel Pickett	10,945,681	4.61%	10,945,681	5.01%
Colin White	—	—	320,411	0.15%
Keith Wiggins	—	—	—	—
Dr Peter Rowley	50,000	0.02%	1,571,820	0.73%
Gordon Hall	100,000	0.04%	100,000	0.11%
Robin Williams	9,523	0.00%	—	—
Brendan Cummins	—	—	—	—
	<b>18,151,484</b>	<b>7.66%</b>	<b>19,663,781</b>	<b>9.08%</b>

1 There have been no changes in Directors' interests between 31 July 2015 and 13 October 2015.

2 As at 31 July 2015, none of the Directors had any interests in shares of any other group company.

3 In October 2014, Dr Peter Rowley and his wife transferred 1,571,820 ordinary shares into family trusts of which neither he nor his wife is a beneficiary.

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

The market price for Nanoco shares as at 31 July 2015 was 75.5 pence per share, the highest and lowest prices during the year were 150.25 pence and 68.75 pence respectively.

Details of share options and shares held in the EBT are set out in note 19 to the financial statements.

### Dilution

The Company complies with the relevant institutional investor guidelines on employee share plans which state that in any ten-year period the Company may not issue more than 10% of the issued ordinary share capital of the Company under the LTIP plan or any other employee share plan adopted by the Company (excluding awards granted prior to admission to AIM). Including only option grants post admission to AIM and excluding any awards that have lapsed, the current dilution is 6.1%.

### Payments to past Directors (audited)

There were no payments made to past Directors during the year in respect of services provided to the Company as a Director.

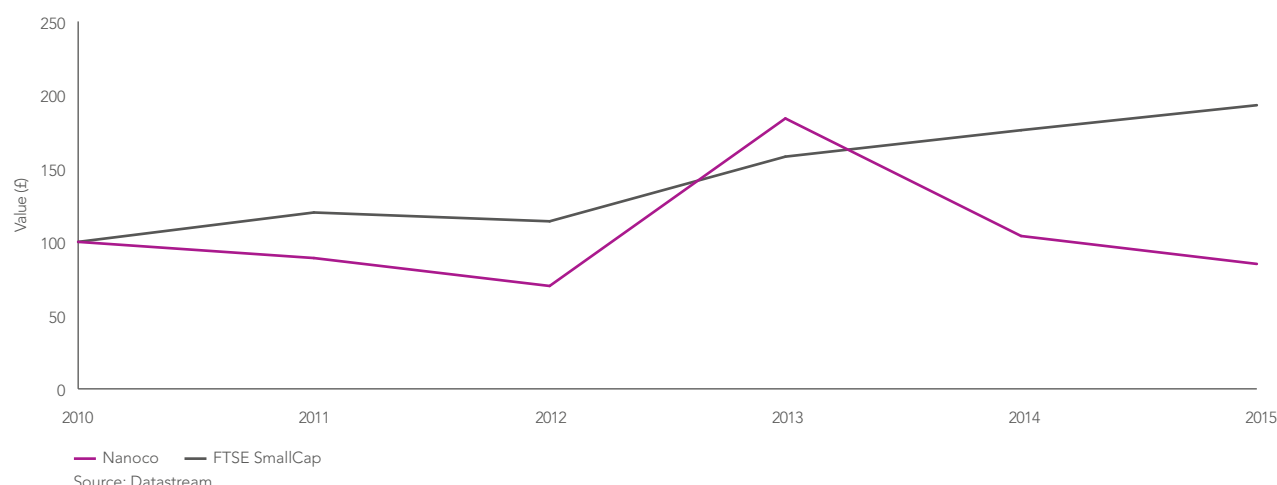
### Payments for loss of office (audited)

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

### 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 2015. 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 2015 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.

Chief Executive Officer remuneration	2011	2012	2013	2014	2015
Total remuneration £000*	175	182	707	293	635
Annual bonus (% of maximum vesting)	33%	25%	73%	56%	56%
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.

## Directors' remuneration report continued

### 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 year compared with the cost for the same elements for all employees in the Group.

	Salary			Taxable benefits			Bonus		
	2015 £'000	2014 £'000	Change %	2015 £'000	2014 £'000	Change %	2015 £'000	2014 £'000	Change %
CEO*	252	179	40.8**	–	64	(100.0)	70	50	40.0
Average for all other employees	36	33	9.2	–	–	Nil	3	2	50.0

\* 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.

\*\* As referred to in the prospectus prepared prior to admission, the base salary of the Chief Executive Officer for the year ending 31 July 2015 was increased to \$394,800 (2013: \$294,000). This increase was made to bring the salary of the Chief Executive Officer up to a level within a market competitive range compared to companies of comparable size and complexity, and took account of the calibre and experience of the Chief Executive Officer as demonstrated through the recent performance of the Company.

### 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 2014 £000	Year ended 31 July 2015 £000	% change
Dividends	–	–	–
Overall expenditure on pay	5,107	6,039	18.3%

### Implementation of policy for the year commencing 1 August 2015

#### Base salary

Base salaries are reviewed annually with effect from 1 August. For the year commencing 1 August 2015 Executive Directors will receive a 1% base salary increase as follows:

	2016	2015	% change
Chief Executive Officer – Dr Michael Edelman	\$398,750	<b>\$394,800</b>	1%
Chief Technical Officer – Dr Nigel Pickett	£171,700	<b>£170,000</b>	1%
Chief Operating Officer – Keith Wiggins	£191,900	<b>£190,000</b>	1%
Chief Financial Officer – David Blain	£180,000	–	n/a

### Changes to Non-executive Directors' fees

No changes are proposed to the current Non-executive Directors' fees. Fees remain as follows:

Chairman	£50,000
NED base fee	£25,000
Chair of Committee fee	£10,000

### Pension

The Company operates a salary sacrifice pension arrangement. For the year commencing 1 August 2015, 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 2016, 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 for which shareholder approval is being sought at the AGM, vesting after two years. This reflects our stakeholder philosophy, provides a longer term retention mechanism and provides alignment with shareholders.

Alongside this, the Committee intends to introduce a more balanced scorecard approach in respect of performance measures. 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 financial / corporate measures for FY16 will include annual revenue, EBITDA and share price targets weighted 35%:20%:5% respectively. The Committee will disclose the metrics and performance against these on a retrospective basis to the extent that these are not commercially sensitive.

In line with the new UK Corporate Governance Code clawback will apply to any cash bonus paid and malus provisions to any unvested deferred bonus award.

**Implementation of policy for the year commencing 1 August 2015** continued**Long-term incentive**

The Committee have approved the grant of LTIP awards for the Executive Directors of 100% of base salary for the year ending 31 July 2016, in line with the usual limit. For the first year of his appointment, the Chief Financial Officer will receive an LTIP award over 350,000 shares in accordance with the terms agreed as part of his recruitment.

The market value of shares granted will be based on the three day average share price following the announcement of the Company's results, unless the Committee determines otherwise. Subject to shareholder approval of the new LTIP, these awards will be granted under the new LTIP following the December 2015 AGM.

These awards will be subject to the following performance conditions:

**50% based on share price growth measured over three financial years ending 31 July 2018**

% of share price element vesting	Share price target
25%	£2.10
100%	£3.00

Straight line vesting will apply between these points. 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 three financial years ending 31 July 2018**

% of Group revenue element vesting	Group revenue target
25%	2018 threshold target
100%	2018 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, solar and life sciences segments with a long-term aim of transforming them into profitable businesses shipping commercial quantities of the products. 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 post the end of the performance period for Executive Directors.

**Statement of voting at 2014 AGM**

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 11 December 2014.

Resolution	Votes for	% for	Votes against	% against	Votes withheld
To approve the Directors' Remuneration Report	99,243,294	90.42	10,514,720	9.58	754

The votes against the resolution approving the Directors' Remuneration Report were higher than those in respect of other resolutions voted upon at the 2014 AGM and the Remuneration Committee hopes its forward-looking remuneration policy for Directors, which will be subject to a binding vote at the 2015 AGM on 10 December 2015, addresses any concerns shareholders may have had.

