30 April 2020

THIS ANNOUNCEMENT CONTAINS INSIDE INFORMATION

NANOCO GROUP PLC

("Nanoco", the "Company" or the "Group")

Interim Results

Nanoco Group plc (LSE: NANO), a world leader in the development and manufacture of cadmium-free quantum dots and other specific nanomaterials emanating from its technology platform, announces unaudited Interim Results for the half year ended 31 January 2020 ("the Period" or "H1 FY20").

Operational Summary

H1 FY20

- Successful completion of contract deliverables with US Customer – revenue earned in full
- Reduction in monthly cash burn to under £0.7m by Period end
- Operational and R&D capability protected alongside core IP assets

Post Period End

- Patent infringement lawsuit filed against Samsung in February 2020 – multiple offers received for contingent third-party funding, discussions on final terms under way
- Purchase Orders already received for existing and new materials for sensing applications and a new Joint Development Agreement for R&D services being documented with an existing customer
- Monthly cash burn reduced further to under £0.4m through a combination of new commercial revenues, management actions, and UK Government Covid-19 employment support
- Cash runway now extending to Q2 in 2021, subject to new commercial agreements being completed, with contingency plans in place if required
- Operating during Covid-19 pandemic: While focusing on the safety and well-being of our staff, the Group continues to service its customers through lab-based work being carried out by respecting social distancing, increased use of PPE and additional cleaning of protective equipment, with other staff either working remotely or furloughed

Financial Summary

- Revenue of £2.9m (H1 FY19: £3.2m) including all final deliverables for US Customer
- Adjusted LBITDA[1] significantly reduced to £1.1m (H1 FY19: loss £2.5m)
- Cash at Period end of £4.2m (FY19: £7.0m), cash runway significantly extended

Formal Sale Process ('FSP')

Over the past few weeks, the disruptions caused by Covid-19 have escalated rapidly and impacted ongoing discussions as part of the FSP. The economic climate remains highly challenging today and, as a result, the Board has concluded that it is unlikely that the FSP would produce an attractive outcome in such an uncertain environment. The Board has therefore decided to terminate the FSP. The Board continues to review all the strategic options available as part of the Group strategic review including, but not limited to, possible sources of medium-term funding for the Company and will make further announcements as appropriate.

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

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[1] Adjusted LBITDA in the current year includes the impact of IFRS16 ('Leases') which has been implemented using the modified retrospective approach which includes restating opening balances but not the prior year Income Statements. The Group estimates that the LBITDA in H1 FY19 would have been c.£2.3m if IFRS16 had been applied to the Income Statement in that period (reported LBITDA £2.5m).

"The last six months saw the successful completion of commercial deliveries for the US Customer as well as continued improvement in the technical performance of our nano-materials in both display and sensing applications. We have successfully maintained our core capabilities while scaling down our cost base to offset a slowdown in new commercial orders following the announcement of the FSP.

"Following the Period end, we filed a patent infringement lawsuit against Samsung, seeking an injunction from further acts of infringement and significant monetary damages. We have received a number of offers of third-party funding for the lawsuit and are now discussing the final terms of a litigation financing agreement. Once agreed, this will protect the Group's cash resources and decouple the funding of the lawsuit from the Group's financial position.

"In response to Covid-19, we have taken immediate action to reduce our cost base further and to extend our cash runway while retaining our core competence in production, scale-up and R&D. These actions are designed to preserve the financial position of the Group and to safeguard the interests of all stakeholders by protecting our core IP assets, the ongoing Samsung lawsuit, and continued employment of our highly skilled staff. Whilst we are disappointed that we had to terminate the FSP, in light of the challenging market environment, all of these measures preserve optionality to deliver maximum value to shareholders."

Analyst meeting and webcast details

A conference call and webcast for analysts will be held at 11:00am (UK time) this morning (30 April 2020). For further details please contact MHP Communications on 0203 128 8570 or at nanoco@mhpc.com

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

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The person responsible for arranging for the release of this announcement on behalf of Nanoco is Brian Tenner, Chief Financial Officer.

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The information contained within this announcement is considered by the Company to constitute inside information as stipulated under the Market Abuse Regulation (EU) No. 596/2014. Upon the publication of this announcement via a Regulatory Information Service, this inside information will be considered to be in the public domain.

FORWARD LOOKING STATEMENTS

This announcement (including information incorporated by reference in this announcement), oral statements made regarding the FSP, and other information published by Nanoco may contain statements about Nanoco that are or may be deemed to be forward looking statements. Such statements are prospective in nature. All statements other than historical statements of facts may be forward looking statements. Without limitation, statements containing the words "targets", "plans", "believes", "expects", "aims", "intends", "will", "may", "anticipates", "estimates", "projects" or "considers" or other similar words may be forward looking statements.

Forward looking statements inherently contain risks and uncertainties as they relate to events or circumstances in the future. Important factors such as business or economic cycles, the terms and conditions of Nanoco's financing arrangements, tax rates, or increased competition may cause Nanoco's actual financial results, performance or achievements to differ materially from any forward looking statements. Due to such uncertainties and risks, readers are cautioned not to place undue reliance on such forward looking statements, which speak only as of the date hereof. Nanoco disclaims any obligation to update any forward looking or other statements contained herein, except as required by applicable law.

Notes for editors:

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

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

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

Business Review

Overview
The first half of the year saw us successfully complete the deliverables for the US Customer, earning all contracted revenues in full. However, that did not signify the end of our involvement in developing materials for use in enhancing the performance of infra-red sensors. We have continued a dialogue and agreed new commercial engagements with a key player in the semi-conductor sensor sector on both shorter and longer wavelength applications. In Display R&D we have further enhanced the performance of our Cadmium Free Quantum Dots (CFQD®) in collaboration with a number of different partners.

We have taken steps to retain our core capabilities in manufacturing and R&D against a backdrop of tight cost management and cash preservation. At the same time, we have also moved to protect our significant IP portfolio, filing a lawsuit against Samsung. The combination of these steps represents significant potential value for all stakeholders.

During the current Covid-19 crisis, our efforts today are focused on protecting the health, safety and wellbeing of our employees while mitigating the economic challenges. The pandemic has forced us to scale back our operations. We have put together a series of measures that allow us to continue to meet customer needs by operating our Manchester R&D facility on a limited basis. Our Runcorn site has been temporarily closed and employees from both sites have been furloughed. Other essential work is being carried out remotely.

We have, as a result of these steps, created further optionality through a longer cash runway; the ultimate realisation of which will enhance value for all stakeholders.

