

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

Preliminary Results for the year ended 31 July 2020

Nanoco Group plc (LSE: NANO), a world leader in the development and manufacture of cadmium-free quantum dots and other specific nanomaterials emanating from its technology platform, is pleased to announce its Preliminary Results for the year ended 31 July 2020.

Operational highlights

- New contracts with ST Microelectronics to develop novel materials for infra-red sensing and other customers for display applications
- Business restructured to focus resources and reduce monthly cash costs by 50%
- Commenced legal action against Samsung for the alleged wilful infringement of the Group's IP
- Secured substantial Litigation Funding Agreement with third party for Samsung lawsuit
- Over-subscribed equity fundraise that facilitated participation from retail investors

Financial highlights

- Cash runway extended to December 2022, providing opportunity to re-build organic value
- Adjusted operating loss reduced despite 46% reduction in revenue
- Cash of £5.2 million at year end with net monthly burn rate reduced to c. £0.3 million

Dr Christopher Richards, Nanoco's Chairman, commented on the results:

"This has been a year of substantial change for Nanoco. We finished the year with new leadership and a more focused team, poised to win new business in our core target sectors. This new focus was strongly endorsed by our shareholders, who supported the raising of £3.4 million in new equity.

"As we closed the year, a number of small but significant commercial wins were added to our existing agreements with ST Microelectronics ("ST Micro"), including new applications in the sensing and display sectors, to give £1.0 million of contracted revenues for FY21.

"The launch of litigation proceedings against Samsung was an important step to protect our IP. The funding we subsequently achieved for that litigation is both critical to facilitating a successful outcome while also being a strong third party endorsement of the strength of our case.

"We have taken decisive action to reduce our cost base, starting by reducing the cost of the Board, while retaining our key operational capabilities. In combination with the equity fundraise, the actions we have taken have significantly extended the cash runway for the Group to December 2022. This creates significant optionality for shareholders, whether in re-building the organic value of the business or in the Samsung lawsuit."

Analyst meeting and webcast details

To listen to a webcast of the analyst briefing, please log on to the following web address approximately five minutes before 9:00am on 13 October 2020: <https://webcasting.brrmedia.co.uk/broadcast/5f745915c4d0076f2b939da0>

A recording of the webcast will also be made available on Nanoco's website, www.nanocotechnologies.com, later today.

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Notes for editors:

About Nanoco Group plc

Nanoco (LSE: NANO) harnesses the power of nano-materials. Nano-materials are materials with dimensions typically in the range 1 – 100 nm. Nano-materials have a range of useful properties, including optical and electronic. Quantum dots are a subclass of nano-material that have size-dependent optical and electronic properties. The Group produces quantum dots.

Within the sphere of quantum dots, the Group exploits different characteristics of the quantum dots to target different performance criteria that are attractive to specific markets or end-user applications such as the Display and Electronics markets. One of the interesting properties of quantum dots is photoluminescence: the emission of longer wavelength light upon excitation by light of a shorter wavelength. The colour of light emitted depends on the particle size. Nanoco's CFQD® quantum dots are free of cadmium and other toxic heavy metals, and can be tuned to emit light at different wavelengths across the visible and infrared spectrum, rendering them useful for a wide range of applications including displays, lighting and biological imaging.

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

Nanoco is listed on the Main Market of the London Stock Exchange and trades under the ticker symbol NANO. For further information please visit: www.nanocogroup.com.

Chairman's statement

This has been a year of substantial change for Nanoco. We finished the year with new leadership and a more focused team, poised to win new business in our core target sectors. This new focus was strongly endorsed by our shareholders, who supported the raising of £3.4 million in new equity.

As we closed the year, a number of small but significant commercial wins were added to our existing agreements with ST Microelectronics ("ST Micro"), including new applications in the sensing and display sectors, to give £1.0 million of contracted revenues for FY21.

We successfully completed the final deliverables for the US Customer in December 2019. While it was disappointing that the contract was not extended, we developed new materials and a new production facility that we will leverage in future opportunities.

The launch of litigation proceedings against Samsung was an important step to protect our IP. The funding we subsequently achieved for that litigation is both critical to facilitating a successful outcome while being a strong third party endorsement of the strength of our case.

We have taken decisive action to reduce our cost base, starting by reducing the cost of the Board, while retaining our key operational capabilities. In combination with the equity fundraise, the actions we have taken have significantly extended the cash runway for the Group to December 2022. This creates significant optionality for shareholders, whether in re-building the organic value of the business or in the Samsung lawsuit.

Strategy and business activity

Nanoco's platform technology remains our key strategic focus (our "dot only" strategy). Following a strategic review, we decided to focus on a limited number of opportunities where our core capabilities give us the largest competitive edge.

We are therefore prioritising sensing and display applications with short-term commercial prospects. We are also exploiting the assets we generated during the relationship with the US Customer in the electronics industry. Our new five-year agreement with ST Micro creates multiple routes to leverage value from those assets and know-how.

By using the outstanding skills of our technical teams, we continue to move deeper into the sensing and display fields where our nanomaterials can offer real competitive advantage.

We continue to explore alternative partnership arrangements with various parties to increase channels to market and penetration in certain strategic territories. Engagement also continues with existing and former licence partners.

Samsung litigation

Extensive efforts over the previous 12 months led to the Group filing a lawsuit on 14 February 2020 against Samsung for what we allege to be wilful infringement of our IP in a number of key areas. This was a necessary step to protect our core IP assets. Having worked collaboratively with Samsung on a number of key areas for many years it was disappointing that no commercial licence or supply agreement followed. We have established a new sub-committee of the Board to manage the litigation process.

We also successfully secured third party funding for the lawsuit. This will protect the Group's financial resources and entitles the funder to a return only in the event of a successful outcome to the suit. Given the potential scale of a successful outcome, it was critical to ensure that the Group has adequate funding for its own activities while the suit is ongoing. This has now been achieved with the over-subscribed equity fundraise giving the Group a cash runway that currently extends to December 2022.

Covid-19 and financial performance

The Board responded promptly to the Covid-19 pandemic, leading the way with reductions in Director salaries which were followed by Company-wide temporary pay reductions and the adoption of the Government Job Retention Scheme. At its peak, the Group saw approximately two-thirds of its staff on furlough with staff in work limited to those on customer driven activities. The Board would like to thank our dedicated staff for their exceptional efforts in maintaining customer service during this challenging time.

Effective and prompt management action was taken to manage our costs tightly. Our monthly gross cash costs are stabilising at around £0.4 million per month. The cash burn rate then reduces further with the benefit of revenues and R&D tax credits to £0.3 million per month.

It was a major achievement by the end of the year to be able to extend our cash runway to December 2022, particularly when our preliminary results in October 2019 indicated a cash runway that only extended to July 2020. Any new business wins will enhance this further.

No dividend is proposed for the year (2019: none).