On behalf of the Board

**Gordon Hall**

Chairman of the Remuneration Committee  
13 October 2015



# Corporate governance statement

This section contains the Group's reporting disclosures on corporate governance required by the Companies Act 2006, the 2012 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/corporate/ukcgcode.cfm](http://www.frc.org.uk/corporate/ukcgcode.cfm).

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

During the period that the Company's shares were admitted to AIM, compliance with the Code was not mandatory, although the Company adopted and implemented policies and procedures designed to comply with all of the requirements of the Code in a manner that was deemed to be appropriate for a Company of Nanoco's size and complexity. Following the Company's admission to the main market, the Company has been in compliance with provisions set out in Sections A to E of the Code. Nanoco has applied the principles set out in Sections A to E of the Code, including both the main and the supporting principles, by complying with the Code.

## 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 Disclosure Rules. The information required to be disclosed by sub-section 2.6 of Rule 7 is shown in the Statement of directors' responsibilities on pages 60 and 61 and is incorporated in this section by reference.

## The Board

The Company 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 of the Board within clearly defined terms of reference.

Once the strategic and financial objectives of the Company 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 2015, the Board comprised the non-executive Chairman, three independent Non-executive Directors and three Executive Directors.

The names of the current Directors together with their biographical details and any other directorships are set out on pages 26 to 27.

The contracts of the Non-executive 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 eleven times a year and the Audit Committee, Remuneration and Nominations Committees normally meet at least twice a year.

### The Board continued

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 undertaken to carry out a thorough evaluation each year of its own performance and that of its Committees and individual Directors. Due to the short period of time which has elapsed since the Company's admission to the premium list, this evaluation has not been carried out during the current financial 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.

Notwithstanding that Dr Nigel Pickett, Dr Michael Edelman and Dr Peter Rowley have acted as Directors of predecessors of Nanoco Group PLC since 2006 and prior, the Board has determined that they remain independent, due to the evolving nature of their roles and the evolving nature of the Boards upon which they have served during these years.

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 are shown below.

	Full Board	Audit Committee	Nominations Committee	Remuneration Committee
Number of meetings in period	11	4	2	5
<b>Attendance</b>				
<b>Executive Directors:</b>				
Dr Michael Edelman	11	—	—	—
Dr Nigel Pickett	11	—	—	—
Keith Wiggins	9	—	—	—
<b>Non-executive Directors:</b>				
Anthony Clinch	11	—	2	—
Dr Peter Rowley	10	4	2	5
Gordon Hall	10	4	2	5
Robin Williams	10	4	2	5
Brendan Cummins	3	1	—	3
<b>Former Directors:</b>				
Colin White	2	—	—	—

Coincidental with the Company's move from AIM to admission to the premium listing segment of the Official List and to trading on the main market for listed securities of the London Stock Exchange, the Board re-evaluated the key risks faced by the Group, its strategic objectives and its financial position and prospects ("FPP") procedures.

In addition, 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 chairmen of the Audit, Remuneration and Nominations Committees (if applicable); important forthcoming events; and reports on investor relations, legal affairs and environment, health & 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.

# Corporate governance statement continued

## **The Board** continued

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.

## **Professional development**

On appointment, each Director takes part in an induction programme in which they receive comprehensive information about the Group, and 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 latest financial information about the Group. 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. 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.

The Non-executive Directors receive monthly management accounts and regular management reports and information which enable them to scrutinise the Group's and management's performance against agreed objectives.

## **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 is prepared by the Company's joint broker and by the Company's external investor relations adviser 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](http://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](mailto: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 and these may on occasion include a visit to the Manchester R&D facility, the Runcorn production facility and Dow's production facility at Cheonan, South Korea.

### **Anthony Clinch**

*Chairman*

13 October 2015

# Corporate governance statement continued

## Audit Committee

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.

2015 marked a watershed for Nanoco with its move to being a main list business, a move which required the close involvement of the Audit Committee. In addition, the Audit Committee continues to be vigilant in its monitoring of internal and external risk factors and recently assisted the Board in its development of a risk register. 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 Company'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;
- external auditors, including reviewing and monitoring the extent of the non-audit work undertaken by external auditors, advising on the appointment of external auditors, overseeing the Group's relationship with its external auditors 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 auditors including the extent of non-audit work undertaken by the auditors; and
- the audit and non-audit fees of the auditors. These are set out in note 5 to the financial statements.

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 was augmented during the financial year by the addition of Brendan Cummins and currently comprises Robin Williams, Gordon Hall, Dr Peter Rowley and Brendan Cummins. Robin Williams is Chairman. In accordance with the provisions of the Code, the Committee is made up of independent Non-executive Directors. The Board considers that Robin Williams, by virtue of his being a chartered accountant and his former executive and current non-executive roles, has recent and relevant financial experience to act as Chairman of the Committee. Details of relevant experience of all members of the Committee are detailed on pages 26 to 27. Other Directors and representatives of the external auditor attend by invitation.

## Activities of the Audit Committee

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

The Committee discharged its obligations in response of 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 external auditors for the provision of non-audit services.



### **Independence safeguards**

In accordance with best practice and professional standards, external auditors are required to adhere to a rotation policy whereby the audit engagement partner is rotated after five years. Ernst & Young LLP have been in tenure for seven years and the current audit engagement partner was appointed in 2015. The external auditors are also required periodically to assess whether, in their professional opinion, they are 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 auditor provided non-audit services in connection with the move to the main list.

### **Independence assessment by the Audit Committee**

The Committee has considered the independence requirements, including that the rotation policy has been complied with. Furthermore, the level of fees paid for non-audit services does not jeopardise their independence and separate external firms are engaged for taxation advice. However, in view of the period which has elapsed since the appointment of its current auditors in 2008, the Committee will consider the need for a re-tender following the finalisation of this year's audit.

### **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 or are sourced from appropriate data. More importantly, the Committee assessed whether the words used were consistent with their understanding of the Company's business obtained through Board and Audit Committee meetings and other interaction they had 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 advisors 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 Company's financial position was such that it continued to be appropriate for accounts to be prepared on a going concern basis.

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 treatment of costs associated with the move to the main list so as to ensure that those costs charged to share premium and those costs charged to the consolidated statement of comprehensive income were reasonable and appropriate.
- (ii) The Committee considered going concern, which had been an issue in prior years, but determined that this was not an issue in the current year, in consequence of the £20 million raised earlier in the year.
- (iii) The Committee reviewed, in detail, in conjunction with the Remuneration Committee, the terms attaching to the share options issued to certain Executive Directors on 25 November 2011 and 22 October 2012 and in turn whether these had vested in full at 31 July 2015 and in turn the effect thereof on the share-based payment charge.

### **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:

- (i) Annual budgets and rolling forecasts reviewed and approved by the Board;
- (ii) Monthly management accounts information compared and reconciled with budgets;
- (iii) The Company 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 Company has well-established financial reporting and approval systems and procedures which cover all key transactional processes and Company commitments; and
- (vi) The Company has a uniform system of investment appraisal.

The Company has quality assurance processes in place by virtue of its internal quality assurance department, which audits non-financial processes and procedures.

## Corporate governance statement continued

### Internal controls and risk management continued

As part of its move to the premium list of the London Stock Exchange the Board was required to undertake an assessment of the Company's and Group's key risks and of its FPP procedures. This assessment identified a number areas where remedial action (such as the formalisation of procedures) was needed. The Board has undertaken to carry out the remedial action necessary and to embed these areas into the annual Board calendar so as to ensure that they are reviewed on a regular and systematic basis.

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 controls and risk management

#### 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 has been introduced during the year under review.

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, 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 23 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 £24.3 million as at 31 July 2015 (2014: £12.2 million). Cash deposits are spread across a range of financial institutions with 'investment grade' credit status. Deposits are invested in a mixture of fixed term and notice accounts. The Board approves all financial institutions before deposits are placed and regularly reviews the level of funds allocated to each institution.

#### Robin Williams

*Audit Committee Chairman*

13 October 2015

### **Nominations Committee**

The Board strongly believes that good governance and strong, responsible, balanced leadership are critical to creating long-term shareholder value and business success. Due to the relatively short period of time since the Committee was appointed, it has met only twice during the financial year. Nevertheless, the Committee is proactive in discharging its responsibilities, cognisant of the importance of succession planning and the need to align board and executive leadership skills to the Group's long-term strategy.