Strategic Review and Formal Sale Process ('FSP')
Over the past few weeks, the disruptions caused by Covid-19 have escalated rapidly and impacted ongoing discussions as part of the FSP. The economic climate remains highly challenging today and, as a result, the Board has concluded that it is unlikely that the FSP would produce an attractive outcome in such an uncertain environment. The Board has therefore decided to terminate the FSP. The Board continues to review all the strategic options available as part of the Group strategic review including, but not limited to, possible sources of medium-term funding for the Company and will make further announcements as appropriate.

Business Performance
Following the successful delivery of the material development and supply contract with the US Customer, we have continued to pursue a number of other commercial opportunities, in both the sensing and display market sectors, as detailed below:

<u>Infra-red sensing</u>

During the Period, we successfully delivered the final milestones for the US Customer, earning the contracted milestone revenues in full. At the end of the Period, we started discussions on two new programmes of work with a large participant in the semi-conductor sensing supply chain. One programme is focused on the current generation of infra-red sensing nano-materials as well as potential customers and applications beyond the US Customer. The second programme is for a new generation of nano-materials, also in the sensing markets, but for a different potential application. Work commenced on both programmes in April 2020 under purchase order cover while the new JDA is being documented (and is expected to be signed shortly).

Our R&D efforts in sensing materials have also continued throughout the Period. This includes the creation of new materials that are capable of absorbing much longer wavelengths of infra-red light at specifically targeted bands such as 1,400 nm, 1,550 nm and 1,800 nm.

Display (CFQD® Quantum Dots)

Display remains a key target market for Nanoco. To continue improving our competitive proposition, the Company's focus has remained on providing the highest performing CFQD® quantum dots in the market to multiple film coating, photo-resist and ink companies. Our mission is to work with the companies who are considered by the display industry to be best in class.

We measure CFQD® 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, where narrower is better), quantum yield percentage (a measure of how efficiently the quantum dots absorb blue light and convert it to red or green light, where higher is better) and stability (how durable the quantum dot is in any specific application). We continue to improve year on year our material performance against all of these metrics. We have also significantly enhanced the performance of material designed for second generation quantum dot enabled displays ('QD-OLED').

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

Separately, a number of major technology companies are exploring wearable display devices (such as headsets or glasses) and we continue to support our partner, Plessey, in these efforts.

In March 2020, our licence partner Merck notified us that they wished to renegotiate the existing agreement. In order to avoid becoming committed to the next contract year's minimum royalties (£0.65m), they were obliged to serve notice by 31 March 2020. Negotiations of the new arrangement continue at this time.

Other sectors - Life Sciences

Following the confirmation of the safety and clinical applicability of our biological CFQD® nanoparticles (Vivodots™ nanoparticles), Nanoco's Life Sciences team has developed a number of proprietary nano-probes that can enable several unmet needs in medical imaging and treatment. Most significant is the nano-probe for enhancing 5-amino levulinic acid (5ALA), a standard of care drug in cancer imaging and therapeutics but one that suffers from several shortcomings related to effectiveness and consistency. This development is being translated into applications for earlier detection and treatment of numerous types of cancers starting with those of the skin, bladder, and brain. We have established clinical and academic partners ready to engage in further development. Likewise, and based on the attributes of Vivodots™ nanoparticles, we have identified several market opportunities for in-vitro diagnostic applications that we are currently working on.

Defending our Intellectual Property portfolio

We continue to grow our Intellectual Property ("IP") portfolio. The Group now benefits from c.770 patents and patent applications. Our IP strongly underpins the Group's valuation while also operating as a challenging barrier to entry to potential competitors. Our 'know how' in quantum dot composition of matter, surface chemistry, process methodologies and devices also continues to grow and adds to the already challenging IP barriers to entry for potential competitors.

As a UK-based business specialising in the design, scale up and manufacture of novel nano-materials, it is critical that we take steps to protect our platform technology and the IP that underpins it. Historically the Group worked collaboratively with Samsung on developing enhanced quantum dots based on our unique and patented CFQD® Quantum Dot technology and associated IP. We were understandably disappointed when Samsung ended the collaboration and launched its QD-based televisions without entering into either a licensing or supply agreement with Nanoco.

We therefore took the step of initiating an IP infringement lawsuit against Samsung for damages and other equitable relief on 14 February 2020. In March 2020 we received a number of offers of third-party funding for the lawsuit. A preferred partner was selected and a Litigation Funding Agreement ('LFA') is now being discussed which will lead to the third-party funding the cost of the lawsuit through trial and potentially beyond in return for a share of any damages or settlement agreement. The lawsuit is likely to be served in early May and this step starts the more formal exchanges between the lawyers for the Plaintiff (Nanoco) and the Defendant (Samsung). At this early stage, it is estimated that the lawsuit could proceed to trial in the fourth quarter of calendar year 2021 or the first quarter of 2022.

It is the Board's expectation that, if successful, the lawsuit will see Nanoco retain the majority of any such award or settlement in most of the likely outcome scenarios. If the lawsuit is successful, it is not possible at this point to predict the amount of any award or settlement, but it does have the potential to generate very substantial upside for shareholders.

Environment / Restriction of Hazardous Substances ("RoHS")

Nanoco is committed to protecting the environment in which our activities are conducted. This commitment has driven us to develop our CFQD® quantum dot products to be free of toxic cadmium, which is still widely used by our competitors. The European Commission ("EC") has initially had an exemption for display which was due to end on 31 October 2019. However, following consultation on renewal requests, no decision has yet been made, and therefore the exemption continues.

Our contacts with leading display companies continue to indicate that most already accept the need for new display products to be cadmium-free. The EC is also yet to consider a new request for cadmium based QDs to be used in 'on-chip' LED lighting applications.

Financial Performance

Despite the fall in revenue during the Period, the restructuring completed in the prior year and management's continued focus on cost control have enabled the Group to reduce its Adjusted LBITDA by around 50% for the Period to £1.1m. Our production and R&D teams have transferable skill sets which can be pivoted to commercial needs in display or sensing applications. The Group therefore remains able to capture commercial opportunities in both markets while maintaining a more cost-effective resource base.

Cash at 31 January 2019 was £4.2m (H1 FY19: £7.0m; FY19: £6.2m) and was consistent at that time with the previously indicated cash runway to July 2020. This has since been extended through a combination of new commercial revenues, further management action and UK Government employment support to Q2 in 2021 and maintains operational capability within the business. Whilst we are confident in our chances of success given the advanced stage of discussions, if new commercial revenues or other sources of funding are not obtained, this runway can be maintained through the use of contingency plans though these would effectively remove the ability of the Group to further develop or scale our technology. Cash continues to be the main area of focus for the Group and is being monitored closely.

No dividend is proposed for the year (2019: £nil).

Outlook

The first half of the financial year saw the successful completion of the contract with the US Customer. We continue to develop further commercial opportunities in the sensing and display sectors with key players in both industries.

As noted previously, our Runcorn facility is complete and fully operational, while continuous process improvement efforts throughout the Period have delivered a significant increase in production capacity and a reduction in production costs. Both of these factors materially increase the value that can be generated through operational leverage once production volumes are gained.