Governance and Board

After extensive Board discussions and engagement with major shareholders, in line with the reductions in the scale of our operations, we decided to reduce the size and cost of the Board. Once the announced changes are complete, the cost of the Board will be broadly half its previous level.

Following the successful completion of the equity fundraising in July 2020, Michael Edelman stepped down from the Board and as CEO with effect from 1 September 2020. Michael remains available to the Group in his role as Special Adviser to the Litigation Sub-Committee, and on behalf of the Board and all of our staff, I would like to take this opportunity to thank Michael for his many years of service to the Group. Nigel Picketts' notice as CTO was

served in March 2020 and is due to expire in March 2021. Nigel remains fully engaged with the business and the Board will review his position in the months ahead.

In 2018, we combined the executive roles of COO and CFO and appointed Brian Tenner to that post. The aim was to provide enhanced and visible leadership to our business operations and support functions in the UK. Reflecting the positive impact he has made on all aspects of the business since his appointment, the Board was pleased to implement its succession plans and appoint Brian as CEO on 1 September 2020.

Supporting Brian and Nigel in the business we have a highly experienced and capable Leadership team with Kevin Smith responsible for production operations, Liam Gray for finance and a number of other supporting functions, and Joss Little as HR Business Partner. The Group also has an extremely talented senior management team and has retained a highly skilled and adaptable workforce with the skills and experience needed to drive the business forward.

Continuing with the succession plan, Liam Gray has been appointed as UK Finance Director and Company Secretary and will attend Board meetings in those capacities. The Board will consider other changes to the Executive team and other management as activity levels and resources require.

Looking forward, the Board will continue to pursue the highest standards of corporate governance for the benefit of all stakeholders while operating in a more focused and less costly way.

Formal Sales Process

We commenced a Formal Sales Process in November 2019 to reflect our view that the Group's value would be best protected and exploited in the longer-term by being part of a larger Group. After a number of expressions of interest and detailed due diligence activity, progress slowed as the effects of the Covid-19 pandemic made themselves felt around the world.

We therefore decided to terminate the Formal Sales Process in April 2020 to allow us to focus on reshaping the business as set out above.

Employees and shareholders

Our staff have again demonstrated great commitment in a challenging year. The team continues to deliver great service, innovative ideas and practical solutions to our customers.

Unfortunately, a number of staff had to leave the business during the year and shortly after the year end as we work to balance our financial resources, activity levels, ongoing customer contracts and cash runway.

We wish all of those former members of staff well in their future endeavours.

As we look forward, it is the continuing dedication and professionalism of our highly skilled team that will create new and enhanced value for all stakeholders. The Board is grateful for its continuing contributions and commitment.

I would also like to thank our shareholders for their continuing support and in particular their confidence in our future as shown in the over subscription for our equity fundraise in July 2020. It was a key objective to allow our loyal retail investors to participate in the fundraise and it was gratifying to see so many take the opportunity to continue to support the Group. I look forward to speaking to as many as possible at our AGM to be held via video conferencing on 3rd December 2020.

Outlook

The Group has delivered a number of notable successes in a year that started inauspiciously with the decision by the US Customer not to sign a new contract when the current one ended in December 2019. The challenges were exacerbated by running a Formal Sales Process in parallel with normal business activities, followed by the onset of the Covid-19 pandemic. These combined challenges would have been formidable for any business and I am proud of how the small Nanoco team responded. I would particularly like to thank the Non-Executive Directors who selflessly gave very significant time to Nanoco as evidenced in the corporate governance report and the number of Board, Committee and informal meetings held during the year.

The Board remains convinced of the strong merits of our broad-based platform technology. The last year has seen a number of enquiries on new applications for our nanomaterials in sensing and display.

The new framework agreement with ST Micro is a foundation for a potential move into commercial production in the medium-term. Key milestones to be delivered in the next 12-18 months will include the successful delivery of the new material at an R&D scale in Phase 1 of the programme. This will then lead to a potential customer decision to progress to Phase 2 of the development programme with a transition into scale-up activities in the second half of FY21. If scale-up is successful, the customer will then have the option to move to preliminary pre-production manufacture at Runcorn and ultimately to full scale commercial production thereafter.

However, we must be cautious. We have been in this position before on the programme with the US Customer. In that case, the Nanoco team delivered every milestone but other considerations led to the cancellation of the product of which we were a crucial part. Once again, Nanoco is part of a complex supply chain and the project could fail even when we (as we fully expect) meet all of our targets. If any other part of the supply chain fails, or if the end customers decide not to adopt the technology or to make design changes to their own products – all of these can have an adverse impact on Nanoco which could again require further restructuring.

It is because of this uncertainty and our financial resources that we will be taking a prudent approach to pursuing new commercial opportunities, how we deploy our human and financial capital, and how we manage our cost base.

The Group has now been restructured around a highly skilled and adaptable workforce that can be flexed across different activities and products as customer opportunities dictate. This is a robust foundation on which our organic business can build.

We have also secured funding for the potentially valuable lawsuit against Samsung for what we believe to be a wilful infringement of our IP, and now have the financial means to support Nanoco itself through to its likely conclusion, including in a scenario where further commercial progress is not delivered in the new financial year.

The Group's core assets, team and capabilities and the Samsung lawsuit remain, in the opinion of the Board, an attractive investment opportunity. The Board therefore remains confident in the value inherent in the business.

Dr Christopher Richards

Chairman

13 October 2020

Chief Executive Officer's statement

The Group made a number of significant achievements this year that set the scene for potential future value creation. This was against a very difficult economic backdrop and required very high levels of activity from the Board, the Executive team, and all of our staff.

In the second half, we reached an important new five-year agreement with ST Microelectronics NV ("ST Micro") that utilises our capabilities with nanomaterials for use in infra-red sensing applications. This, and certain other development agreements, provide Nanoco with strong customer relationships on which we plan to build the business over the coming years.

We also launched litigation against Samsung for the wilful infringement of our IP and subsequently secured third party funding for this suit. The costs of this litigation could exceed \$10 million and will now be borne by the funder in return for a share of any award or settlement. The year was then completed with an over-subscribed equity fundraise, extending the Group's cash runway to the end of 2022.

A Formal Sales Process was launched in November 2019 and occupied a lot of management bandwidth until it was terminated in the midst of the Covid-19 pandemic in April 2020. By that time the Group had also commenced a consultation process to restructure the business, introduced a furlough scheme to take advantage of the Government's Job Retention Scheme, and implemented salary reductions for all staff to conserve cash.

Our team today now numbers approximately 45 staff and we have more than halved our installed cost base from over £12.0 million in FY19 to around £5.0 million on an underlying basis for FY21 (underlying excludes severance and notice costs). In so doing, we have retained our core capabilities in R&D, scale-up and manufacturing, including both facilities at our Runcorn site. Maintaining these core capabilities and facilities is essential to deliver the business we hope to win over the coming months.

