NANOCO
GROUP PLC

JOINING THE DOTS

Annual Report and Accounts 2016

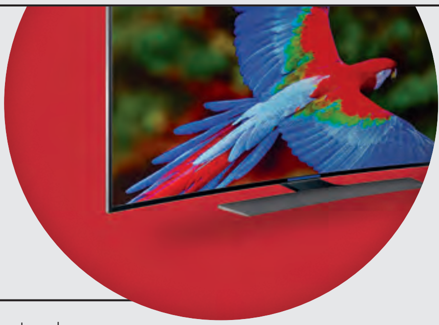
A WORLD OF COLOUR, LIGHT, ENERGY AND VISION

Nanoco Group plc ("the Company") and its subsidiaries ("Nanoco" or "the Group") is a world-leader in the research, development and large-scale manufacture of heavy-metal-free quantum dots and semiconductor nanoparticles.

Contents

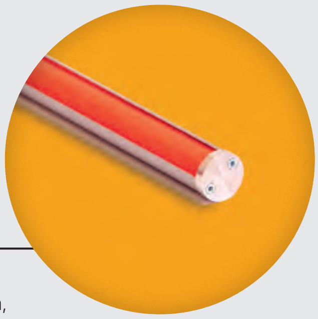
FOUR KEY THINGS ABOUT NANOCO

CFQD® QUANTUM DOTS: A PLATFORM TECHNOLOGY



Quantum dots are a true platform technology with applications in areas as diverse as flat screen displays and bio-imaging.

MASS PRODUCTION



Our patented molecular seeding process allows for cost effective production of uniform, high quality quantum dots on a large scale.

INTELLECTUAL PROPERTY

Our ability to innovate keeps us at the cutting edge of technology.

EXPERIENCED TEAM

Our team consists of highly qualified scientists and sales, operational and administrative staff recruited from countries all around the world.

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

HIGHLIGHTS

- Transformed business model which should accelerate the commercialisation of our technology
- Sample requests have increased over the past few months for Dow's TREVISTA™ cadmium-free quantum dots and are being fulfilled exclusively from Dow's dedicated Cheonan plant
- Merck licence agreement signed in July 2016
- Well advanced in transferring our technology to Merck and we expect them to be running initial manufacturing trials in the near future
- Wah Hong licence agreement signed in July 2016; sampling to customers is under way
- Significant increase in manufacturing capacity following process improvements and efficiencies developed during the year, together with moving to shift work post year end
- IP portfolio has grown to 467 patents and patents pending at year end
- Future opportunities if life science continues to emerge
- Revenue for the year was £0.47 million (2015: £2.03 million) and the loss after tax was £10.61 million (2015: £8.97 million). Billings in July 2016 which are deferred into future years amounted to £1.18 million
- Cash and cash on deposit at 31 July 2016 was £14.51 million (2015: £24.31 million)

Summary of KPIs	2016 £ million	2015 £ million
Cash and short-term deposits	**14.5**	24.3
Revenue	**0.5**	2.0
Loss after tax	**10.6**	9.0
Total billings*	**1.9**	2.0
Total investment in R & D	**6.0**	5.6
	Number	Number
Number of patents and patents pending	**467**	360

* "Total billings" is the sum of revenue, other operating income and deferred revenue.

Forward-looking statements

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

AT A GLANCE

THE FUTURE IS QUANTUM DOT TECHNOLOGY

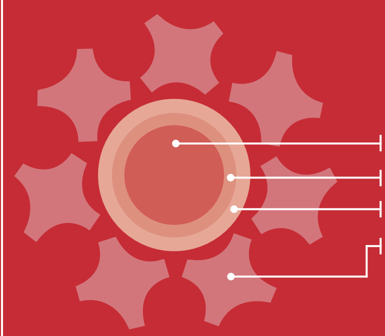
NANOCO® CFQD® quantum dot technology offers enhanced colour, energy efficiency and seamless integration into existing production processes.

01

What are quantum dots?

Quantum dots are fluorescent semiconductor nanoparticles typically between 10 to 100 atoms in diameter, which is about 1/1,000th the width of a human hair.