It is critical that we preserve the financial position of the Company and extend our cash runway as far as possible to create optionality for the realisation of the value inherent in our IP, the lawsuit against Samsung and our operational capabilities. Our efforts to control costs and sign new commercial agreements, supported by the UK Government's employment support scheme, have resulted in a cash runway that now extends to the second quarter of 2021 for a more streamlined but still operationally capable business. This reflects our central planning scenario which includes new sources of revenue that are at an advanced stage of negotiation. This is a significant improvement on the previous outlook which saw cash being exhausted around July 2020.

In the downside scenario, where no new revenue is agreed and no new funding is sourced, the Board has contingency plans that can maintain the cash runway through to the second quarter of 2021. However, the Board believes that implementing these contingency plans should be a last resort as they would lead to a reduction in the capabilities and value inherent in the business, by focusing on protecting only our IP portfolio and the lawsuit against Samsung. In either scenario, the Board consider that there are still significant challenges to be overcome and hence the Board considers there to be a material uncertainty regarding going concern (as defined in IAS 1 Presentation of Financial Statements), based on our ability to implement cost savings on a timely enough basis if new sales agreements are not forthcoming.

Whilst we reluctantly had to terminate the FSP, in light of the exceptionally challenging environment caused by Covid-19, it is now vital that we capitalise on the additional time we have and the opportunity it creates to explore fully all alternative options available to us and potential sources of medium-term funding as part of the Strategic Review. Market interest in the use of quantum dots across a range of applications is increasing, and a number of approaches have been made to Nanoco with a view to working together on existing and emerging applications for quantum dots. The Board therefore has growing confidence in our ability to secure and enhance value for all stakeholders in the medium-term.

Dr Christopher Richards	**Dr Michael Edelman**
Chairman	Chief Executive Officer
30 April 2020	30 April 2020

Financial review

Revenue
Revenue in the Period was £2.9m (H1 2019: £3.2m), the majority of which relates to the completion of the contract with the US Customer in December 2019.

Sources of revenue	H1 FY20 £m	H1 FY19 £m	FY19 £m
Services	2.5 / 87.0%	2.9 / 90.8%	6.5 / 91.1%
Material sales	0.1 / 3.6%	0.1 / 2.2%	0.2 / 2.6%
Licence fees	0.0 / 0.0%	0.0 / 1.6%	0.0 / 1.4%
Royalties	0.3 / 9.4%	0.2 / 5.4%	0.4 / 3.0%
Total revenue	**2.9 / 100.0%**	**3.2 / 100.0%**	**7.1 / 100.0%**

The table clearly shows the importance of the service income being generated, primarily from the US Customer (in the current year and prior year). Material sales represent continued shipments of nano-materials to supply chain partners in the infra-red sensing and display markets.

As previously announced, the commencement of the FSP in November 2019 led to delays in signing new business opportunities and contributed to a decrease in revenue for the Period and following months. However, we have now received some new orders for materials to be used in infra-red sensors and a material new joint development agreement ('JDA') in the same field is currently being negotiated.

Other operating income was £0.1m (H1 FY19: £0.1m) which, as in the prior year, was generated by grant income earned by our Life Sciences research team.

Operating expenses
Operating expenses comprise R&D and administrative expenses. Gross investment in R&D in the Period was £1.7m (H1 FY19: £1.6m) to support the ongoing development of CFQD® Quantum Dots and other nano-particles. Administrative expenses were £3.6m (H1 FY19: £4.3m) and decreased through the combination of restructuring completed in the prior year (which generated £0.6m of annualised savings and £0.3m in the Period) and other actions to closely control costs.

Operating loss and Adjusted LBITDA

Despite a £0.3m fall in year on year revenue, the operating loss in the Period fell by 19% to £2.4m and Adjusted LBITDA in the Period fell by 44% to £1.3m. This is on a like for like basis with the comparative periods, prior to the introduction of IFRS16. Including the impact of IFRS16, Adjusted LBITDA improved in the Period and reduced further to £1.1m. These improvements reflect the benefits of the restructuring completed in Q4 FY19 and the additional cost savings implemented in the Period.

	H1 FY20 £m	H1 FY19 £m	FY19 £m
Operating loss	(2.4)	(3.1)	(5.5)
Share-based payment charge	0.2	0.1	0.2
Exceptional costs	0.1	—	0.3
Adjusted* operating loss	(2.1)	(3.0)	(5.0)
Depreciation (IFRS 16 impact £0.2m in FY20)	0.7	0.2	0.6
Amortisation	0.3	0.3	0.6
Adjusted* LBITDA[2]	(1.1)	(2.5)	(3.8)

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

[2] Adjusted LBITDA in the current year includes the impact of IFRS16 ('Leases') which has been implemented using the modified retrospective approach which includes restating opening balances but not the prior year Income Statements. The Group estimates that the LBITDA in H1 FY19 would have been c.£2.3m if IFRS16 had been applied to the Income Statement in that Period (reported LBITDA £2.5m).

LBTIDA as they are all non-cash charges. The exceptional charge in the Period is in respect of costs incurred as part of the FSP and are clearly not part of the Group's normal activities and hence are excluded to allow a user of the accounts a clearer understanding of underlying business performance. The net exceptional costs in FY19 are set out in the Annual Report and Accounts for FY19.

We remain mindful of the Group's restricted cash resources and continue to scrutinise all categories of cost with new savings opportunities being identified and captured on a regular basis. In October 2019 we reported current monthly gross cash costs of approximately £0.8m when we announced our results for the year ended 31 July 2019 and we reduced these further to £0.7m by the end of the Period. This figure was then reduced further after the Period end and by March 2020, prior to the onset of Covid-19, had been reduced to just over £0.6m. Further measures announced in the light of Covid-19 and their potential impact on the business are set out in the sections below on Principal Risks and Going Concern but, in summary, we have now reduced our monthly cash cost to approximately £0.4m.

Taxation

The Group continues to make research and development tax credit claims on its qualifying expenditure. We also take advantage of the provision whereby losses generated are surrendered for cash credits. The tax credit for the Period is estimated at £0.6m (H1 2019: £0.6m). The amount receivable at 31 January 2020 was £0.6m (H1 FY19: £2.0m), which is the accrual for the current year. The prior year tax credit of £1.1m was received in January 2020.

Net result

The loss after tax for H1 FY20 was £1.9m (H1 FY19: loss of £2.5m).

Earnings per share

The basic loss per share was 0.66 pence per share (H1 FY19: loss of 0.88 pence per share). As at 31 January 2020 there were 286,219,246 ordinary shares in issue (31 July 2019: 286,219,246) including shares held in treasury.