Business performance

Electronics

In the first half we successfully completed the final deliverables for the US Customer. This followed the disappointing news in June 2019 that a new hoped for programme of work would not be forthcoming. All revenues under the work programme were earned in full.

Early in the second half we then had more positive news with the announcement of a five-year collaboration with ST Micro to develop and scale up nanomaterials for use in infra-red sensing. The master agreement was followed shortly thereafter with a development work programme for a new material and delivery schedules for test and validation volumes of an existing material.

Given the scale of the sector and the participants, we are often going to be part of an extensive supply chain in the electronics market. This does mean that we are subject to events and decisions outside of our control – as happened with the US Customer.

However, the new agreement with ST Micro allows us to take advantage of knowledge, skills and assets developed during the programme with the US Customer. We also now have "freedom to operate" and can apply those capabilities to applications and other end customers within the consumer electronics and other applicable markets through our agreement with ST Micro.

We are actively seeking to create a number of new opportunities to utilise the dedicated Runcorn production facility for the large-scale manufacture of materials for use in infra-red sensing. ST Micro is an excellent partner and cornerstone. Our current activities are more heavily weighted towards development work at this stage and, if successful, scale-up projects will follow with the potential for commercial production volumes in the short to medium-term.

We are therefore pursuing in parallel smaller market niches where we are able to have direct relationships with a greater number of smaller OEMs to allow us to mitigate the risk of being overly reliant on a very small number of larger customers. The same strategy applies to our work in CFQD and other market sectors.

The in-depth nature of our technological insight means that we do tend to "punch above our weight" in terms of direct engagement even with very large end customers and their technology teams. Having proven our capability on one material for use in sensing applications, we are now in discussions to develop other materials for use in adjacent applications.

The revenue-generating capacity of the new Runcorn facility remains very significant if appropriate commercial orders can be won. Our goal is still to transition the majority of our activity to commercial production, supported by our deep technical knowledge and skills that allow world leading development work in parallel.

Display (CFQD® quantum dots)

Display remains an important target market for Nanoco. To improve our competitive proposition, we are maintaining our focus on our “dot only” strategy where we aim to provide the highest performing CFQD® quantum dots to multiple film coating, photo-resist and ink producing companies.

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

It is also clear that as more market sectors look at alternative applications for quantum dots, that the range of characteristics and performance criteria continues to evolve and we are well placed to tune our materials over the full range of material characteristics.

The integration of quantum dots into TVs is evolving. The first generation of QD displays use red and green quantum dots in a resin, which is then coated onto a film and finally integrated into the backlight of an LCD display. This dramatically enhances colour performance and reduces power consumption. The second generation of QD-based displays will integrate red and green quantum dots onto a blue OLED panel or blue microLEDs using ink jet printing or photo-resist patterning technology. We anticipate that displays using second generation technology may enter the market as early as 2022 though investment in the technology has slowed recently.

The third generation of quantum dot display is electroluminescent red, green and blue quantum dots fabricated into a display. It is likely to be a number of years before this third generation of TVs enters the market on a commercial basis. Nanoco is active in development work in the first two generations and also maintains capabilities in the third generation.

Three years ago we modified our strategy from a pure licensing model to a hybrid business model where we have licensed our technology to different channel partners while also developing our own manufacturing capability. We continue to work with our license partners DuPont (formerly Dow) as well as our film coating partner Wah Hong and have also started to increase the range of companies with whom we are actively engaged.

Merck decided not to renew its license agreement and issued notice of this in the third quarter. We continued to work with Merck for the remainder of the contract year and still continue to discuss options for possible future collaboration and access to Nanoco technology and IP.

Other sectors including Life Sciences and Lighting

Following the need to restructure and downsize the business, our core focus is on sensing and display. Where there is an immediate substitution opportunity we will continue to proactively engage with other sectors. With respect to our Life Sciences team, our focus is on securing a new strategic partner to take the business forward, to allow us to concentrate our resources and efforts on our two core markets. If no spin off is achieved, we will retain our IP and continue to explore clear short-term commercial opportunities. Other applications in horticultural lighting will be unaffected as they are a direct part of our CFQD® quantum dot activities.

Operations

Commissioning of the new Sensing production facility at Runcorn was finalised in the first half of the year. Testing and process improvements have increased the capacity of the plant beyond its original design targets.

In the Display facility, changes to our recipes and process routings have also led to significant capacity increases with further gains available from relatively modest capital expenditure should the need arise. While both plants are currently in mothball or standby mode, they can be fully operational in four weeks or less and together they represent very significant revenue-generating capacity.

Responding to Covid-19

At its peak, the Group had 49 of 67 staff on furlough. The remainder were working in Covid-19 secure ways by either working from home or, in the case of those needing to attend our facilities, in a regime of enhanced PPE, cleaning and social distancing.

Our reduced headcount and the layout of our split facilities make it easier to follow many of the recommended practices for the return to work. Having completed detailed risk assessments and implemented the resulting action plans we are now confident staff can safely return to the workplace while allowing remote working where possible.

Intellectual property

We consciously rationalised the number of patent applications in progress during the year. As a result, the Group’s IP portfolio fell marginally to 731 patents and patent applications (2019: 745). This net reduction reflected 42 new applications and 56 that were dropped, mainly in territories where it was no longer felt worthwhile to pursue. We have also slowed the rate of filing new IP in the second half to preserve trade secrets and to conserve financial resources.

Our IP and a significant range of business process secrets strongly underpin the Group’s valuation while also operating as a challenging barrier to entry to potential competitors.

Environment/restriction of hazardous substances (“RoHS”)

Our commitment to protecting the environment is directly expressed in our decision to develop our CFQD® quantum dot products to be free of toxic cadmium, which is still widely used by competitors in their quantum dot products.

Nanoco has participated actively with regulators concerning the use of cadmium-based quantum dots in displays and LED light products. Nanoco’s consultation response opposed any further extensions. The European Commission (“EC”) review of requests to extend the duration and scope of the current RoHS exemption remains outstanding at this time. We believe that the majority of display companies agree with our position and accept the need for new display products to be cadmium free which should stimulate demand once the exemptions for cadmium expire.

People

Our employees have shown great resilience during a very uncertain year. They have remained focused on our customers and supporting each other while coping with the Covid-19 pandemic, uncertainty during the consultation process and a Company-wide salary reduction.

During the year and shortly after we have had to say farewell to just over 20 of our valuable staff. We wish them all well for the future, whether in new careers or new academic pursuits.

For our remaining 45 staff, the combination of the end of the consultation process in September 2020, new commercial activity and a firmer financial foundation will bring welcome stability and allow the team to continue to display its technical skill and ingenuity in providing solutions for customers. We have managed the staff reductions in such a way as to retain our core R&D, scale-up and production capabilities.