### **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, 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 Gordon Hall and its other members are Tony Clinch, Dr Peter Rowley and Robin Williams. There have not been any changes to the Committee membership during the year.

### **Committee activities during the year**

The Nominations Committee met twice since its formation during the financial year to discuss Board structure, independence, skillset and the appointment of Brendan Cummins, the search for whom commenced prior to the Company's move to the main market.

### **Diversity**

The Group pursues diversity, including gender diversity, throughout the business. When recruiting at a 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.

### **Gordon Hall**

*Nominations Committee Chairman*  
 13 October 2015

# 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 IFRSs 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 IFRSs 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 IFRSs 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 and Transparency Rules.

The financial statements for the year ended 31 July 2015 are included in the 2015 Annual Report, which is published by the Company in hard copy 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 auditors does not involve consideration of these matters and, accordingly, the auditors accept 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 Remuneration Report on pages 32 to 49 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 UK Corporate Governance Code

The Board considers that, following the Company's admission to the main market, the Company has applied the principles of the UK Corporate Governance Code of the Financial Reporting Council, as described under 'Corporate governance' on pages 50 to 57 and has complied with all relevant principles and provisions of the Code. As required by the Listing Rules of the Financial Conduct Authority, the auditors have considered the Directors' statement of compliance in relation to those points of the Code which are specified for their review.

Following a detailed review process which included both the Board of Directors and the Audit Committee, the Directors consider that 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 Company's and the Group's performance, business model and strategy.

### **Auditors**

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 auditors are unaware; and
- The Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

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

Ernst & Young LLP have expressed their willingness to continue in office as auditors 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 and Transparency Rules, the Directors listed on pages 26 to 27 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 Report of the Directors, 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 2015, comprising the Strategic report, Governance and the Financial statements, has been approved by the Board of Directors.

By order of the Board

### **David Blain**

*Company Secretary*  
13 October 2015



# Independent auditor's report to the members of Nanoco Group PLC

## Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 July 2015 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; and
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and 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.

## What we have audited

We have audited the financial statements of Nanoco Group Plc for the year ended 31 July 2015 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Company Statement of Changes in Equity, the Group and Company Statements of Financial Position, the Group and Company Cash Flow Statements and the related notes 1 to 25. 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.

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.

## Respective responsibilities of Directors and auditor

As explained more fully in the Statement of directors' responsibilities set out on pages 58 and 59, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Our assessment of risks of material misstatement

We identified the following areas that had the greatest effect on the audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. In addressing these risks, we have performed the procedures below which were designed in the context of the financial statements as a whole and, consequently, we do not express any opinion on these individual areas:

Area of focus	Our audit approach
<b>Revenue recognised under development and licence agreements</b>	
Refer to the estimates and judgements described on pages 69 and 70 and the disclosures on revenue in Note 4 of the Group financial statements.	
We focused on this area due to the significance of the Group's contracts with partners in delivering the Group's revenue. The understanding and interpretation of the terms of these contracts is vital to correctly recognising revenue in the financial statements.	In respect of revenue recognised under licence agreements we have reviewed the terms of the contracts to confirm that the Group had no further performance obligations in respect of the amounts received.  For revenue recognised for rendering of services under joint development agreements we read the terms of those contracts to understand the Group's performance obligations and where necessary inspected acceptance certificates from customers for the achievement of milestones. We tested journal entries to ensure that the amounts recognised as income were consistent with the terms of the contracts.
<b>Equity-settled share based payments</b>	
Refer to the Audit Committee Report on pages 54 to 56, the estimates and judgements described on pages 69 and 70 and the disclosures on share based payments in Note 19 of the Group financial statements.	
We focused on this area due to the judgements required in estimating the number of share options with performance conditions that will vest as this influences the expense to be recognised in the period.  The achievement of performance conditions relating to share options awarded in 2011 and 2012 are described in the Directors' remuneration report on page 45.	We obtained the terms of share options made to staff and Executive Directors in the current and previous years to understand the performance conditions to be met for the awards to vest.  We reviewed minutes of the Remuneration Committee relating to the achievement of performance conditions to understand the basis on which the estimate of vesting had been made and considered whether the achievement of those conditions was consistent with our knowledge of the group acquired in the course of performing our audit. We tested the calculation of the share based payment expense for the period to confirm that the vesting assumptions had been properly reflected.
<b>Treatment of costs incurred in moving to the main list of the London Stock Exchange and issue of new shares</b>	
Refer to the Audit Committee Report on pages 54 to 56, the Consolidated statement of comprehensive income and the Consolidated and company statements of changes in equity.	
During the year ended 31 July 2015 the Company incurred costs of £1,486,000 in respect of its move to the main list and issue of new shares. £560,000 was attributed to the cost of issuing new shares and deducted from equity and £926,000 was charged to the consolidated statement of comprehensive income.  We focused on this area due to the judgements required in identifying those costs that are incremental and directly attributable to the issue of new shares; these costs are offset against equity whilst all other costs are judged to relate to the listing of existing shares and recognised as an expense.	We obtained contracts and invoices to understand the nature of costs incurred in relation to the move to the main list and issue of new shares to ensure that their disclosure in the financial statements were in compliance with IAS 32.

# Independent auditor's report to the members of Nanoco Group PLC continued

## Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements on our audit and on the financial statements. For the purposes of determining whether the financial statements are free from material misstatement we define materiality as the magnitude of misstatement that makes it probable that the economic decisions of a reasonably knowledgeable person, relying on the financial statements, would be changed or influenced.

We determined materiality for the Group to be £179,000 (2014: £127,000), which is approximately 2% of operating expenses. We measured operating expenses as being research and development and administrative expenses excluding depreciation, amortisation, share-based payments and the costs of admission to the main market. 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.

In the previous year, we used net assets as the basis for calculating materiality due to audit risks relating to going concern and the adequacy of funding. These risks have reduced in the current year due to the funds raised through the Group's placing of equity shares and therefore we concluded that it was appropriate to use an operating measure in determining materiality for the year ended 31 July 2015.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that overall performance materiality (ie our tolerance for misstatement in an individual account or balance) for the Group should be 75% (2014: 75%) of materiality, namely £134,000 (2014: £95,000). 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.

Audit work at individual components is undertaken using a percentage of our total performance materiality. The performance materiality set for each component is based on the relative size of the component and our view of the risk of misstatement at the component. In the current year, the range of performance materiality allocated to components was £27,000 to £134,000.

We agreed with the Audit Committee that we would report to the Committee all differences in excess of £9,000 (2014: £6,000), 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.

## An overview of the scope of our audit

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 which, when taken together, enable us to form an opinion on the consolidated financial statements under International Standards on Auditing (UK and Ireland).

The group's subsidiaries are described in Note 12 to the financial statements. We view the Group as having two components based on geographical location. The group's processes and controls over the key areas of our audit focus 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. In addition, management services are provided by the US based subsidiary. All of our audit procedures were performed by the Group audit team.

We performed full scope audit procedures in respect of the UK component which represented 94% of operating expenses and specific scope procedures in respect of the US component. This was consistent with the approach that we followed in the previous year.

We have obtained an understanding of the entity-level controls of the Group as a whole which assisted us in identifying and assessing risks of material misstatement due to fraud or error, as well as assisting us in determining the most appropriate audit strategy.

### **Opinion 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; and
- 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.

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following:

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- is otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.

Under the Companies Act 2006 we are required 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.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 31, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the ten provisions of the UK Corporate Governance Code specified for our review.