Cash position and liquidity

During H1 FY20, the Group generated a significantly improved net cash outflow of £2.8m (H1 FY19: £4.6m).

Cash flow summary	**H1 FY20 £m**	**H1 FY19 £m**	**FY19 £m**
Operating losses	(2.4)	(3.1)	(5.5)
Depreciation and amortisation	1.0	0.5	1.2
Share based payments	0.2	0.1	0.2
Exceptional items	0.1	—	0.3
Changes in working capital	(0.6)	(0.8)	(0.4)
Changes in deferred income / contract liabilities	(1.4)	1.0	2.2
Cash flow from operating activities	(3.1)	(2.3)	(2.0)
R&D tax credits received	1.1	—	1.4
Operating cash flow	(2.0)	(2.3)	(0.6)
Purchases of tangible fixed assets	(0.1)	(1.7)	(2.1)
Purchases of intangible fixed assets	(0.3)	(0.5)	(1.0)
Payment of IFRS 16 lease liabilities	(0.4)	—	—
Net cash (outflow)	**(2.8)**	**(4.5)**	**(3.7)**
Opening net cash	7.0	10.7	10.7
Closing net cash	**4.2**	**6.2**	**7.0**

Expenditure on fixed asset additions in the Period was £0.1m compared to £1.7m in the prior year. The significant expenditure in the prior year relates to the completion of the Runcorn facility, whereas the current Period spend represents a more normal level of maintenance type capital expenditure.

Expenditure in respect of intangible fixed assets was £0.3m (H1 FY19: £0.5m) and related to patent costs. We continue to focus our R&D resource on new materials and applications whilst ensuring that we continue to meet our customer requirements.

Going concern

A key area of judgement is the assessment of going concern due to the material uncertainty regarding management's ability to generate new sales revenues and to implement the necessary cost savings in an appropriately timely manner, should significant additional revenues beyond those already contracted not be secured or, as an alternative, if other significant sources of medium term funding not be secured. Further details of this assessment and the associated risks and mitigating actions are set out in the sections on Principal Risks, Going Concern and Basis of Preparation.

Nevertheless, considering the mitigating actions that can be taken, and after making enquiries and considering the uncertainty described above, the Directors have a reasonable expectation that the Group has access to adequate resources to continue in operational existence for the foreseeable future, that is, at least 12 months from the date of the issue of these interim condensed consolidated financial statements. Accordingly, they continue to adopt the going concern basis of accounting in preparing the interim consolidated financial statements and the Board concluded that it is appropriate to adopt the going concern assumption.

However, given that a degree of uncertainty exists in respect of future revenue and management's ability to implement the necessary cost savings in a timely fashion, there exists a material uncertainty in relation to the going concern basis adopted in the preparation of the financial statements.

Fixed assets

The Group decreased its capital spend in tangible assets in the Period to a total of £0.1m (H1 FY19: £1.7m), which reflects the fact that the Runcorn facility was completed in the prior year. Depreciation was higher than the prior year due to the additional charges on the new Runcorn facility in the current year. Expenditure incurred in registering patents totalled £0.3m (H1 FY19: £0.5m) during the Period reflecting the Group's continued focus on developing and registering intellectual property.

Stock

Stock in the Period decreased to £0.1m compared to the position at 31 July 2019 (£0.3m). This reduction was due to the Group utilising existing stock levels and ensuring efficient stock management.

Brexit

The main impact from Brexit and the continuing uncertainty around the post Brexit arrangements depends on whether or not it has a potential negative effect on the Group's existing relationships with customers, the majority of which are based outside of the UK, and the supply chain upon which we rely. The Group has undertaken a review of potential actions that it would take in the event that mitigation was required. This assessment is unchanged since the year ending 31 July 2019 despite the successful negotiation of an exit deal between the UK and the European Union because clarity on the shape of any future trading arrangements have not yet been delivered.

Principal risks

The Directors have considered the principal risks which may have a material impact on the Group's performance. The risks remain as disclosed in pages 30 to 31 of the 2019 Annual Report and Accounts.

The principal over-arching strategic risk to the Group remains that it exhausts its financial resources before it can achieve a self-financing level of commercial production and service revenue. This risk has undoubtedly been heightened as a result of the Covid-19 pandemic. The impact of the pandemic and mitigating actions by management are set out below.

Covid-19 impact and actions to reduce costs since the Period end

The FSP has been severely challenged by the Covid-19 pandemic which led to the decision by the Board to terminate the process. The Group also previously announced that the FSP itself had led to some delays in commercial discussions and potential new orders. This has continued and been further exacerbated by Covid-19 as customers restrict their own operations and take measures to preserve their own cash resources. While this has had limited impact on the Board's expectations for revenue in the current financial year, it has almost entirely eliminated the potential for upside this year.

The safety and wellbeing of Nanoco's employees is a key priority for the Board. Since the onset of the Covid-19 pandemic and the UK Government's ('HMG') actions to control the spread of the disease and to support employers, we have taken the following actions:

- Implemented home working for all those who have necessary duties to perform that can be performed from a remote location. This has included ensuring that all staff have access to a laptop and remote teleconferencing and video conferencing facilities;
- Where customer orders have continued, we have implemented revised risk-based working practices in our facilities to minimise risk while we try to ensure that income generating revenue from customers continues to be serviced;
- In order to access the UK Government's employment support scheme (the 'furlough' scheme) we commenced a consultation with staff to amend contracts to allow staff to be furloughed. The consultation period is due to end on 30 April 2020 at which point the benefits to staff and the company should start to flow through;
- We are also consulting on a company-wide 20% reduction in salary for those who are not furloughed which will take effect on 1 May 2020. The Board has taken the lead in this area, with the Chairman and Non-Executive Directors taking an immediate 35% pay cut while the Executive Directors reduced their pay by 20% (both effective from 1 April 2020);
- The Board felt it was appropriate to protect our lower paid employees (Gross salary is less than £2,500 per month or salary of less than £25,000 per annum) - who will continue to receive the lower of full pay or £2,500. In addition, all other benefits such as employer pension contributions and death in service benefits have been protected for all staff at their unreduced levels of salary; and
- Discussions with our landlords and a number of other major suppliers and partners are underway and may lead to absolute savings or deferral of cash expenditure in the short term (in some cases these savings are still subject to agreeing final terms).

The estimated impact of the changes above (excluding the third party savings noted above since they are still subject to final agreement) is to cut the Group's monthly cash overhead costs in half to approximately £0.4m, with the largest saving resulting from the furloughing of around 50 of the Group's current 70 employees and the 20% company-wide pay cut.

This revised monthly gross cash burn rate will be effective from 1 May 2020 and extends the Group's cash runway from the previously indicated July 2020 until December 2020 and potentially beyond. However, it should be noted that this position is contingent on the continued availability of HMG employment support in line with current indications from HMG, the continued ability of the Group to furlough staff, and a potential small-scale restructuring in the third or fourth quarter.