When one of these particles is excited by an external light source, it absorbs the energy and re-emits the light in a different colour depending on the size of the particle. Therefore, by tuning the size of these particles, one is able to control the colour of light emitted to any colour in the spectrum.

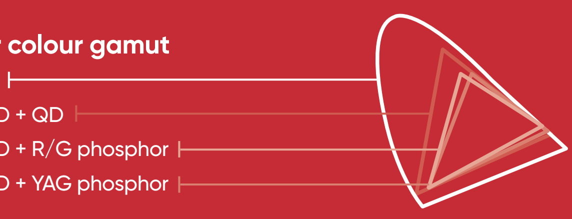


02

Improved colour saturation and energy efficiency

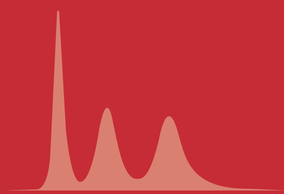
CFQD® quantum dots emit extremely pure colours of light when excited and when used in an LCD display, the screen receives a richer light that expands the range of colour it can show. Moreover, due to quantum dots' narrow bandwidth, less light is wasted going through the colour filters, resulting in a more energy efficient display.

Better colour gamut



Energy efficient

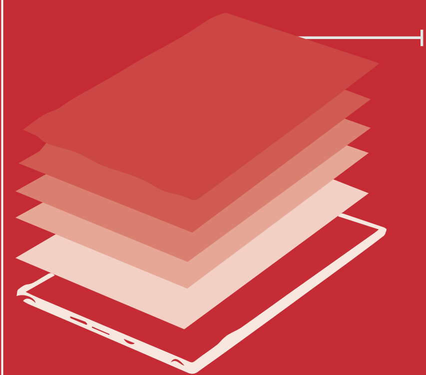
Narrow bandwidth equals more light extraction through colour filters



03

Minimal process change

Nanoco's quantum dot technology is particularly attractive, not only for its ability to enhance the colours of displays, but also for enabling manufacturers to use their existing infrastructure to do so. CFQD® quantum dots can easily be integrated into an LCD display by incorporating the dots into a film.



04

Cadmium free

Nanoco's innovative technology allows for highly efficient quantum dots to be made that are completely cadmium and heavy-metal free. This uniquely positions Nanoco as one of the few manufacturers able to supply quantum dots which can be used without legislative restrictions on heavy metal content in a whole range of consumer electronics and lighting applications.

AT A GLANCE CONTINUED

LEADING WITH OUR CUTTING EDGE TECHNOLOGY

What we do

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

SOLAR

Nanoco's nanomaterials have the potential to produce highly efficient, low cost and lightweight solar cells.

DISPLAY

Nanoco's CFQD® quantum dots offer enhanced colour, energy efficiency and seamless integration into existing production processes

25.5M
QD TV shipment 2020 forecast

BIO-IMAGING

Nanoco's nanomaterials offer the potential for important new bio-imaging applications.