### **Gary Harding (Senior statutory auditor)**

*for and on behalf of Ernst & Young LLP, Statutory Auditor*

Manchester

13 October 2015

### **Notes:**

1. The maintenance and integrity of the Nanoco Group PLC web site is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
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 2015

	Notes	2015 £'000	Restated 2014 £'000
<b>Revenue</b>	<u>4</u>	<b>2,029</b>	1,433
Cost of sales		<b>(316)</b>	(304)
<b>Gross profit</b>		<b>1,713</b>	1,129
Research and development expenses		<b>(5,580)</b>	(4,918)
Administrative expenses		<b>(7,130)</b>	(5,460)
<b>Operating loss</b>			
–before share-based payments and the costs of the move to the main market		<b>(9,452)</b>	(8,676)
–cost of admission to main market		<b>(926)</b>	–
–share-based payments	<u>19</u>	<b>(619)</b>	(573)
	<u>5</u>	<b>(10,997)</b>	(9,249)
Finance income	<u>7</u>	<b>119</b>	194
Finance costs	<u>7</u>	<b>(3)</b>	(5)
<b>Loss on ordinary activities before taxation</b>		<b>(10,881)</b>	(9,060)
Taxation	<u>8</u>	<b>1,906</b>	1,249
<b>Loss for the year and total comprehensive loss for the year</b>		<b>(8,975)</b>	(7,811)
<b>Loss per share</b>			
Basic and diluted loss for the year	<u>9</u>	<b>(4.05)p</b>	( 3.65)p

The loss for the 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 69 to 89 form an integral part of these financial statements.



# Consolidated statement of changes in equity

for the year ended 31 July 2015

	Issued equity capital £'000	Share-based payment reserve £'000	Merger reserve £'000	Revenue reserve £'000	Total £'000
<b>At 31 July 2013</b>	<b>28,054</b>	<b>1,253</b>	<b>(1,242)</b>	<b>(13,671)</b>	<b>14,394</b>
Loss for the year and total comprehensive loss for the year	–	–	–	(7,811)	(7,811)
Issue of share capital	10,000	–	–	–	10,000
Expenses of placing	(263)	–	–	–	(263)
Share-based payments	–	573	–	–	573
<b>At 31 July 2014</b>	<b>37,791</b>	<b>1,826</b>	<b>(1,242)</b>	<b>(21,482)</b>	<b>16,893</b>
Loss for the year and total comprehensive loss for the year	–	–	–	(8,975)	(8,975)
Issue of share capital	20,826	–	–	–	20,826
Expenses of placing	(560)	–	–	–	(560)
Issue of shares by EBT	–	–	–	297	297
Share-based payments	–	619	–	–	619
<b>At 31 July 2015</b>	<b>58,057</b>	<b>2,445</b>	<b>(1,242)</b>	<b>(30,160)</b>	<b>29,100</b>

# Company statement of changes in equity

for the year ended 31 July 2015

	Issued equity capital £'000	Share-based payment reserve £'000	Capital redemption reserve £'000	Revenue reserve £'000	Total £'000
<b>At 31 July 2013</b>	<b>105,922</b>	<b>1,253</b>	<b>4,402</b>	<b>(25,710)</b>	<b>85,867</b>
Profit for the year and total comprehensive profit for the year	–	–	–	39	39
Issue of share capital	10,000	–	–	–	10,000
Expenses of placing	(263)	–	–	–	(263)
Share-based payments	–	573	–	–	573
<b>At 31 July 2014</b>	<b>115,659</b>	<b>1,826</b>	<b>4,402</b>	<b>(25,671)</b>	<b>96,216</b>
Profit for the year and total comprehensive profit for the year	–	–	–	82	82
Issue of share capital	20,826	–	–	–	20,826
Expenses of placing	(560)	–	–	–	(560)
Issue of shares by EBT	–	–	–	297	297
Share-based payments	–	619	–	–	619
<b>At 31 July 2015</b>	<b>135,925</b>	<b>2,445</b>	<b>4,402</b>	<b>(25,292)</b>	<b>117,480</b>

# Statements of financial position

at 31 July 2015

Registered No. 05067291

	Notes	31 July 2015 Group £'000	31 July 2015 Company £'000	31 July 2014 Group £'000	31 July 2014 Company £'000
<b>Assets</b>					
<b>Non-current assets</b>					
Tangible fixed assets	10	2,062	–	2,783	–
Intangible assets	11	1,821	–	1,557	–
Investment in subsidiaries	12	–	66,052	–	65,433
		3,883	66,052	4,340	65,433
<b>Current assets</b>					
Inventories	13	208	–	134	–
Trade and other receivables	14	902	31,866	633	27,500
Income tax asset		1,800	–	1,210	–
Short-term investments and cash on deposit	15	20,000	20,000	5,791	–
Cash and cash equivalents	15	4,311	12	6,391	3,733
		27,221	51,878	14,159	31,233
<b>Total assets</b>		<b>31,104</b>	<b>117,930</b>	<b>18,499</b>	<b>96,666</b>
<b>Liabilities</b>					
<b>Current liabilities</b>					
Trade and other payables	16	1,909	–	1,448	–
Financial liabilities	17	63	–	63	–
		1,972	–	1,511	–
<b>Non-current liabilities</b>					
Financial liabilities	17	32	–	95	–
Other payables	16	–	450	–	450
		32	450	95	450
<b>Total liabilities</b>		<b>2,004</b>	<b>450</b>	<b>1,606</b>	<b>450</b>
<b>Net assets</b>		<b>29,100</b>	<b>117,480</b>	<b>16,893</b>	<b>96,216</b>
<b>Capital and reserves</b>					
Issued equity capital	18	58,057	135,925	37,791	115,659
Share-based payment reserve	19	2,445	2,445	1,826	1,826
Merger reserve	20	(1,242)	–	(1,242)	–
Capital redemption reserve	20	–	4,402	–	4,402
Revenue reserve	21	(30,160)	(25,292)	(21,482)	(25,671)
<b>Total equity</b>		<b>29,100</b>	<b>117,480</b>	<b>16,893</b>	<b>96,216</b>

Approved by the Board and authorised for issue on 13 October 2015.

The notes on pages 69 to 89 form an integral part of these financial statements.

**Dr Michael Edelman**

Director

13 October 2015

# Cash flow statements

For the year ended 31 July 2015

	Notes	31 July 2015 Group £'000	31 July 2015 Company £'000	31 July 2014 Group £'000	31 July 2014 Company £'000
<b>(Loss)/profit before tax</b>		<b>(10,881)</b>	<b>82</b>	(9,060)	39
<i>Adjustments for:</i>					
Net finance income	7	(116)	(58)	(189)	(56)
Depreciation of tangible fixed assets	10	1,106	–	1,181	–
Amortisation of intangible assets	11	269	–	209	–
Share-based payments	19	619	–	573	–
Changes in working capital:					
Increase in inventories		(74)	–	(14)	–
(Increase)/decrease in trade and other receivables		(250)	(24)	256	–
Increase/(decrease) in trade and other payables		580	–	(510)	–
(Decrease)/increase in deferred revenue		(119)	–	7	–
<b>Cash outflow from operating activities</b>		<b>(8,866)</b>	<b>–</b>	(7,547)	(17)
Research and development tax credit received		1,323	–	918	–
Overseas corporation tax paid		(7)	–	(9)	–
<b>Net cash outflow from operating activities</b>		<b>(7,550)</b>	<b>–</b>	(6,638)	(17)
<b>Cash flows from investing activities</b>					
Purchases of tangible fixed assets	10	(385)	–	(494)	–
Purchases of intangible fixed assets	11	(533)	–	(536)	–
Cash advance to subsidiary		–	(4,323)	–	(10,445)
Increase in cash placed on deposit	15	(20,000)	(20,000)	–	–
Decrease in cash placed on deposit	15	5,791	–	385	1,500
Interest received		100	39	237	56
<b>Net cash outflow from investing activities</b>		<b>(15,027)</b>	<b>(24,284)</b>	(408)	(8,889)
<b>Cash flows from financing activities</b>					
Proceeds from issues of ordinary share capital		21,123	21,123	10,000	10,000
Expenses on issue of shares	18	(560)	(560)	(263)	(263)
Interest paid	7	(3)	–	(5)	–
Loan repayment		(63)	–	(63)	–
<b>Net cash inflow from financing activities</b>		<b>20,497</b>	<b>20,563</b>	9,669	9,737
<b>(Decrease)/increase in cash and cash equivalents</b>		<b>(2,080)</b>	<b>(3,721)</b>	2,623	831
Cash and cash equivalents at the start of the year		6,391	3,733	3,768	2,902
<b>Cash and cash equivalents at the end of the year</b>		<b>4,311</b>	<b>12</b>	6,391	3,733
Monies placed on deposit at the end of the year		20,000	20,000	5,791	–
<b>Cash, cash equivalents and deposits at the end of the year</b>	15	<b>24,311</b>	<b>20,012</b>	12,182	3,733

The notes on pages 69 to 89 form an integral part of these financial statements.