In the event that the Group does not deliver new sources of commercial revenue or medium term funding, a more significant restructuring will be required that removes the Group's R&D, production, and scale up capabilities with the remaining business focussed on protecting the IP portfolio and the lawsuit against Samsung. In this scenario, the cash runway extends to the second quarter of 2021.

Commercial opportunities

The Group remains engaged on a number of commercial opportunities, including some recently received purchase orders in respect of nano materials for use in infra-red sensors. The Group is also documenting a new joint development agreement with an existing significant European customer, again in the field of sensing applications. This new commercial opportunity, if formally agreed, is a large enough opportunity to allow the Group to retain operational capability to the end of 2020 (with the restructuring activity noted above creating the extension to the second quarter of 2021). This and other new opportunities remain subject to the risk of delay in the future supply of commercial quantities of products to the customer in the normal way regarding widespread adoption of quantum dots in sensing or display markets, in addition to the potential impact of the Covid-19 pandemic.

Other sources of financing

The Board is actively pursuing a number of sources of financing for the Group to secure all or the majority of our operations and capabilities for the medium term (being the next two to three years). These alternative sources of funding will be particularly important now that the FSP has been terminated.

The Group has approached its bank regarding access to either the Government's Coronavirus Business Interruption Loan scheme ('C-BILS') or an alternative commercial loan or asset backed finance agreement. At the time of writing, we have been given to understand that while we qualify for C-BILS, only businesses with an historical track record of strong positive EBITDA are eligible for such loans. Hence they do not appear to be an option for starts ups, or pre-profit technology companies such as Nanoco. The Board is actively monitoring this rapidly evolving position and is reviewing all new options as they are announced.

The Board continues to consider other potential providers of finance, whether debt or equity based, including the potential to approach shareholders for further support at an appropriate time.

As previously announced, the lawsuit against Samsung is not having any adverse impact on the Group's cash flows as our legal counsel is working on a partial contingency basis and the Group is at an advanced stage of negotiations to secure third party funding of the lawsuit through to a trial in potentially 18 months' time (and beyond).

Going concern

For the purposes of assessing whether 'going concern' is an appropriate basis for preparing the interim financial statements, the Directors have used their detailed forecasts for the period to 31 July 2021 and summary forecasts for the following financial year (the 'forecast period'). These reflect current and expected business activities including the impact of the growing commercial relationship with our European customer focused on infra-red sensing opportunities, the cash balance of £4.2m as shown in the Group consolidated balance sheet at 31 January 2020, and all of the matters set out in the section above on Principal risks and in particular the detailed comments in the sections on Covid-19, Other commercial opportunities, and Other sources of financing.

The principal risks and uncertainties faced (as set out earlier in this report) are also considered as are other factors potentially impacting future performance. The key assumptions underpinning the base case assessment during the forecast period cover the following areas:

- Final agreement being signed with an existing customer on the first stage of a nine-month JDA as discussed above. Indicative costing has been assumed for the potential second and final stage to that JDA prior to the start of production of validation materials in 2021 leading to commercial production revenues in 2022;
- Minimum royalty and licence fee income from channel partners in respect of CFQD® products;
- Modest sales of CFQD® products and other nano-particles through existing contractual arrangements;

- No new revenue has been assumed to arise from the current renegotiation of the Merck license agreement as its conclusion is uncertain;

- The benefit of the cost reductions already agreed as discussed above.

- Availability of UK Government employment support in line with the timelines indicated by UK Treasury;

- In the absence of significant new income beyond that noted above, or if the Group fails to secure an alternative source of medium term financing for the Group, then a restructuring of the Group's cost base will be implemented in the fourth quarter of calendar year 2020;

- In the event of a restructuring, the Group will aim to preserve its core IP, the ongoing lawsuit against Samsung, and as much core R&D and production capability as is feasible.

This base case scenario, with the small-scale restructuring described above, should deliver adequate financial resources for the Group to trade until the second quarter of 2021.

Sensitivity analysis has been performed to reflect a possible downside scenario which includes only contracted revenues for the forecast period as well as the receipt of R&D tax credits. The downside scenario also excludes any of the alternative sources of medium-term financing that the Board is considering. In this downside scenario, management would be required to undertake a significant restructuring exercise to reflect the lower revenue expectations and such an exercise would create new risks regarding its effectiveness and time to deliver the expected benefits.

These additional risks represent a material uncertainty with respect to going concern. In the downside scenario, the Group effectively becomes an IP Shell with the Samsung lawsuit continuing. The Board's immediate efforts aim to avoid this scenario and to protect the operational and R&D capabilities to support the commercial efforts of the Company.

Going concern conclusion and basis of preparation

IAS 1 Presentation of Financial Statements requires the Directors to disclose "material uncertainties related to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern". The Directors consider that there is a material uncertainty regarding the Group's ability to implement the necessary cost savings in an appropriately timely manner should significant additional revenues beyond those already contracted not be secured or, as an alternative, if other significant sources of medium term funding not be secured.

Nevertheless, considering the mitigating actions that can be taken and after making enquiries and considering the uncertainty described above, at the time of approving the interim condensed consolidated financial statements, the Directors therefore have a reasonable expectation that the Company has access to adequate resources to continue in operational existence for the foreseeable future, that is, at least 12 months from the date of the issue of these interim condensed consolidated financial statements. Accordingly, they continue to adopt the going concern basis in preparing the interim condensed 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.

Brian Tenner

Chief Operating Officer and Chief Financial Officer
30 April 2020

Responsibility statement

The Directors of Nanoco Group plc, as listed on pages 46 and 47 of the 2019 Annual Report and Accounts, confirm to the best of their knowledge:

a) the condensed set of financial statements has been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting, as required by paragraph 4.2.4 of the Disclosure and Transparency Rules ("DTR");

b) the condensed set of financial statements, which has been prepared in accordance with the applicable set of accounting standards, gives a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer, or the undertakings included in the consolidation as a whole as required by DTR 4.2.10;

c) the interim management report includes a fair review of the information required by DTR 4.2.7 – an indication of important events which have occurred during the first six months of the year and a description of the principal risks and uncertainties for the remaining six months of the year; and

d) the interim management report includes a fair review of the information required by DTR 4.2.8 – the disclosure of related party transactions occurring during the first six months of the year and any changes in related party transactions disclosed in the 2018 Annual Report and Accounts.