The new Leadership team that we put in place in the prior year has performed well throughout the challenges of the year. Its support has been invaluable and, working with the senior management team and all of our staff, will help to maintain a disciplined and commercial focus to our activities in the year ahead.

Outlook

The past year has undoubtedly been a turbulent one with highs and lows and also a huge effort by the whole Nanoco team.

While we are still conscious of the risks around the Covid-19 pandemic, and other challenges ahead, some normality is now starting to return to the business. The delivery of third party funding for the Samsung lawsuit, the equity raise for the Group’s organic operations, and completing the restructuring of the Group are all adding a measure of stability to the Group.

Our whole team is now focused on taking advantage of the extended cash runway for our organic business to deliver new commercial opportunities that will further extend that runway. Our existing commercial relationships, including live development projects in Sensing and Display, combined with a much lower cost base, create the potential for breakeven production revenues in the medium term. There are technical milestones to be delivered along the way but our track record of success in development gives us confidence in being able to deliver materials that meet our customers’ challenging performance criteria. By exploring other new customer applications, we aim to de-risk any reliance on one customer or product. Contingency plans remain in place to ensure that the potential value in the lawsuit can be protected.

In a more stable environment, and with our smaller, more focused team, I am confident that we can deliver value for all of our stakeholders in the medium-term.

Brian Tenner

Chief Executive Officer

13 October 2020

Financial review

Revenue and other operating income decreased by £3.3 million to £4.0 million (2019: £7.3 million). The decrease is largely due to the lower revenues from the US Customer.

Revenue from the sale of products and services rendered accounted for 89% (2019: 94%) of revenues with the balance being royalty and licence income. Revenue from the sale of products was £0.4 million (2019: £0.2 million).

Billings have significantly decreased by £7.1 million to £2.5 million (2019: £9.6 million), which reflects the end of the contract with the US Customer.

Revenue from royalties and licences does not have a directly associated cost of sale. Service income also has a lower cost of sale. Cost of sales decreased by £0.4 million to £0.3 million (2019: £0.7 million) as a result of the fall in revenue and change in sales mix.

Research and development expenditure is below prior year at £3.1 million. The largest reduction was due to the fall in payroll costs. Total payroll costs in the year were £4.2 million (2019: £5.6 million). The decrease is due to:

- full year impact of the prior year restructuring (£0.6 million);
- headcount reductions during the year (£0.4 million); and
- benefits of a company-wide pay cut and Government furlough scheme (£0.4 million).

In March 2020, we announced a further consultation with all employees. The consultation is now complete and the resulting business will have c.45 full time employees (2019: 72) once the final changes are made. The revised structure reduces our cost base, whilst ensuring we still have operational and commercial viability.

In July 2020, we launched a fundraise which was over-subscribed, and resulted in £3.2 million of cash inflow (net of fees). Cash at year end was £5.2 million, which reflects a £5.0 million consumption of cash before the impact of the fundraise.

Highlights	2020 £ million	2019 £ million	% change
Turnover	3.9	7.1	(46%)
Adjusted operating loss	(4.8)	(5.0)	(4%)
Adjusted LBITDA	(2.9)	(3.8)	(23%)
Net loss	(5.1)	(4.4)	17%
Loss per share	(1.76)	(1.52)	13%
Billings	2.5	9.6	74%
Cash and cash equivalents	5.2	7.0	(26%)

Non-GAAP measures

The non-GAAP measures of adjusted operating loss and adjusted loss before interest, tax, amortisation and share-based payment charges ("LBITDA") are provided in order to give a clearer understanding of the underlying loss for the year that reflects cash outflow from the business.

The calculation of both non-GAAP measures is shown in the table below:

	2020 £ million	2019 £ million
Operating loss	(5.9)	(5.5)
Share-based payment charge	0.4	0.2
Exceptional costs	0.7	0.3
Adjusted operating loss	(4.8)	(5.0)
Depreciation*	1.1	0.6
Amortisation**	0.8	0.6
Adjusted LBITDA	(2.9)	(3.8)

* Includes depreciation of right of use assets in 2020.

** Includes impairment of intangible assets.

IFRS 16 Leases replaced IAS 17 Leases with effect from 1 August 2019. We present current year results on the new IFRS 16 basis but prior year comparatives on an IAS 17 basis. Under IFRS 16, the prior year adjusted LBITDA would have been £3.1 million. More details are disclosed in note 3(v) to the financial statements.

The loss before tax was £6.0 million (2019: £5.5 million).

Exceptional items

Exceptional costs in the year related to the Formal Sales Process, the start of the litigation against Samsung, the fundraise and restructuring activities. They are set out in more detail in note 5.

Taxation

The tax credit for the year is £0.9 million (2019: £1.1 million). The tax credit to be claimed, in respect of R&D spend, is £0.9 million (2019: £1.1 million). Overseas corporation tax was £nil during the year (2019: £nil). There was no deferred tax credit or charge (2019: £nil).

Cash flow and balance sheet

During the year cash, cash equivalents, deposits and short-term investments decreased to £5.2 million (2019: £7.0 million). The net cash outflow, excluding the benefits of the equity raise of £3.2m in July 2020 (net of costs), was £5.0 million (2019: £3.7 million outflow). The increase was driven by lower revenues from the US Customer.

Tax credits of £1.1 million (2019: £1.4 million) were received during the year.

Expenditure incurred in registering patents totalled £0.6 million (2019: £1.0 million) reflecting the Group's continued focus on developing and registering intellectual property. Capitalised patent spend is amortised over ten years in line with the established Group accounting policy.

Treasury activities and policies

The Group manages its cash deposits prudently. Cash deposits are regularly reviewed by the Board and cash forecasts are updated monthly to ensure that there is sufficient cash available for foreseeable requirements.

More details on the Group's treasury policies are provided in note 28 to the financial statements.

Credit risk

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

Foreign exchange management

The Group invoices most of its revenues in Sterling and also has US Dollar and Euro revenues. The Group is therefore exposed to movements in those currencies relative to Sterling. The Group will use forward currency contracts to fix the exchange rate on invoiced or confirmed foreign currency receipts should the amount become significant and more predictable.

There were no open forward contracts as at 31 July 2020 (2019: none). The Group's net profit and equity are exposed to movements in the value of Sterling relative to the US Dollar. The indicative impact of movements in the Sterling exchange rate on profits and equity based on the retranslation of the closing balance sheet is summarised in note 28 to the financial statements and was based on the year end position.

Brexit

The Board continues to monitor the proposals being made. Currently, the majority of the Group's revenues are for services delivered in the UK with minimal Brexit impact. Going forward, the Group expects a significant portion of its revenues from material sales to be from non-EU countries where the Government hopes to have in place equivalent trading arrangements as exist today.

Specific conditions for trade with EU countries will be put in place once the shape of any deal is known. As a point of note, WTO tariffs on our products are relatively low and not deemed to be a risk to our competitiveness.