# Notes to the financial statements

## 1. Reporting entity

Nanoco Group PLC ("the Company") is on the premium list of the London Stock Exchange and is incorporated and domiciled in the UK.

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 2015.

The financial statements of Nanoco Group PLC and its subsidiaries (the "Group") for the year ended 31 July 2015 were authorised for issue by the Board of Directors on 13 October 2015 and the Statement of financial position was 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 Parent Company's result for the period ended 31 July 2015 was a profit of £82,000 (2014: profit of £39,000). There were no other recognised gains or losses in either the current or prior year.

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 financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") and International Financial Reporting Committee ("IFRC") interpretations as they apply to the financial statements of the Group for the period ended 31 July 2015.

### (b) Basis of measurement

The Parent Company and Group financial statements have been prepared on the historical cost basis.

The methods used to measure fair values of assets and liabilities are discussed in the respective notes in note 3 below.

### (c) Going concern

The Chairman's and Chief Executive Officer's review on pages 4 to 13 outlines the business activities of the Group along with the factors which may affect its future development and performance. The Group's financial position is discussed in the Financial review on pages 14 and 15 along with details of its cash flow and liquidity. Note 23 to the financial statements sets out the Group's financial risks and the management of those risks.

Having prepared management forecasts and made appropriate enquiries, the Directors are satisfied that the Group has adequate resources for the foreseeable future. Accordingly they have continued to adopt the going concern basis in preparing the Group and Company financial statements.

### (d) Functional and presentational currency

These financial statements are presented in pounds sterling, which is the Company's functional currency. All financial information presented has been rounded to the nearest thousand.

### (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; 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 and to the future volatility of the future share price factor. Further information is included in note 3.

## Notes to the financial statements continued

### 2. Basis of preparation continued

- **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 8.

- **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.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that 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 19). 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.

### 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 (ie 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 the 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.

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 (ie, discount on acquisition) is recognised directly in the consolidated statement of comprehensive income.

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.



### 3. Significant accounting policies continued

#### (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 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.

#### (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 and individual project development programmes, 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, either revenue has not been paid, or 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 or when contractual rights for the customer to recoup such payments have lapsed.

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 (rendering of services) revenue in the consolidated statement of comprehensive income in line with the terms of the underlying grant agreement.

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

#### (f) Cost of sales

Historically, the Company has disclosed all R&D materials as cost of sales and included all R&D labour costs within administrative expenses.

As the revenue from product sales begins to come on stream and with the aim of providing greater transparency, the Company now sets out to disclose as cost of sales, those materials, labour and ancillary costs attributable to product sales and to government grants included within revenue from the rendering of services.

Accordingly the comparatives have been restated and the figure previously reported as cost of sales has been reduced by £1,259,000 and the aggregate sum of administrative expenses and research and development expenses increased by an equivalent amount; with administrative expenses increasing by £1,518,000 and R&D expenses being reduced by £259,000. There has been no impact on the reported loss for the year.

In the current period cost of sales has reduced by £977,000 and the aggregate sum of administrative expenses and research and development expenses increased by an equivalent amount, with administrative expenses increasing by £1,293,000 and R&D expenses being reduced by £316,000. There is no impact on the reported loss for the year.

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

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.

## Notes to the financial statements continued

### 3. Significant accounting policies continued

#### (g) 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.

#### (h) 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.

#### (i) Finance income and expense

Finance income comprises interest income on funds invested. 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.

#### (j) 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 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 nor 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 substantially enacted by the 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 or 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

#### (k) *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
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 de-recognised 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 de-recognition of the asset is included in the consolidated statement of comprehensive income in the period of de-recognition.

#### (l) *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 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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#### (m) *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, these calculations 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 re-valued 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, equipment and intangible assets as at the reporting date have not been subjected to impairment charges.

## Notes to the financial statements continued

### 3. Significant accounting policies continued

#### (n) Investments in subsidiaries

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

#### (o) 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.

#### (p) 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 uncollectible, it is written off against the allowance account for trade receivables.

#### (q) 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.

#### (r) 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.

#### (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

The Employee Benefit Trust is consolidated in the financial statements and the shares are reported as treasury shares in the Group's Statement of financial position. Shares are treated as though they had been cancelled when calculating earnings per share until such time that the shares are exercised.

#### (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.

**3. Significant accounting policies** continued**(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 new and amended IFRS, IAS and IFRIC interpretations were mandatory for accounting periods ending 31 July 2015 and thereafter, but have no material effect on the Group's financial statements.

- IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements
- IFRS 11 Joint Arrangements, IAS 28 Investments in Associates and Joint Ventures
- IFRS 12 Disclosure of Interests in Other Entities
- IFRS 10, IFRS 12 and IAS 27 Investment Entities – Amendments to IFRS 10, IFRS 12 and IAS 27
- IAS 32 Offsetting Financial Assets and Financial Liabilities (Amendments)
- IAS 36 Recoverable Amount Disclosures for Non-Financial Assets (Amendments)
- IAS 39 Novation of Derivatives and Continuation of Hedge Accounting (Amendments)
- Annual Improvements to IFRSs 2010 to 2012 Cycle (endorsed for use in the EU on 17 and 18 December 2014)
- Annual Improvements to IFRSs 2011 to 2013 Cycle (endorsed for use in the EU on 17 and 18 December 2014)

A number of new standards, amendments to standards and interpretations are effective for annual periods ending 31 July 2016 or thereafter and have not been applied in preparing these consolidated financial statements and those that are relevant to the Group are summarised below. None of these are expected to have a significant effect on the consolidated financial statements of the Group in the period of initial application.

The following standards and interpretations have an effective date after the date of these financial statements.

	Effective date
IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28	1 January 2016
IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception – Amendments to IFRS 10, IFRS 12 and IAS 28	1 January 2016
IFRS 11 Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
IAS 1 Disclosure Initiative – Amendments to IAS 1	1 January 2016
IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38	1 January 2016
IAS 27 Equity Method in Separate Financial Statements – Amendments to IAS 27	1 January 2016
IFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRS 9 Financial Instruments (issued in 2013)	1 January 2018
Annual Improvements to IFRSs 2012 to 2014 Cycle	1 January 2016

**4. Segmental information****Operating segments**

At 31 July 2015 the Group operated as one segment, being the provision of high performance nanoparticles for research and development purposes. This is the level at which operating results are reviewed by the chief operating decision maker (ie the Chief Executive) to make decisions about resources, and for which financial information is available. From 1 August 2015, the manner in which operating results are reported to the CEO have been revised and now isolate those of the newly formed lighting division. All revenues have been generated from continuing operations and are from external customers.

	31 July 2015 £'000	31 July 2014 £'000
<i>Analysis of revenue</i>		
Products sold	445	178
Rendering of services	353	1,255
Royalties and licences	1,231	–
	<b>2,029</b>	<b>1,433</b>

Included within rendering of services is revenue from one material customer amounting to £106,000 (2014: one material customer amounting to £754,000) and £129,000 (2014: £184,000) from government grants. Revenue from royalties and licences is from one material customer (2014: there was no revenue from royalties and licences).

# Notes to the financial statements continued

## 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 2015 £'000	31 July 2014 £'000
Revenue		
UK	130	159
Europe (excluding UK)	–	26
Asia	395	1,139
USA	1,504	109
	<b>2,029</b>	<b>1,433</b>

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

## 5. Operating loss

	31 July 2015 £'000	Restated 31 July 2014 £'000
The Group		
<b>Operating loss is stated after charging/(crediting):</b>		
Depreciation of tangible fixed assets (see note 10)	1,106	1,181
Amortisation of intangible assets (see note 11)	269	209
Staff costs (see note 6)	6,242	5,107
Foreign exchange (gains)/losses	(27)	4
Research and development expense**	5,580	4,918
Cost of inventories recognised as an expense (included in cost of sales)	106	47
Operating lease rentals (see note 22):		
Land and buildings	684	674
<b>Auditor's remuneration:</b>		
Audit services:		
– Fees payable to Company auditor for the audit of the Parent and the consolidated accounts	17	10
– Auditing the accounts of subsidiaries pursuant to legislation	20	19
Fees payable to Company auditor for other services:		
– Services in connection with the Company's move to the main market	173	–
– Other services	–	2
<b>Total auditor's remuneration</b>	<b>210</b>	<b>31</b>

\*\* Included within research and development expenses are staff costs totalling £4,150,000 (Restated 2014: £3,229,000) also included in note 6.