By order of the Board

Dr Michael Edelman

Chief Executive Officer
30 April 2020

Condensed consolidated statement of comprehensive income
For the six months ended 31 January 2020

	Notes	**H1 FY20 (Unaudited) £'000**	H1 FY19 (Unaudited) £'000	FY19 (Audited) £'000
Revenue	3	**2,858**	3,192	7,123
Cost of sales		**(47)**	(485)	(665)
Gross profit		**2,811**	2,707	6,458
Other operating income (grants)		**77**	79	204
Operating expenses				
Research and development expenses		**(1,654)**	(1,562)	(4,385)
Administrative expenses		**(3,643)**	(4,285)	(7,760)
Operating loss		**(2,409)**	(3,061)	(5,483)
- Before share-based payments		**(2,133)**	(2,935)	(4,985)
- Share-based payments		**(181)**	(126)	(232)
- Net exceptional costs		**(95)**	—	(266)
- Operating loss as shown above		**(2,409)**	(3,061)	(5,483)
Net finance (expense) / income	4	**(40)**	(13)	(26)
Loss before taxation		**(2,449)**	(3,074)	(5,509)
Taxation	5	**552**	563	1,151
Loss after tax		**(1,897)**	(2,511)	(4,358)
Other comprehensive income				
(Loss)/profit on exchange rate translations		**(3)**	—	14
Loss after taxation for the year and total comprehensive loss for the year		**(1,900)**	(2,511)	(4,344)
Loss per share:				
Basic and diluted loss for the period	6	**(0.66)p**	(0.88)p	(1.52)p

Condensed consolidated statement of changes in equity
For the six months ended 31 January 2020

	Issued equity capital £'000	Reverse Acquisition Reserve £'000	Share-based payment reserve £'000	Merger reserve £'000	Accumulated loss £'000	Total £'000
At 31 July 2018 (audited)	144,426	(77,868)	3,214	(1,242)	(55,895)	12,635
Loss for the six months to 31 January 2019	—	—	—	—	(2,511)	(2,511)
Shares issued on exercise of options	14	—	(14)	—	—	—
Share-based payments	—	—	126	—	—	126
At 31 January 2019 (unaudited)	144,440	(77,868)	3,326	(1,242)	(58,406)	10,250
Loss for the six months to 31 July 2019	—	—	—	—	(1,833)	(1,833)
Shares issued on exercise of options	13	—	(13)	—	—	—
Share-based payments	—	—	106	—	—	106
At 31 July 2019 (audited)	144,453	(77,868)	3,419	(1,242)	(60,239)	8,523
Loss for the six months to 31 January 2020	—	—	—	—	(1,900)	(1,900)
Share-based payments	—	—	181	—	—	181
At 31 January 2020 (unaudited)	**144,453**	**(77,868)**	**3,600**	**(1,242)**	**(62,139)**	**6,804**

Condensed consolidated statement of financial position
As at 31 January 2020

	Notes	**31 January 2020 (Unaudited) £'000**	31 January 2019 (Unaudited) £'000	31 July 2019 (Audited) £'000
Assets				
Non-current assets				
Property, plant and equipment	7	**353**	4,155	747
Right of use asset		**729**	—	—
Intangible assets	8	**3,904**	3,731	3,897
		4,986	7,886	4,644
Current assets				
Inventories		**109**	278	226
Trade and other receivables	9	**871**	1,314	1,117
Income tax asset		**569**	1,963	1,129
Cash and cash equivalents		**4,184**	6,157	7,005
		5,733	9,712	9,477
Total assets		**10,719**	17,598	14,121
Liabilities				
Current liabilities				
Trade and other payables	10	**(1,651)**	(2,135)	(2,553)
Lease liabilities		**(364)**	—	—
Provisions		—	—	(797)
Deferred revenue	11	**(102)**	(149)	(1,462)
		(2,117)	(2,284)	(4,812)
Non-current liabilities				
Deferred revenue	11	**(303)**	(399)	(353)
Lease liabilities		**(1,048)**	—	—
Contract liabilities	12	—	(4,245)	—
Financial liabilities	13	**(447)**	(420)	(433)
		(1,798)	(5,064)	(786)
Total liabilities		**(3,915)**	(7,348)	(5,598)
Net assets		**6,804**	10,250	8,523
Capital and reserves				
Issued equity capital		**144,453**	144,440	144,453
Reverse Acquisition Reserve		**(77,868)**	(77,868)	(77,868)
Share-based payment reserve		**3,600**	3,326	3,419
Merger reserve		**(1,242)**	(1,242)	(1,242)
Accumulated loss		**(62,139)**	(58,406)	(60,239)
Total equity		**6,804**	10,250	8,523

Approved by the Board and authorised for issue on 30 April 2020.

Dr Michael Edelman
Chief Executive Officer

Brian Tenner
Chief Operating Officer and Chief Financial Officer

Condensed consolidated cash flow statement
For the six months ended 31 January 2020

	Six months to 31 January 2020 (Unaudited) £'000	Six months to 31 January 2019 (Unaudited) £'000	Year to 31 July 2019 Audited £'000
Loss before tax	**(2,449)**	(3,074)	(5,509)
Adjustments for:			
Net finance costs / (income)	**40**	13	(26)
Loss on exchange rate translations	**3**	—	14
Depreciation of tangible fixed assets	**468**	191	613
Depreciation of right of use asset	**252**	—	—
Amortisation of intangible assets	**309**	254	552
Impairment of intangible assets	**—**	—	26
Share-based payments	**181**	126	232
Exceptional items	**95**	—	266
Changes in working capital:			
Decrease/(increase) in inventories	**187**	(61)	(9)
Decrease in trade and other receivables	**246**	101	298
(Decrease) in trade and other payables	**(282)**	(885)	(1,515)
(Decrease)/increase in provisions	**(797)**	—	797
(Decrease)/increase in deferred revenue & contract liabilities	**(1,410)**	1,058	2,226
Cash outflow from operating activities	**(3,157)**	(2,277)	(2,035)
Research and development tax credit received	**1,112**	—	1,423
Net cash outflow from operating activities	**(2,045)**	(2,277)	(612)
Cash flows from investing activities			
Purchases of tangible fixed assets	**(74)**	(1,742)	(2,081)
Purchases of intangible fixed assets	**(316)**	(553)	(1,043)
Interest received	—	—	12
Net cash outflow from investing activities	**(390)**	(2,295)	(3,112)
Cash flows from financing activities			
Payment of IFRS 16 lease liabilities	**(386)**	—	—
Net cash outflow from investing activities	**(386)**	—	—
Decrease in cash and cash equivalents	**(2,821)**	(4,572)	(3,724)
Cash and cash equivalents at the start of the period	**7,005**	10,729	10,729
Cash and cash equivalents at the end of the period	**4,184**	6,157	7,005

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

1. **Corporate information**

   Nanoco Group plc (the "Company") has a premium listing on the Main Market of the London Stock Exchange and is incorporated and domiciled in the UK. The Group Interim Report and Accounts for the six months ended 31 January 2020 was authorised for issue in accordance with a resolution by the Directors on 30 April 2020.