Going concern

The fundraise in July 2020 raised £3.2 million net of costs. This further extended the Group's cash runway to December 2022.

The Directors have a reasonable expectation that the Group has access to adequate resources to continue in operational existence for the foreseeable future.

Accordingly they continue to adopt the going concern basis in preparing the consolidated financial statements and the Board concluded that it is appropriate to utilise the going concern assumption.

Covid-19 Pandemic

The Group has completed detailed risk assessments and implemented the resulting action plans and Government guidance to create Covid secure workplaces. We are able to meet customer needs while working in a safe fashion. The Group will continue to access financial support where available and appropriate. We do not currently expect significant financial downsides though this is clearly dependent on changes in regulations and the scale of any further lockdowns.

Summary

Whilst the news relating to the US Customer in the prior year was a commercial setback, since then we have announced a new project with ST Micro.

The Group has demonstrated its agility and ability to reduce its costs when needed a number of times over recent years. However, we have ensured we have continued operational and commercial ability to meet the needs of customers.

We launched our litigation against Samsung, which is fully financed and therefore no cash flow risk to the Group.

We are therefore confident that we have the means and the will to secure our medium-term future while our focus is firmly on pursuing near-term commercial opportunities.

Brian Tenner

Chief Executive Officer

13 October 2020

Principal risks and uncertainties

In common with all businesses at Nanoco's stage of development, the Group is exposed to a range of risks, some of which are not wholly within our control or capable of complete mitigation or protection through insurance.

Specifically, a number of the Group's products and potential applications are at a research or development stage and hence it is not possible to be certain that a particular project or product will lead to a commercial application. Other products require further development work to confirm a commercially viable application.

Equally, a number of products are considered commercially viable but have yet to see demand for full scale production. It is also the case that the Group is often only one part of a long and complex supply chain for new product applications. The Group therefore has little visibility of demand other than from contracts already in place. There are therefore a range of risks that are associated with the different stages of product development as well as for the Group as a whole.

Principal overarching risk

The principal overarching strategic risk faced by the business is that the Group exhausts its available funding before achieving adequate levels of commercial revenues and cash flows to be self-funding.

This risk has been significantly mitigated in the short to medium-term by the recent equity fundraising which has extended the Group's cash runway to December 2022. This date can be extended for the operational side of the business with each new business win. In a worst case scenario with no new business wins, the date can still be delivered though this would require further significant restructuring. Experience in 2019 and 2020 shows that the Board is ready and able to take prompt action to reduce costs should the need arise.

In FY18, the Group became exposed to a new risk that potentially had a direct impact on its financial stability, namely "key customer reliance" as a result of the scale of the contract with the US Customer. This risk crystallised in the fourth quarter of FY19 with the decision by the US Customer not to sign a new contract.

The relationship with ST Microelectronics N.V. is also important but it is smaller in scale and therefore less concentrated a risk than with the US Customer. This is partly mitigated by new customer relationships developed during the year.

Commercial negotiations continue to secure new customers and revenues to reduce our reliance on a single big customer.

New principal risk in FY20

The Group has now initiated litigation against Samsung for wilful infringement of its IP. The Group is therefore exposed to the related positive and negative aspects of the litigation. Winning the litigation could create a significant increase in value for the Group in terms of any award or settlement but also in terms of increasing the likelihood of other future valuable licensing of the Group's IP.

Conversely, if the litigation is unsuccessful, this could undermine the perceived value in the Group's IP portfolio. The cost risk of the litigation if Samsung aims to delay and/or extend the length of the process has been significantly mitigated by the third party funding agreement that has been put in place whereby a large US litigation funding specialist pays the costs of the litigation.

In either case (successful or unsuccessful), the Board will initiate a further review of the future strategy of the business.

Other principal risks

Other risks are those set out in the prior year's Annual Report and an update on their status will be included in the Annual Report for the year ended 31 July 2020.

Directors' responsibility statement

In accordance with the FCA's Disclosure and Transparency Rules, the Directors listed on the Company's website (www.nanocotechnologies.com/about-us/board-directors) confirm, to the best of their knowledge, that:

1. the preliminary results 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 foregoing reviews and statements, include 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.

By order of the Board

Brian Tenner

Chief Executive Officer

13 October 2020

Consolidated statement of comprehensive income

for the year ended 31 July 2020

	Notes	2020 £'000	2019 £'000
Revenue	4	3,856	7,123
Cost of sales		(345)	(665)
Gross profit		3,511	6,458
Other operating income		101	204
Operating expenses			
Research and development expenses		(3,143)	(4,385)
Administrative expenses		(6,350)	(7,760)
Operating loss		(5,881)	(5,483)
- before exceptional items and share-based payments		(4,783)	(4,985)
- share-based payments		(376)	(232)
- net exceptional costs	5	(722)	(266)
Finance income		8	12
Finance expense		(87)	(38)
Loss before taxation		(5,960)	(5,509)
Taxation		893	1,151
Loss after taxation		(5,067)	(4,358)
Other comprehensive income/(loss)			
Gain on exchange rate translations		3	14
Total comprehensive loss for the year		(5,064)	(4,344)
Loss per share			
Basic and diluted loss for the year	6	(1.76)p	(1.52)p

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

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

Consolidated statement of changes in equity

for the year ended 31 July 2020

Group	Issued equity capital £'000	Reverse acquisition reserve £'000	Share-based payment reserve £'000	Merger reserve £'000	Accumulated losses £'000	Total £'000
At 1 August 2018	144,426	(77,868)	3,214	(1,242)	(55,895)	12,635
Loss for the year	—	—	—	—	(4,358)	(4,358)
Other comprehensive income	—	—	—	—	14	14
Total comprehensive loss	—	—	—	—	(4,344)	(4,344)
Issue of share capital on exercise of options	27	—	(27)	—	—	—
Share-based payments	—	—	232	—	—	232
At 31 July 2019	144,453	(77,868)	3,419	(1,242)	(60,239)	8,523
Loss for the year	—	—	—	—	(5,067)	(5,067)
Other comprehensive income	—	—	—	—	3	3
Total comprehensive loss	—	—	—	—	(5,064)	(5,064)
Issue of share capital on placing	3,409	—	—	—	—	3,409
Share-based payments	—	—	376	—	—	376
At 31 July 2020	147,862	(77,868)	3,795	(1,242)	(65,303)	7,244

Company statement of changes in equity

for the year ended 31 July 2020

Company	Issued equity capital £'000	Share-based payment reserve £'000	Capital redemption reserve £'000	Accumulated losses £'000	Total £'000
At 1 August 2018	144,426	3,214	4,402	(75,120)	76,922
Loss for the year and total comprehensive loss for the year	—	—	—	(38,278)	(38,278)
Issue of share capital on exercise of options	27	(27)	—	—	—
Share-based payments	—	232	—	—	232
At 31 July 2019	144,453	3,419	4,402	(113,398)	38,876
Loss for the year and total comprehensive loss for the year	—	—	—	(64)	(64)
Issue of share capital on placing	3,409	—	—	—	3,409
Share-based payments	—	376	—	—	376