## 6. Staff costs

	31 July 2015 £'000	31 July 2014 £'000
Wages and salaries	4,833	3,777
Social security costs	508	424
Pension contributions	282	333
Share-based payments	619	573
	<b>6,242</b>	<b>5,107</b>
<b>Directors' remuneration (including benefits in kind) included in the aggregate remuneration above comprised:</b>		
Emoluments for qualifying services	1,012	749

Directors' emoluments (excluding social security costs and long-term incentives, but including benefits in kind) disclosed above include £322,000 paid to the highest paid Director (2014: £293,000).

Aggregate gains made by Directors during the year following the exercise of share options and jointly owned EBT shares were £27,000 (2014: £nil).



## 6. Staff costs continued

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:

The Group	31 July 2015 Number	31 July 2014 Number
Directors	8	7
Laboratory and administrative staff	101	97
	<b>109</b>	<b>104</b>

## 7. Finance income and expense

The Group	31 July 2015 £'000	31 July 2014 £'000
<i>Finance income:</i>		
Bank interest receivable	119	194
<i>Finance expense:</i>		
Loan interest payable	(3)	(5)
	<b>116</b>	<b>189</b>

Bank interest receivable includes £44,000 (2014: £25,000) which is receivable after the year end.

## 8. Income tax

The tax credit is made up as follows:

The Group	31 July 2015 £'000	31 July 2014 £'000
<i>Current income tax:</i>		
UK corporation tax losses in the year	–	–
Research and development income tax credit receivable	(1,800)	(1,210)
Adjustment in respect of prior years	(113)	(48)
Overseas corporation tax	7	9
<b>Total current income tax</b>	<b>(1,906)</b>	<b>(1,249)</b>

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 2014 was submitted in January 2015 and repayment received in February 2015.

The tax assessed for the year varies from the standard rate of corporation tax as explained below:

The Group	31 July 2015 £'000	31 July 2014 £'000
Loss on ordinary activities before taxation	(10,881)	(9,060)
Tax at standard rate of 20.67% (2014: 22.33%)	(2,249)	(2,023)
<i>Effects of:</i>		
Expenses not deductible for tax purposes	194	43
Additional reduction for research and development expenditure	(1,456)	(1,390)
Surrender of research and development relief for repayable tax credit	2,609	2,471
Research and development tax credit receivable	(1,800)	(1,210)
Share options exercised (CTA 2009 Pt 12 deduction)	(155)	–
Overseas corporation tax	7	9
Losses and share-based payment charges carried forward not recognised in deferred tax	1,001	934
Adjustment in respect of prior years	(113)	(48)
Effect of changes in tax rate/other adjustments	56	35
<b>Tax credit in income statement</b>	<b>(1,906)</b>	<b>(1,249)</b>

The Group has accumulated losses available to carry forward against future trading profits of £19.2 million (2014: £15.3 million).

## Notes to the financial statements continued

### 8. Income tax continued

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

	31 July 2015 £'000	31 July 2014 £'000
Accelerated capital allowances	336	464
Share-based payments	(336)	(464)
Tax losses	–	–
	–	–

The Group also has deferred tax assets, measured at a standard rate of 20% (2014: 20%) in respect of share-based payments of £247,000 (2014: £18,000) and tax losses of £3,842,000 (2014: £3,070,000) which have not been recognised as an asset as it is not probable that future taxable profits will be available against which the assets can be utilised.

### 9. Earnings per share

	31 July 2015 £000	31 July 2014 £'000
The Group		
Loss for the financial year attributable to equity shareholders	(8,975)	(7,811)
Cost of the move to the main market	926	–
Share-based payments	619	573
Loss for the financial year before the cost of the move to the main market and share-based payments	(7,430)	(7,238)

#### Weighted average number of shares:

Ordinary shares in issue	221,360,893	214,248,996
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#### Adjusted loss per share before the cost of the move to the main market and share-based payments (pence)

(3.36)	(3.38)
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#### Basic loss per share (pence)

(4.05)	(3.65)
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Diluted loss per share has not been presented above as the effect of share options issued is anti-dilutive.

### 10. Property, plant and equipment

	Laboratory infrastructure £'000	Office equipment, fixtures and fittings £'000	Plant and machinery £'000	Total £'000
The Group				
Cost:				
<b>At 31 July 2013</b>	<b>2,431</b>	<b>390</b>	<b>3,991</b>	<b>6,812</b>
Additions	70	35	389	494
Disposals	–	(117)	–	(117)
<b>At 31 July 2014</b>	<b>2,501</b>	<b>308</b>	<b>4,380</b>	<b>7,189</b>
Additions	77	36	272	385
Disposals	–	(114)	–	(114)
<b>At 31 July 2015</b>	<b>2,578</b>	<b>230</b>	<b>4,652</b>	<b>7,460</b>
Depreciation:				
<b>At 31 July 2013</b>	<b>1,274</b>	<b>271</b>	<b>1,797</b>	<b>3,342</b>
Provided during the year	371	75	735	1,181
Eliminated on disposal	–	(117)	–	(117)
<b>At 31 July 2014</b>	<b>1,645</b>	<b>229</b>	<b>2,532</b>	<b>4,406</b>
Provided during the year	362	46	698	1,106
Eliminated on disposal	–	(114)	–	(114)
<b>At 31 July 2015</b>	<b>2,007</b>	<b>161</b>	<b>3,230</b>	<b>5,398</b>
Net book value:				
<b>At 31 July 2015</b>	<b>571</b>	<b>69</b>	<b>1,422</b>	<b>2,062</b>
At 31 July 2014	856	79	1,848	2,783

## 11. Intangible assets

The Group	Patents £'000
Cost:	
<b>At 31 July 2013</b>	<b>1,734</b>
Additions	536
<b>At 31 July 2014</b>	<b>2,270</b>
Additions	533
<b>At 31 July 2015</b>	<b>2,803</b>
Amortisation:	
<b>At 31 July 2013</b>	<b>504</b>
Provided during the year	209
<b>At 31 July 2014</b>	<b>713</b>
Provided during the year	269
<b>At 31 July 2015</b>	<b>982</b>
Net book value:	
<b>At 31 July 2015</b>	<b>1,821</b>
At 31 July 2014	1,557

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 is material to the business.

## 12. Investment in subsidiaries

The Company	Shares £'000	Loans £'000	Loan impairment £'000	Total £'000
<b>At 31 July 2013</b>	<b>63,235</b>	<b>21,911</b>	<b>(20,286)</b>	<b>64,860</b>
Increase in respect of share-based payments	–	573	–	573
<b>At 31 July 2014</b>	<b>63,235</b>	<b>22,484</b>	<b>(20,286)</b>	<b>65,433</b>
Increase in respect of share-based payments	–	619	–	619
<b>At 31 July 2015</b>	<b>63,235</b>	<b>23,103</b>	<b>(20,286)</b>	<b>66,052</b>
By subsidiary				
Nanoco Tech Limited	63,235	–	–	63,235
Nanoco Life Sciences Limited	–	20,286	(20,286)	–
Nanoco Technologies Limited	–	2,817	–	2,817
<b>At 31 July 2015</b>	<b>63,235</b>	<b>23,103</b>	<b>(20,286)</b>	<b>66,052</b>

Loans to subsidiary undertakings carry no interest and are repayable on demand. Further information in relation to these loans is given in note 24.

			Share of issued ordinary share capital	
Subsidiary undertakings	Country of incorporation	Principal activity	31 July 2015	31 July 2014
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	Research and development of nanoparticles	100%	100%
Nanoco US Inc.**	USA	Management services	100%	100%

With the exception of the companies noted 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.