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

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

2. **Accounting policies**

   a. Basis of preparation

   These interim condensed consolidated financial statements have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority, IAS 34 Interim Financial Reporting as adopted by the European Union, using the recognition and measurement principles of IFRSs as adopted by the European Union and have been prepared under the historical cost convention. As required by the Disclosure Guidance and Transparency Rules of the Financial Services Authority the accounting policies adopted in these condensed consolidated financial statements are consistent with those followed in the preparation of the Group's Annual Report and Accounts for the year to 31 July 2019, with the exception of the impact of adopting of IFRS 16. The impact of the adoption of new accounting standards is set out below.

   These interim condensed consolidated financial statements include audited comparatives for the year to 31 July 2019. The 2019 Annual Report and Accounts, which was prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union, received an unqualified audit opinion and has been filed with the Registrar of Companies. The financial statements of the Group for the year ended 31 July 2019 are available from the Company's registered office, or from the website www.nanocotechnologies.com.

   b. Presentation of figures

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

   c. Going concern

   In assessing whether 'going concern' is an appropriate basis for preparing the financial statements, the Directors have used their detailed forecasts for the period to 31 July 2021 and summary forecasts for the following financial year (the 'forecast period'). These reflect current and expected business activities including the impact of the growing commercial relationship with our European customer focused on infra-red sensing opportunities, the cash balance of £4.2m as shown in the Group consolidated balance sheet at 31 January 2020, and the estimated FY20 R&D tax credit expected to be received in December 2020. The matters set out in the section above on Principal risks and uncertainties faced, in particular the detailed comments in the sections on Covid-19, Other commercial opportunities, and Other sources of financing, are also considered as factors potentially impacting future performance.

Sensitivity analysis has been performed to reflect a possible downside scenario which includes only contracted revenues (and contracts already underpinned by a letter of intent) for the forecast period as well as the receipt of R&D tax credits. The downside scenario also excludes any of the alternative sources of medium-term financing that the Board are considering. In this downside scenario management would be required to undertake a significant restructuring exercise to reflect the lower revenue expectations and such an exercise would create new risks regarding its effectiveness and time to deliver the expected benefits. In the downside scenario, the Group effectively becomes an IP Shell with the Samsung lawsuit continuing. The board's immediate efforts aim to avoid this scenario and to protect the operational and R&D capabilities to support the commercial efforts of the Company.

However, even if the restructuring plan did not deliver all of the expected benefits or was slightly delayed in the downside scenario, the Company and Group have sufficient resources to continue in operational existence for the foreseeable future, that is, at least 12 months from the date of the issue of these interim condensed consolidated financial statements.

Therefore, at the time of approving the interim condensed consolidated financial statements, the Directors have a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the foreseeable future, that is, at least 12 months from the date of the issue of these interim condensed consolidated financial statements. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

However given that a degree of uncertainty exists in respect of future revenue and management's ability to implement the necessary cost savings in a timely fashion, there exists a material uncertainty in relation to the going concern basis adopted in the preparation of the financial statements.

d. Use of estimates and judgements

Preparation of the interim condensed consolidated financial statements requires management to make judgements, estimates and assumptions affecting the application of accounting policies and the reporting of assets, liabilities, income and expenses. Actual results may differ from these estimates. The significant judgements made by management in applying the Group's accounting policies and key sources of estimated uncertainty were the same as those applied to the consolidated financial statements for the year ended 31 July 2019. These are summarised below:

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

e. New accounting standards

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

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:

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

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 re-measured 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 £'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**	**—**

The table below reconciles operating profit between IAS 17 and the new standard, IFRS 16:

	£'000
Operating loss as reported under IFRS 16	**(2,409)**
Additional depreciation of right to use assets	**252**
Operating costs under IAS 17	**(382)**
Rent free accrual release	**26**
Onerous lease accrual release	**19**
Operating loss under IAS 17	**(2,494)**

During the half year to 31 January 2020, the movements on the right of use assets and lease liabilities are as follows:

Right of use Assets	£'000
Opening net book value	**981**
Depreciation	**(252)**
Closing net book value	**729**

Lease liabilities	£'000
Opening liabilities	**(1,769)**
Lease payments	**386**
Interest charge	**(29)**
Closing net book value	**(1,412)**

3. Segmental information

Operating segments

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

All revenue has been generated from continuing operations and is from external customers.	**Six months to 31 January 2020 (Unaudited) £'000**	Six months to 31 January 2019 (Unaudited) £'000	Year to 31 July 2019 (Audited) £'000
Analysis of revenue			
Products sold	**103**	71	186
Rendering of services	**2,485**	2,899	6,488
Royalties and licences	**270**	222	449
	2,858	3,192	7,123

The timing of the annual submission and subsequent receipt of the R&D tax credit has a material effect on the cash flow of the Group. There are no other factors of a seasonal or cyclical nature affecting the results of the Group. The R&D tax credit of £1.1m for the financial year ending 31 July 2019 was received in January 2020. All assets are held in the UK and all of its capital expenditure arises in the UK.

4. Finance income and expense

	Six months to 31 January 2020 (Unaudited) £'000	Six months to 31 January 2019 (Unaudited) £'000	Year to 31 July 2019 (Audited) £'000
Finance income			
Bank interest receivable	**7**	—	12
Other interest payable	**(33)**	—	(10)
Loan note interest payable	**(14)**	(13)	(28)
	(40)	(13)	(26)

5. Taxation

The tax credit is made up as follows:

Current income tax	**Six months to 31 January 2020 (Unaudited) £'000**	Six months to 31 January 2019 (Unaudited) £'000	Year to 31 July 2019 (Audited) £'000
Research and development income tax credit receivable	**(552)**	(521)	(1,128)
Adjustment in respect of prior years	**(-)**	(42)	(23)
Income tax	**(552)**	(563)	(1,151)

Accumulated losses available to carry forward against future trading profits were £32.6m (2019: £33.9m).

6. Loss per share

	Six months to 31 January 2020 (Unaudited) £'000	Six months to 31 January 2019 (Unaudited) £'000	Year to 31 July 2019 (Audited) £'000
Loss for the period attributable to equity shareholders	**(1,900)**	(2,511)	(4,344)
Share-based payments	**181**	126	232
Adjusted loss for the period	**(1,719)**	(2,385)	(4,112)

Weighted average number of shares	**No.**	No.	No.
Ordinary shares in issue	**286,219,246**	285,974,557	286,025,561
Adjusted loss per share (pence)	**(0.60)**	(0.83)	(1.44)
Basic loss per share (pence)	**(0.66)**	(0.88)	(1.52)

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

7. Property, plant and equipment

Cost	**31 January 2020 (Unaudited) £'000**	31 January 2019 (Unaudited) £'000	31 July 2019 (Audited) £'000
At the beginning of the period	**12,319**	10,238	10,238
Additions in the period	**74**	1,742	2,081
At the end of the period	**12,393**	11,980	12,319
Depreciation			
At the beginning of the period	**(11,572)**	(7,634)	(7,634)
Provided in the period	**(468)**	(191)	(613)
Impairment charge	**—**	—	(3,325)
At the end of the period	**(12,040)**	(7,825)	(11,572)
Net book value	**353**	4,155	747

During the year ended 31 July 2019, the Group posted an impairment charge against the new facility in Runcorn due to the lack of firm customer orders (£3,325,000, 2018: £nil).