Group and Company statements of financial position

at 31 July 2020

Registered no. 05067291

	Notes	31 July 2020 Group £'000	31 July 2020 Company £'000	31 July 2019 Group £'000	31 July 2019 Company £'000
Assets					
Non-current assets					
Tangible fixed assets		263	—	747	—
Right of use assets	3	612	—	—	—
Intangible assets		3,742	—	3,897	—
Investment in subsidiaries		—	39,607	—	39,229
		4,617	39,607	4,644	39,229
Current assets					
Inventories		140	—	226	—
Trade and other receivables		1,018	—	1,117	—
Income tax asset		910	—	1,129	—
Cash and cash equivalents		5,170	3,440	7,005	97
		7,238	3,440	9,477	97
Total assets		11,855	43,047	14,121	39,326
Liabilities					
Current liabilities					
Trade and other payables		(2,113)	—	(2,553)	—
Lease liabilities	8	(642)	—	—	—
Provisions		—	—	(797)	—
Deferred revenue	7	(603)	—	(1,462)	—
		(3,358)	—	(4,812)	—
Non-current liabilities					
Financial liabilities		(462)	(450)	(433)	(450)
Lease liabilities	8	(542)	—	—	—
Deferred revenue	7	(249)	—	(353)	—
		(1,253)	(450)	(786)	(450)
Total liabilities		(4,611)	(450)	(5,598)	(450)
Net assets		7,244	42,597	8,523	38,876
Capital and reserves					
Share capital		30,570	30,570	28,622	28,622
Share premium		117,292	117,292	115,831	115,831
Reverse acquisition reserve		(77,868)	—	(77,868)	—
Share-based payment reserve		3,795	3,795	3,419	3,419
Merger reserve		(1,242)	—	(1,242)	—
Capital redemption reserve		—	4,402	—	4,402
Accumulated losses		(65,303)	(113,462)	(60,239)	(113,398)
Total equity		7,244	42,597	8,523	38,876

The Parent Company's result for the period ended 31 July 2020 was a loss of £64,000 (2019: loss of £38,278,000). There was no other comprehensive income in either the current or prior year.

The financial statements on were approved by the Board of Directors on 13th October and signed on its behalf by:

Dr Christopher Richards
Chairman
13 October 2020

Brian Tenner
Chief Executive Officer
13 October 2020

Group and Company cash flow statements

for the year ended 31 July 2020

	31 July 2020 Group £'000	31 July 2020 Company £'000	31 July 2019 Group £'000	31 July 2019 Company £'000
Notes				
Loss before tax	(5,960)	(64)	(5,509)	(38,278)
Adjustments for:				
Net finance expense	(79)	—	(26)	—
(Profit)/Loss on exchange rate translations	(87)	—	14	—
Depreciation of tangible fixed assets	590	—	613	—
Depreciation of right of use assets	505	—	—	—
Amortisation of intangible assets	633	—	552	—
Impairment of intangible assets	120	—	26	—
Impairment of Company investment	—	—	—	24,006
Impairment of inter-company receivable	—	—	—	14,272
Share-based payments	376	—	232	—
Exceptional items	722	64	266	—
Changes in working capital:				
Decrease/(increase) in inventories	221	—	(9)	—
Decrease in trade and other receivables	99	—	298	—
Decrease in trade and other payables	(30)	—	(1,515)	—
(Decrease)/increase in provisions	(797)	—	797	—
(Decrease)/increase in deferred revenue	(963)	—	2,226	—
Cash outflow from operating activities	(4,650)	—	(2,035)	—
Research and development tax credit received	1,111	—	1,423	—
Overseas corporation tax paid	—	—	—	—
Net cash outflow from operating activities	(3,539)	—	(612)	—
Cash flow from investing activities				
Purchases of tangible fixed assets	(106)	—	(2,081)	—
Purchases of intangible fixed assets	(598)	—	(1,043)	—
Inter-company receipt	—	—	—	54
Interest received	8	—	12	—
Net cash (outflow)/inflow from investing activities	(696)	—	(3,112)	54
Cash flow from financing activities				
Proceeds from placing of ordinary share capital	3,409	3,409	—	—
Costs of placing	(237)	(64)	—	—
Payment of lease liabilities	(772)	—	—	—
Net cash inflow from financing activities	2,400	3,343	—	—
(Decrease)/increase in cash and cash equivalents	(1,835)	3,343	(3,724)	54
Cash and cash equivalents at the start of the year	7,005	97	10,729	43
Cash and cash equivalents at the end of the year	5,170	3,440	7,005	97

Notes to the financial statements

1. Reporting entity

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

These Group preliminary results 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 2020.

The preliminary results of Nanoco Group plc and its subsidiaries (the "Group") for the year ended 31 July 2020 were authorised for issue by the Board of Directors on 13 October 2020 and the statements of financial position were signed on the Board's behalf by Dr Christopher Richards and Mr Brian Tenner.

The preliminary results do not constitute statutory financial statements within the meaning of section 435 of the Companies Act 2006. A copy of the statutory financial statements for the year ended 31 July 2019 has been delivered to the Registrar of Companies. The Auditors' opinion on those financial statements included an emphasis of matter in respect of a material uncertainty relating to going concern. There were no statements under section 498(2) or section 498(3) of the Companies Act 2006.

The statutory financial statements for the year ended 31 July 2020 will be delivered to the registrar of companies as soon as practicable. The auditors opinion on those financial statements was unqualified, did not draw attention to any matters by way of an emphasis of matter paragraph, and it contained no statement under section 498(2) or section 498(3) of the Companies Act 2006.

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

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

2. Basis of preparation

(a) Statement of compliance

The Group's and Parent Company's financial statements have been prepared in accordance with the Companies Act 2006 as applicable to companies using International Financial Reporting Standards as adopted by the European Union ("IFRS") and IFRS Interpretations Committee ("IFRS IC") interpretations as they apply to the financial statements of the Group for the year ended 31 July 2020.

(b) Basis of measurement

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

(c) Going concern

All of the following matters are taken into account by the Directors in forming their assessment of going concern. The Group's business activities and market conditions, the principal risks and uncertainties, and the Group's financial position is described in the Financial review. Furthermore, note 28 of the annual report summarises the Group's financial risk management objectives, policies and processes. The Group funds its day-to-day cash requirements from existing cash reserves (as is common with businesses at a similar stage of development, the Group does not currently have access to any debt facilities).