## Notes to the financial statements continued

### 13. Inventories

	31 July 2015 Group £'000	31 July 2015 Company £'000	31 July 2014 Group £'000	31 July 2014 Company £'000
Raw materials and consumables	208	–	134	–

### 14. Trade and other receivables

	31 July 2015 Group £'000	31 July 2015 Company £'000	31 July 2014 Group £'000	31 July 2014 Company £'000
Trade receivables	107	–	116	–
Prepayments	430	43	375	–
Inter-company short-term loan to subsidiary	–	31,823	–	27,500
Other receivables	365	–	142	–
	902	31,866	633	27,500

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value.

Trade receivables are denominated in the following currency:

	31 July 2015 Group £'000	31 July 2015 Company £'000	31 July 2014 Group £'000	31 July 2014 Company £'000
US Dollars	106	–	116	–
Sterling	1	–	–	–
	107	–	116	–

At 31 July the analysis of trade receivables that were past due but not impaired was as follows:

	Total £'000	Neither past due nor impaired £'000	Past due but not impaired >90 days £'000	Past due but not impaired 120 to 150 days £'000
2015	107	107	–	–
2014	116	89	18	9

### 15. Cash, cash equivalents and deposits

	31 July 2015 Group £'000	31 July 2015 Company £'000	31 July 2014 Group £'000	31 July 2014 Company £'000
Short-term investments and cash on deposit	20,000	20,000	5,791	–
Cash and cash equivalents	4,311	12	6,391	3,733
	24,311	20,012	12,182	3,733

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 2015 include deposits with original maturity of three months or less of £4,311,000 (2014: £6,391,000).

An analysis of cash, cash equivalents and deposits by denominated currency is given in note 23.

## 16. Trade and other payables

	31 July 2015 Group £'000	31 July 2015 Company £'000	31 July 2014 Group £'000	31 July 2014 Company £'000
<b>Current</b>				
Current payables	862	–	760	–
Other payables	137	–	98	–
Deferred revenue	–	–	119	–
Accruals	910	–	471	–
	<b>1,909</b>	<b>–</b>	<b>1,448</b>	<b>–</b>
<b>Non-current</b>				
Long-term loan from subsidiary	–	450	–	450
	<b>–</b>	<b>450</b>	<b>–</b>	<b>450</b>

The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

## 17. Financial liabilities

	31 July 2015 Group £'000	31 July 2015 Company £'000	31 July 2014 Group £'000	31 July 2014 Company £'000
<b>Other loan:</b>				
Current	63	–	63	–
Non-current	32	–	95	–
	<b>95</b>	<b>–</b>	<b>158</b>	<b>–</b>

The Directors consider that the carrying amount of financial liabilities approximate to their fair value, in so far as this is an arm's length transaction taken out at a market rate of interest.

The loan is unsecured, bears interest at 2% above base rate, is repayable in quarterly instalments and will be fully repaid in 2017.

## 18. Issued equity capital

The Group	Number	Share capital £'000	Share premium £'000	Reverse acquisition reserve £'000	Total £'000
<i>Allotted, called up and fully paid ordinary shares of 10 pence:</i>					
<b>As at 31 July 2013</b>	<b>210,161,009</b>	<b>21,016</b>	<b>84,906</b>	<b>(77,868)</b>	<b>28,054</b>
Shares issued in placing	6,369,427	637	9,363	–	10,000
Expenses of placing	–	–	(263)	–	(263)
<b>As at 31 July 2014</b>	<b>216,530,436</b>	<b>21,653</b>	<b>94,006</b>	<b>(77,868)</b>	<b>37,791</b>
Shares issued on exercise of options	1,499,523	150	676	–	826
Shares issued in placing	19,047,619	1,905	18,095	–	20,000
Expenses of placing	–	–	(560)	–	(560)
<b>As at 31 July 2015</b>	<b>237,077,578</b>	<b>23,708</b>	<b>112,217</b>	<b>(77,868)</b>	<b>58,057</b>

The Company raised gross proceeds of £20,000,000 from a placing on 1 May 2015 through the issue of 19,047,619 new ordinary shares at an issue price of 105 pence per share. Issue costs associated with the placing totalled £560,000.

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

### 18. Issued equity capital continued

#### Shares issued on exercise of options

The Company issued 784,947 shares on 22 October 2014, 15,000 shares on 5 November 2014 and a further 699,576 on 26 June 2015 on the exercise of options, the shares issued had an average exercise price of 55.1 pence (2014: no shares were issued on the exercise of options).

The Company	Number	Share capital £'000	Share premium £'000	Total £'000
<i>Allotted, called up and fully paid ordinary shares of 10 pence:</i>				
<b>As at 31 July 2013</b>	<b>210,161,009</b>	<b>21,016</b>	<b>84,906</b>	<b>105,922</b>
Shares issued in placing	6,369,427	637	9,363	10,000
Expenses of placing	–	–	(263)	(263)
<b>As at 31 July 2014</b>	<b>216,530,436</b>	<b>21,653</b>	<b>94,006</b>	<b>115,659</b>
Shares issued on exercise of options	1,499,523	150	676	826
Shares issued in placing	19,047,619	1,905	18,095	20,000
Expenses of placing	–	–	(560)	(560)
<b>As at 31 July 2015</b>	<b>237,077,578</b>	<b>23,708</b>	<b>112,217</b>	<b>135,925</b>

### 19. Share-based payment reserve

The Group and Company	£'000
At 31 July 2013	1,253
Share-based payments	573
<b>At 31 July 2014</b>	<b>1,826</b>
Share-based payments	619
<b>At 31 July 2015</b>	<b>2,445</b>

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 £619,000 has been recognised in the consolidated statement of comprehensive income for the year (2014: £573,000).

#### Share option schemes

The Group operates the following share option schemes all of which are operated as Enterprise Management Incentive ("EMI") schemes in so far 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 Tech Share Incentive Plan

Share options issued under the Nanoco Tech Share Incentive Plan had been issued to staff who were employed by Nanoco Tech Limited in the period from 1 September 2006 up to the date of the reverse take-over on 1 May 2009. These options were conditional on achievement of share price performance criteria and either a sale or listing of the Company. All of the relevant vesting conditions have been successfully met and options are capable of being exercised at any time from 1 August 2010 to 31 August 2016. Following the reverse take-over the number of share options in issue were increased in line with the terms of the reverse acquisition by a factor of 4.55 times and the exercise price decreased by 4.55 times. This was reflected as a reverse acquisition adjustment in the 2009 accounts.

As at 31 July 2015 no share options remain exercisable under the Nanoco Tech Share Incentive Plan.



## 19. Share-based payment reserve continued

### *Share option schemes* continued

#### 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 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 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 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 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 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. Exercise of the award is subject to the employee remaining a full time member of staff at the point of exercise. 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 have been amended so as to be in line with the new LTIPs scheme. Exercise of the award is subject to the employee remaining a full time member of staff at the point of exercise.

##### – 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. These options vest over a three-year period from the date of grant and are exercisable until the tenth anniversary of the award. Exercise of the award is subject to the employee remaining a full time member of staff at the point of exercise. 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 has 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 are capable of being exercised at any time until 31 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.

# Notes to the financial statements continued

## 19. Share-based payment reserve continued

### Share option schemes continued

The Group and Company	Share options Number	EBT Number	2015 total Number	2014 total Number
Outstanding at 1 August	13,373,756	850,500	14,224,256	13,915,256
Granted during the year	380,000	–	380,000	444,000
Exercised during the year	(1,499,523)	(320,411)	(1,819,934)	–
Forfeited/cancelled	(250,000)	–	(250,000)	(135,000)
<b>Outstanding at 31 July</b>	<b>12,004,233</b>	<b>530,089</b>	<b>12,534,322</b>	<b>14,224,256</b>
Exercisable at 31 July	8,721,900	530,089	9,251,989	4,968,590

### Weighted average exercise price of options

The Group and Company	2015 Pence	2014 Pence
Outstanding at 1 August	54.4	56.8
Granted during the year	10.0	89.0
Exercised during the year	61.7	–
Forfeited/cancelled	57.0	113.2
<b>Outstanding at 31 July</b>	<b>51.9</b>	<b>54.4</b>

The weighted average fair value of options granted during the year to 31 July 2015 was 10 pence (2014: 89 pence). The range of exercise prices for options and jointly owned EBT shares outstanding at the end of the year was nil–146 pence, (2014: nil–146 pence).

For the share options outstanding as at 31 July 2015, the weighted average remaining contractual life is 6.8 years (2014: 7.6 years).