8. Intangible assets

Cost	**31 January 2020 (Unaudited) £'000**	31 January 2019 (Unaudited) £'000	31 July 2019 (Audited) £'000
At the beginning of the period	**6,713**	5,670	5,670
Additions in the period	**316**	553	1,043
At the end of the period	**7,029**	6,223	6,713
Amortisation			
At the beginning of the period	**(2,816)**	(2,238)	(2,238)
Provided in the period	**(309)**	(254)	(552)
Impairment charge	**—**	—	(26)
At the end of the period	**(3,125)**	(2,492)	(2,816)
Net book value	**3,904**	3,731	3,897

Contingent consideration of $150,000 is payable in respect of a purchase of patents made during a previous period. The amount is payable if the Group reaches a revenue target in a future reporting period. The addition is recorded above at the Directors estimate of fair value of the consideration payable.

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

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

The aggregate original cost of intangible assets now fully depreciated but considered to be still in use is £604,000 (2019: £421,000).

During the year ended 31 July 2019 a review was undertaken to identify which patents are of no further value to Nanoco and should be allowed to lapse. Two patent families were identified. As a result, patents with a value of £26,000 were fully impaired. The impairment charge was recognised within administrative expenses. No impairment charge has been recognised in the current Period.

9. Trade and other receivables

	31 January 2020 (Unaudited) £'000	31 January 2019 (Unaudited) £'000	31 July 2019 (Audited) £'000
Trade receivables	**51**	293	202
Prepayments and accrued income	**665**	493	383
Other receivables	**155**	528	532
Trade and other receivables	**871**	1,314	1,117

Trade receivables are non-interest bearing and are generally due and paid within 30 to 60 days. The Directors have adopted the practical expedient available in IFRS9 which allows the assumption that there is no significant financing charge on receivables with a maturity less than one year, given the

Group's experience of no bad debts in the past 3 years. This in turn allows the receivables to be stated at their invoice value less any provision for impairment (instead of calculating an expected credit loss required by IFRS9 if the expedient is not available). The prior periods have been considered on the same basis and in all cases there is no requirement for an impairment provision at any of the balance sheet dates.

10. Trade and other payables

	31 January 2020 (Unaudited)	31 January 2019 (Unaudited)	31 July 2019 (Audited)
	£'000	£'000	£'000
Trade payables	**1,111**	1,501	1,764
Other payables	**97**	88	101
Accruals	**443**	546	688
Trade and other payables	**1,651**	2,135	2,553

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

11. Deferred revenue

	31 January 2020 (Unaudited)	31 January 2019 (Unaudited)	31 July 2019 (Audited)
	£'000	£'000	£'000
Current			
Upfront licence fees	**102**	149	102
Milestone payments	**—**	—	1,359
Total current	**102**	149	1,462
Non-current			
Upfront licence fees	**303**	399	353
Total non-current	**303**	399	353
Total deferred revenue	**405**	548	1,815

Deferred revenue arises under IFRS where upfront licence fees have been invoiced (and often paid) in advance of the associated service provision. Historically the revenue was recognised on a straight-line basis over the initial term of the contract which led to a portion of the advance payments being deferred at the period ends.

12. Contract liabilities

	31 January 2020 (Unaudited)	31 January 2019 (Unaudited)	31 July 2019 (Audited)
	£'000	£'000	£'000
Non-current			
Balance at the start of the period	—	2,885	2,885
Cash advanced from customers	—	1,360	1,360
Waiver by customer	—	—	(4,245)
Contract liabilities	—	**4,245**	**—**

Following the adoption of IFRS15, certain advance payments from the US customer were reclassified in the prior year from deferred revenue to contract liabilities. The total sum outstanding was formally waived by the US Customer in the second half of the prior year as part of the close out negotiations on the final contract deliverables.

13. Convertible loan

	31 January 2020 (Unaudited) £'000	31 January 2019 (Unaudited) £'000	31 July 2019 (Audited) £'000
Convertible Series A loan note 2028	**400**	400	400
Accrued interest	**47**	20	33
Convertible loan	**447**	420	433

The loan note issued by Nanoco 2D Materials Limited is unsecured, bears a fixed interest rate of 6.5% p.a. and is fully repayable with accrued interest in 2028 unless options to convert into shares of that company have been exercised. Other details are as set out in the 2019 Annual Report and Accounts.

14. Non-Adjusting Post Balance Sheet Events

Covid-19

The impact of the Covid-19 pandemic on the business and the FSP is set out in the Business Review and in the sections on Going Concern and Principal Risks.

FSP

The Group terminated the FSP on 30 April 2020 due to the challenging market conditions brought about by the Covid-19 pandemic.

Independent review report to Nanoco Group plc

Report on the interim condensed consolidated financial statements

Our conclusion

We have reviewed Nanoco Group plc's interim condensed consolidated financial statements (the "interim financial statements") in the Interim Results of Nanoco Group plc for the 6 month period ended 31 January 2020. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Emphasis of matter – Going Concern

Without modifying our conclusion on the interim financial statements, we have considered the adequacy of the disclosure made in note 2 to the interim financial statements concerning the Group's ability to continue as a going concern. As explained by the directors in note 2 to the interim financial statements, there are a number of uncertainties with respect to the going concern status of the Group. The principal uncertainty is the ability of management to implement the necessary cost savings in an appropriately timely manner should significant additional revenues beyond those already contracted not be secured or, as an alternative, if other significant sources of medium term funding not be secured. These conditions, along with the other matters explained in note 2 to the interim financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The interim financial statements do not include the adjustments that would result if the Group were unable to continue as a going concern.

What we have reviewed

The interim financial statements comprise:

- the condensed consolidated statement of financial position as at 31 January 2020;
- the condensed consolidated statement of comprehensive income for the period then ended;
- the condensed consolidated cash flow statement for the period then ended;
- the condensed consolidated statement of changes in equity for the period then ended; and
- the explanatory notes to the interim financial statements.

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

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

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

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

Our responsibility is to express a conclusion on the interim financial statements in the Interim Results based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What a review of interim financial statements involves

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

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

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

PricewaterhouseCoopers LLP
Chartered Accountants
Manchester
30 April 2020