For the purposes of their going concern assessment and the basis for the preparation of the 2020 Annual Report, the Directors have reviewed the same trading and cash flow forecasts and sensitivity analyses that were used by the Group in the viability assessment in the annual report. The same base case and downside sensitivities were also used. The base case represents the Board's current expectations, and builds on the fundraising of £3.2 million (net of costs) completed in July 2020. The key assumptions underpinning the base case are:

- new commercial contracts are entered into based on existing pipeline of opportunities;
- the Groups' variable costs remain in line with manufacturing activities; and
- the overhead cost base benefits from the restructuring exercise in September 2020.

The base case produces a cash flow forecast that demonstrates that the Group has cash resources to December 2022.

However, the Board acknowledges that the base case includes an element of risk that some or all of these non-contracted projects may not convert to sales during the forecast period. Accordingly, the Board has considered the downside scenario in which no revenue, except that already contracted or under contractual negotiation, was achieved during the period. In this scenario, management has identified a series of mitigating actions, including cost savings and a reorganisation of its operations, that could be undertaken in the event additional sales contracts do not materialise. These actions would be adequate to preserve funding for the two years of the viability assessment and the twelve months of the going concern assessment.

Covid-19 may have an impact on our business - the full impact on the Group will depend on the duration of the crisis, and how it affects the economy. The Group currently has plans in place to mitigate the risk to the operational business. However, there is a continued risk that revenue opportunities reduce due to the wider economic impact. We will continue to evaluate the potential impacts as the situation develops further.

The Directors have a reasonable expectation that the Company has access to adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in

preparing the consolidated financial statements. The financial statements do not reflect any adjustments that would be required to be made if they were prepared on a basis other than the going concern basis.

(d) Functional and presentational currency

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

(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 estimates and judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements.

Estimates

Equity-settled share-based payments

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

Impairment of intellectual property and tangible fixed assets

As the Group has not, to date, made a profit the carrying value of these assets may need to be impaired. Impairment exists where the carrying value of an asset exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The value in use calculation uses cash flows based on budgets that have been approved by the Directors. The Directors also use available information to assess whether the fair value less costs of disposal of the Group's non-current assets, including intellectual property, is less than their carrying amount. Furthermore, during the year another extensive review was undertaken to identify which patents are of no further value to Nanoco and should be allowed to lapse. As a consequence, patents with a value of £0.1 million (2019: £26,000) have been fully impaired in these financial statements. Judgements are based on the information available at each reporting date, which includes the progress with testing and certification and progress on, for example, establishment of commercial arrangements with third parties. The Group does not believe that any of its patents in isolation are material to the business. Management has adopted the prudent approach of amortising patent registration costs over a ten-year period, which is substantially shorter than the life of the patent. For external patents acquired the same rule is adopted unless the remaining life of the patent is shorter, in which event the cost of acquisition is amortised over the remaining life of the patent.

Impairment of investment and inter-company receivable

Judgement is required to assess the carrying value of the Company investment and inter-company receivable at each reporting date.

Accounting standards (IAS 36 Impairment of Assets) require investments in subsidiary undertakings (equity and loans) to be carried at the lower of cost or recoverable value. Recoverable value is defined as the higher of fair value less costs of disposal (effectively net sale proceeds) and value in use. Indicators of potential impairment noted in IAS 36 (para 12) include, but are not limited to, situations where the carrying amount of the net assets of the entity is more than its market value and where significant changes with an adverse effect on the entity have taken place during the period.

The Directors consider the fair value to be market value less costs to sell. As the market value was in excess of the book value, no further impairment is proposed.

Judgements

Revenue recognition

Judgement is required in reviewing the terms of development agreements to identify separate components of revenue, if any, that are consistent with the economic substance of the agreement and in turn the period over which development revenue should be recognised. Judgements are required to assess the stage of completion including, as appropriate, whether and when contractual milestones have been achieved. 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. This matter is further complicated where a contract may have different elements which may result in separate recognition treatments under IFRS 15.

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 of the annual report.

Outlook

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are those relating to the estimation of the number of share options that will ultimately vest (note 25 in the annual report). 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

Other than as noted below in the section on new accounting standards and interpretations, the accounting policies used in preparing these financial statements are consistent with those of the previous financial year and are applied consistently by Group entities and can be found in the Annual Report for the year ending 31 July 2019.

(a) Basis of consolidation

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

Subsidiaries are all entities over which the Group has the power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee), exposure, or rights, to variable returns from its involvement with the investee and ability to use its power over the investee to affect its returns. All of 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 (i.e. discount on acquisition) is recognised directly in the consolidated statement of comprehensive income.

In the consolidated financial statements, the assets and liabilities of the foreign operations are translated into Sterling at the exchange rate prevailing at the reporting date. Income and cash flow statement items for Group entities with a functional currency other than Sterling are translated into Sterling at monthly average exchange rates, which approximate to the actual rates, for the relevant accounting periods. The exchange differences arising on translation are recognised in other comprehensive income. See note 3(b).

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

(b) New accounting standards and interpretations

The following amendments to IFRSs became mandatory in this reporting period. The Group has applied the following standards and amendments for the first time for the reporting period commencing 1 August 2019:

IFRS 16 Leases

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and the lessor. It eliminates the lease clarification of leases as either operating leases or financial leases and introduces a single lease accounting model requiring lessees to recognise a lease liability reflecting the future lease payments and a right of use asset for lease contracts.

The Group has applied the modified retrospective transition approach, with recognition of transitional adjustments on the date of initial application (1 August 2019), without restatement of comparative figures.

On transition to IFRS 16, the Group elected to apply the following practical expedients on a lease by lease basis as allowed by the standard:

- to apply a single discount rate to a portfolio of leases with reasonably similar characteristics;
- to rely upon previous assessments of onerous leases; and
- apply the short-term and low value exemptions.

All of these leases relate to property. None of these are sub-let. Lease payments for low value or short-term leases where the Group has elected not to recognise a right of use asset and lease liability are charged as an expense on a straight-line basis.

At the date of commencement of property leases the Group determines the lease term to be the full term of the lease, assuming that any option to break or extend is not likely to be exercised. Leases are regularly reviewed and will be revalued if it becomes likely that a break clause or option to extend will be exercised. The weighted average incremental borrowing rate applied at the date of transition was 3.75%.

The Group recognises a right of use asset at the lease commencement date. The right of use asset is measured at its carrying amount as if IFRS 16 has been applied since the commencement date, discounted using the lessee's incremental rate at the date of initial application. Subsequent to measurement, right of use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if assessed to be shorter.

The lease liabilities are measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as at 1 August 2019. The Group's incremental borrowing rate is the rate at which a similar borrowing could be obtained over a similar term in a similar economic environment. Judgement is required to determine an approximation with consideration given to the Bank of England base rates adjusted by an indicative credit premium and lease specific adjustment. Subsequently, the lease liability is increased by the interest cost on the lease liability and decreased by the lease payments made. It is remeasured if there is a modification, a change in lease term or a change in the fixed lease payment.