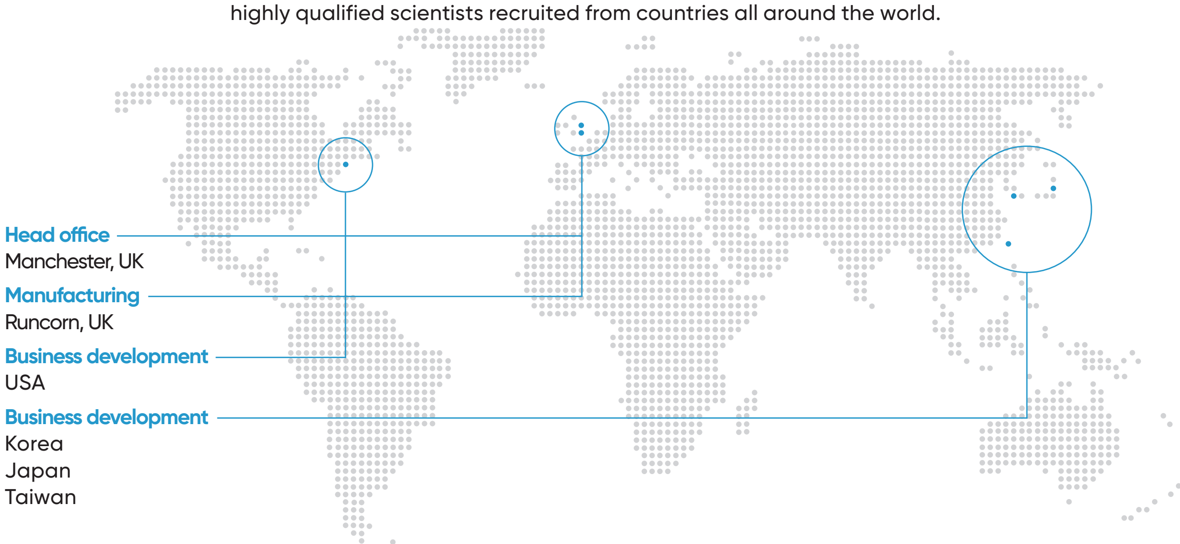
LIGHTING

Nanoco's CFQD® quantum dots enable tuneable, high efficiency lighting.

Read about Our markets
Pages 10-11

Where we do it

Nanoco is a global business with its headquarters in Manchester, where the Group's R&D activities are based. Nanoco's team totals around 130 people, most of whom are highly qualified scientists recruited from countries all around the world.



What we have been doing

We have made substantial progress and achieved a significant number of commercial, technological and organisational milestones, with 2016 being a transformational year for the Group following the change in its business model to non-exclusive licence agreements.

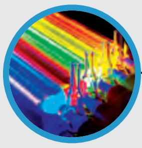
31 JULY 2016

Nanoco entered into a non-exclusive licence agreement with Merck, which will market Nanoco's material to its broad customer base in the display industry.

22 JULY 2016

Nanoco and Wah Hong Industrial Corporation signed a commercialisation agreement in display. Nanoco will supply cadmium-free quantum dot resin, manufactured at the Company's plant in Runcorn, UK.

Wah Hong will process the resin and then market it to its existing customer base in the display industry.



29 APRIL 2016

Nanoco received its first royalty payment from The Dow Chemical Company, marking an important milestone in the commercialisation of Nanoco's technology.

31 MARCH 2016

Nanoco mutually agreed with The Dow Chemical Company to modify its licence agreement, giving Dow non-exclusive rights for the sale, marketing and manufacture of Nanoco's quantum dot technology for use in display applications.

13 OCTOBER 2015

Nanoco signed a further follow-on joint development agreement with OSRAM, one of the world's largest lighting companies, in connection with the use of Nanoco quantum dots in lighting.

1 JULY 2015

Nanoco confirmed the commissioning of the Cheonan quantum dot facility, being built by Dow, was under way.

1 MAY 2015

Nanoco shares began trading on the Main Market of the London Stock Exchange, raising gross proceeds of £20 million.

CHAIRMAN'S STATEMENT

A TRANSFORMATIONAL YEAR

Substantial progress has been made in the year under review and I am very encouraged by the momentum currently in the business.

Introduction

It is a pleasure to be introducing Nanoco's results for the year to 31 July 2016 and to be issuing my first Chairman's statement since my appointment in May this year. I joined Nanoco as a Non-executive Director last November and, after almost a year at the Group, I continue to be impressed by the huge potential of Nanoco's technology and by the skill and dedication of the Group's management and employees.

Substantial progress has been made in the year under review and I am very encouraged by the momentum currently in the business.

At the AGM in December 2015 our CEO, Dr Michael Edelman, said that 2016 would be a landmark year for the Group. Events have proven him to be correct, with a number of important commercial, technological and organisational milestones achieved.

The strategic shift announced in March this year to a non-exclusive approach to out-licensing in the display sector has transformed the Group's ability to commercialise its technology in display. Since the announcement of this new strategy, the Group has signed non-exclusive deals with Taiwan-headquartered Wah Hong Industrial Corporation ("Wah Hong") and with Germany's Merck KGaA ("Merck"). These deals, together with the revised agreement with The Dow Chemical Company ("Dow"), put Nanoco in an excellent position to accelerate the commercialisation of its technology in display.