The weighted average share price at the date of exercise for those share options exercised during the year to 31 July 2015 was 109 pence (2014: no share options exercised).

The following table lists the inputs to the models used for the years ended 31 July 2015 and 31 July 2014.

The Group and Company	Performance linked grants		Non-performance linked grants	
	2015	2014	2015	2014
Expected volatility (%)	55%	n/a	n/a	56%
Risk-free interest rate (%)	1.78%	n/a	n/a	1.84%
Expected life of options (year's average)	3 years	n/a	n/a	3 years
Weighted average exercise price (pence)	10.0	n/a	n/a	89.0
Weighted average share price at date of grant (pence)	147.0	n/a	n/a	89.0
Model used	Binomial	n/a	n/a	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.

No other features of options granted were incorporated into the measurement of fair value.

## 20. Merger reserve and capital redemption reserve

### Merger reserve

The Group	£'000
At 31 July 2013, 31 July 2014 and 31 July 2015	(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 re-organisation on 27 June 2007.

## 20. Merger reserve and capital redemption reserve continued

### Capital redemption reserve

The Company	£'000
At 31 July 2013, 31 July 2014 and 31 July 2015	4,402

The capital redemption reserve arises from the off-market purchase of deferred shares on 4 May 2005 and their subsequent cancellation.

## 21. Movement in revenue reserve and treasury shares

The Group	Retained deficit £'000	Treasury shares £'000	Total revenue reserve £'000
<b>As at 31 July 2013</b>	<b>(13,277)</b>	<b>(394)</b>	<b>(13,671)</b>
Loss for the year	(7,811)	–	(7,811)
<b>As at 31 July 2014</b>	<b>(21,088)</b>	<b>(394)</b>	<b>(21,482)</b>
Issue of shares by EBT	–	297	297
Loss for the year	(8,975)	–	(8,975)
<b>As at 31 July 2015</b>	<b>(30,063)</b>	<b>(97)</b>	<b>(30,160)</b>

No jointly owned EBT shares were granted during the year (2014: no shares).

During the year, 320,411 jointly owned EBT shares were exercised for an aggregate consideration of £297,000 (2014: no shares).

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 2015 530,089 shares in the Company were held by the EBT (2014: 850,500). In addition there are 12,222 (2014: 12,222) treasury shares not held by the EBT.

The Company	Retained deficit £'000	Treasury shares £'000	Total revenue reserve £'000
<b>At 31 July 2013</b>	<b>(25,316)</b>	<b>(394)</b>	<b>(25,710)</b>
Profit for the year	39	–	39
<b>At 31 July 2014</b>	<b>(25,277)</b>	<b>(394)</b>	<b>(25,671)</b>
Issue of shares by the EBT	–	297	297
Profit for the year	82	–	82
<b>At 31 July 2015</b>	<b>(25,195)</b>	<b>(97)</b>	<b>(25,292)</b>

## 22. 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 2015 Group £'000	31 July 2014 Group £'000
Land and buildings:		
Not later than one year	723	584
After one year but not more than five years	1,752	1,722
After five years	614	1,002
	<b>3,089</b>	<b>3,308</b>

# Notes to the financial statements continued

## 23. 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 18, 19, 20 and 21 and in the Group statement of changes in equity. Total equity was £29,100,000 at 31 July 2015 (£16,893,000 at 31 July 2014).

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.

### Categorisation of financial instruments

Financial assets/(liabilities)	Loans and receivables £'000	Financial liabilities at amortised cost £'000	Group £'000	Company £'000
<b>31 July 2015</b>				
Trade receivables	107	–	107	–
Inter-company short-term loan to subsidiary	–	–	–	31,823
Short-term investments and cash on deposit	20,000	–	20,000	20,000
Trade and other payables*	–	(1,909)	(1,909)	–
Inter-company long-term loan from subsidiary	–	–	–	(450)
Financial liabilities	–	(95)	(95)	–
	<b>20,107</b>	<b>(2,004)</b>	<b>18,103</b>	<b>51,373</b>
<b>31 July 2014</b>				
Trade receivables	116	–	116	–
Inter-company short-term loan to subsidiary	–	–	–	27,500
Short-term investments and cash on deposit	5,791	–	5,791	–
Trade and other payables*	–	(1,329)	(1,329)	–
Inter-company long-term loan from subsidiary	–	–	–	(450)
Financial liabilities	–	(158)	(158)	–
	<b>5,907</b>	<b>(1,487)</b>	<b>4,420</b>	<b>27,050</b>

\* Excluding deferred revenue.

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.

### 23. Financial risk management continued

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.

Other loans (note 17) are subject to interest at base rate plus 2%, however as the Group's cash deposits which attract interest at rates set for the period of the respective deposit, are of a greater amount, any increase in base rate and thus interest payable are more than offset by higher interest income.

#### 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 on-going 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 14, 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 2015 or at 31 July 2014.

The split of Group assets between Sterling and other currencies at the year end is analysed as follows:

	31 July 2015			31 July 2014		
	GBP £'000	USD £'000	Total £'000	GBP £'000	USD £'000	Total £'000
The Group						
Cash, cash equivalents and deposits	24,271	40	24,311	12,032	150	12,182
Trade receivables	1	106	107	—	116	116
Trade payables	(767)	(95)	(862)	(629)	(131)	(760)
	23,505	51	23,556	11,403	135	11,538

#### Sensitivity analysis to movement in exchange rates

The following table demonstrates the sensitivity to a reasonably possible change in Sterling against the US Dollar exchange rate with all other variables held constant, on the Group's loss before tax (due to foreign exchange translation of monetary assets and liabilities) and the Group's equity.

Increase/(decrease) in Sterling vs. US Dollar rate %	Impact on loss before tax and Group equity 2015 £'000	Impact on loss before tax and Group equity 2014 £'000
10%	(4)	(12)
5%	(2)	(6)
(5)%	3	7
(10)%	6	15

## Notes to the financial statements continued

### 23. Financial risk management continued

#### 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 the result of interest-bearing cash and cash equivalent balances held as set out below:

	31 July 2015			31 July 2014		
	Fixed rate £'000	Floating rate £'000	Total £'000	Fixed rate £'000	Floating rate £'000	Total £'000
The Group						
Cash, cash equivalents and deposits	20,000	4,311	24,311	11,996	186	12,182
The Company						
Cash, cash equivalents and deposits	20,000	12	20,012	3,733	—	3,733

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 2015 based on contractual undiscounted payments including contractual interest.

	Less than 1 year £'000	1 to 5 years £'000	Greater than 5 years £'000	Total £'000
2015				
<b>Financial liabilities</b>				
Trade and other payables*	1,909	—	—	1,909
Other loans (including contractual interest)	65	33	—	98
	1,974	33	—	2,007
2014				
<b>Financial liabilities</b>				
Trade and other payables*	1,329	—	—	1,329
Other loans (including contractual interest)	65	101	—	166
	1,394	101	—	1,495

\* Excluding deferred revenue.

Trade and other payables are due within three months.

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.



## 24. 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 2015 £'000	31 July 2014 £'000
<b>Long-term loans owed to Nanoco Group PLC by:</b>			
Nanoco Life Sciences Limited		20,286	20,286
Nanoco Technologies Limited*		2,817	2,198
	12	23,103	22,484
Less provision against debt owed by Nanoco Life Sciences Limited	12	(20,286)	(20,286)
		2,817	2,198
<b>Short-term loan owed to Nanoco Group PLC by:</b>			
Nanoco Technologies Limited**	14	31,823	27,500
<b>Long-term loan owed by Nanoco Group PLC to:</b>			
Nanoco Tech Limited	16	(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 is interest bearing.

## 25. Compensation of key management personnel (including Directors)

	2015 £'000	2014 £'000
Short-term employee benefits	1,228	624
Pension costs	98	204
Benefits in kind	6	64
Share-based payments	405	180
	1,737	1,072

# Investor information

## Directors

Anthony Clinch	(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 Peter Rowley	(Non-executive Director)
Gordon Hall	(Non-executive Director)
Robin Williams	(Non-executive Director)
Brendan Cummins	(Non-executive Director)

## Secretary

David Blain

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# Notes

## Notes