The impact on the balance sheet on transition is summarised below:

As at 31 July 2019	As at 31 July 2019 £'000	IFRS 16 adjustment £'000	As at 1 August 2019 £'000
Right of use assets (leased property)	—	981	981
Lease liabilities	—	(1,769)	(1,769)
Trade and other payables	(2,553)	125	(2,428)
Onerous lease liabilities	(663)	663	—

During the year, the movements on the right of use assets and lease liabilities are as follows:

Right of use assets	£'000
Opening net book value at 1 August 2019	981
Additions	136
Depreciation	(505)
Closing net book value at 31 July 2020	612

Lease liabilities	£'000
Opening liabilities at 1 August 2019	(1,769)
Additions	(136)
Lease payments	772
Interest charge	(51)
Closing net book value at 31 July 2020	(1,184)

The reconciliation of operating lease commitments disclosed at 31 July 2019 to lease liabilities recognised at 1 August 2019 is as follows:

	£'000
Operating lease commitments disclosed as at 31 July 2019	1,954
Short-term and low value leases recognised as an expense on a straight-line basis	(14)
Effect of discounting under the Group's incremental borrowing rate	(171)
Total lease liabilities recognised at 1 August 2019	1,769

If the prior year the income statement was presented under IFRS 16, Adjusted LBITDA would be presented as follows:

	2019 £ million
Adjusted LBITDA as presented	(3.8)
Reclassification of operating lease costs as depreciation	0.7
Revised LBITDA	(3.1)

The following standards have been issued but have not been applied by the Group in these financial statements. These amendments to standards and interpretations had no significant impact on the financial statements:

- IFRIC 23 "Uncertainty over Income Tax Treatments"
- Amendments to IFRS 4 "Insurance Contracts"
- Amendments to IFRS 9 "Financial Instruments"
- Amendments to IAS 28 "Investments in Associates and Joint Ventures"
- Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"

The following standards and amendments to standards have been issued but are not effective for the financial year beginning 1 August 2019 and have not been early adopted:

- Amendments to IFRS 3 "Definition of a Business"
- Amendments to IAS 1 and IAS 8 "Definition of Material"

- IFRS 17 “Insurance Contracts”
- Amendment to IAS 1 “Classification of Liabilities as Current or Non-Current”
- Amendments to IFRS 9, IAS 39 and IFRS 17 “Interest Rate Benchmark Reform”
- Various standards Amendments to References to the Conceptual Framework in IFRS Standards

The amendments to standards and interpretations noted above are expected to have no significant impact on the financial statements.

4. Segmental information

Operating segments

At 31 July 2020 and 2019 the Group operated as one segment, being the research, development and manufacture of products and services based on high performance nanoparticles. This is the level at which operating results are reviewed by the chief operating decision maker (i.e. the Board) to make decisions about resources, and for which financial information is available. All revenues have been generated from continuing operations and are from external customers.

	31 July 2020 £'000	31 July 2019 £'000
Analysis of revenue		
Products sold	448	186
Rendering of services	2,981	6,488
Royalties and licences	427	449
	3,856	7,123

There was a material customer who generated revenue of £2,475,000 (2019: one material customer amounting to £6,461,000).

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 2020 £'000	31 July 2019 £'000
Revenue		
UK	17	1
Europe (excluding UK)	1,111	485
Asia	228	141
USA	2,500	6,496
	3,856	7,123

All the Group’s assets are held in the UK and all of its capital expenditure arises in the UK. The loss before taxation and attributable to the single segment was £5,960,000 (2019: £5,509,000).

5. Exceptional items

During the financial year, the Group incurred a number of charges which are considered to be exceptional in nature. These have been aggregated and disclosed separately in the consolidated statement of comprehensive income.

	31 July 2020 £'000	31 July 2019 £'000
(Charge)/income		
Formal Sale Process (legal fees)	(293)	—
Fundraise (adviser and commitment fees)	(237)	—
IP litigation (prior to litigation funding agreement)	(64)	—
Customer contract liability waived	—	4,245
Financial impairment of production facility	—	(3,325)
Onerous lease provision	—	(663)
Provision for contract specific stock	—	(261)
Other US Customer contract liabilities	—	(134)
Restructuring cost	(128)	(128)
Total net exceptional items	(722)	(266)

During the year, as part of the Strategic Review, the Group entered into a Formal Sale Process that was subsequently terminated after the start of the Covid pandemic. In July 2020, the Group carried out a fundraising exercise, raising £3.2 million net of costs. Also during the year, the Group initiated a significant law suit against Samsung for wilful infringement of its IP. All three activities incurred adviser costs for processes that are considered corporate in nature and hence do not form part of the underlying business of the Group. They are therefore classified as exceptional to allow the reader a better understanding of underlying performance.

During the prior year, the US Customer confirmed that the project would not continue beyond the current contract which completed in December 2019. As a result, the following financial adjustments were posted:

- an outstanding contract liability owed by Nanoco Group to the US Customer was waived, resulting in an exceptional credit of £4.2 million;
- given the lack of any signed or near-term commercial prospects for the new production facility, a tangible asset impairment was posted of £3.3 million;
- linked to the above, an onerous lease provision was recognised in relation to the new production facility from the end of the existing contract with the US Customer to the expiry of the lease; and
- other liabilities or costs incurred in the period relating to the US Customer were a provision against stock purchased specifically for the US Customer and existing non-cancellable purchase commitments.

Further to the US Customer items above, following the resource pivot in our display business in the second quarter, a restructuring exercise reflecting our “dot only” focus in display activities was implemented. This exercise completed in the fourth quarter.

6. Earnings per share

Group	31 July 2020 £'000	31 July 2019 £'000
Loss for the financial year attributable to equity shareholders	(5,064)	(4,344)
Share-based payments	376	232
Loss for the financial year before share-based payments	(4,688)	(4,112)
Weighted average number of shares		
Ordinary shares in issue	287,070,824	286,025,561
Adjusted loss per share before share-based payments (pence)	(1.63)	(1.44)
Basic loss per share (pence)	(1.76)	(1.52)

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

7. Deferred revenue

	31 July 2020 Group £'000	31 July 2020 Company £'000	31 July 2019 Group £'000	31 July 2019 Company £'000
Current				
Upfront licence fees	103	—	103	—
Milestone payments	500	—	1,359	—
	603	—	1,462	—
Non-current				
Upfront licence fees	249	—	353	—
	852	—	1,815	—

Deferred revenue arises under IFRS where upfront licence fees are accounted for on a straight-line basis over the initial term of the contract or where performance criteria have not been satisfied in the accounting period.

8. Lease liabilities

	31 July 2020 Group £'000	31 July 2020 Company £'000	31 July 2019 Group £'000	31 July 2019 Company £'000
Current				
Property leases	642	—	—	—
Non-current				
Property leases	542	—	—	—

== Ends ==