It is pleasing to report that major technological progress was made with the Group's manufacturing processes during the year, resulting in significant increases in yields and efficiency. As well as enabling our commercial partners to become more competitive these breakthroughs mean that Nanoco's own manufacturing capacity is becoming increasingly important to the Group. This both accelerates sales and allows the Group to capture more margin without significant capital expenditure.

While our focus in 2016 has been on the display market, Nanoco's technology has several important applications beyond that sector. Important progress was made during 2016 in the Group's three other target markets: general lighting, life sciences and solar energy.

Key to the long-term success of Nanoco is maintaining and enhancing our global lead in cadmium-free quantum dot ("CFQD") technology through our proprietary CFQD® technology. Great progress has been made under the leadership of our Chief Technical Officer, Nigel Pickett, the scientific inventor of our core technology, together with his outstanding team of scientists. Our intellectual property ("IP") portfolio continues to grow and to strengthen our leadership position.

Our organisation has continued to develop during the year as we prepare to accelerate the commercialisation of our technology and to deliver product to customers worldwide. The Group had grown to 129 employees at the year end (31 July 2015: 109); the increase mainly reflects increased staff in manufacturing and supply chain. Whilst Display was our primary focus during the year, we also built out our divisional structure during the year

New licensing agreements and manufacturing improvements have put the Group in a strong position for rapid revenue growth.

with the formation of a Life sciences Division to pursue the significant opportunities for our technology in the medical devices and medical diagnostics markets.

Financial performance

Revenues in the year to 31 July 2016 were £0.47 million (2015: £2.03 million) and the loss before tax was £12.60 million (2015: loss before tax of £10.88 million). The revenues include the first two quarters (six months) of royalty payments from Dow.

The Group continued to exercise careful cost control during the year and its balance sheet remains strong. Cash, cash equivalents and deposits at the year end were £14.51 million (31 July 2015: £24.31 million; 31 January 2016: £18.27 million). No dividend is proposed for the year (2015: none).

Governance and Board

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

During the year, Dr Peter Rowley retired as a Non-executive Director after ten years of valuable service to the Group. Peter was instrumental to the early development of Nanoco, first as Chairman and latterly as a Non-executive Director. Anthony ("Tony") Clinch stepped down as Chairman in May this year, having served six years on the Board, the first three of which were as a Non-executive Director. Tony led Nanoco through some important milestones, including the transition to a non-exclusive strategy in display. On behalf of the Board, I would like to thank Peter and Tony for their major contributions to Nanoco's development over the years.

It is the intention of Gordon Hall to stand down from the Board on 31 January 2017, after nine years of service. We have initiated the process of identifying a successor for Gordon and will make announcements in due course.

As reported in our 2015 Annual Report, David Blain was appointed Chief Financial Officer on 3 August 2015. I joined as a Non-executive Director on 11 November 2015, becoming Senior Independent Director on 2 December 2015. Following my appointment as Chairman on 18 May 2016, Brendan Cummins was appointed Senior Independent Director, as announced on 26 July 2016.

Employees and shareholders

On behalf of the Board, I would like to thank all of Nanoco's employees for their achievements during the year and for their commitment to the Group. Nanoco benefits from an exceptional team, with members from many countries around the world; the Board is enormously appreciative of their contributions.

I would also like to thank our shareholders for their continuing support and I look forward to meeting as many as possible at our AGM to be held on 15 December 2016. During the year, we strengthened our engagement with shareholders and potential shareholders through the appointment of Caroline Watson as Investor Relations Manager. We also appointed an investor relations agency in the USA with the objective of gaining traction with investors in North America.

Outlook

I am encouraged that the significant progress made during the year, especially in new licensing agreements and manufacturing improvements, have put the Group in a strong position for rapid revenue growth. Combined with our solid cash position, we look forward to the future with confidence.

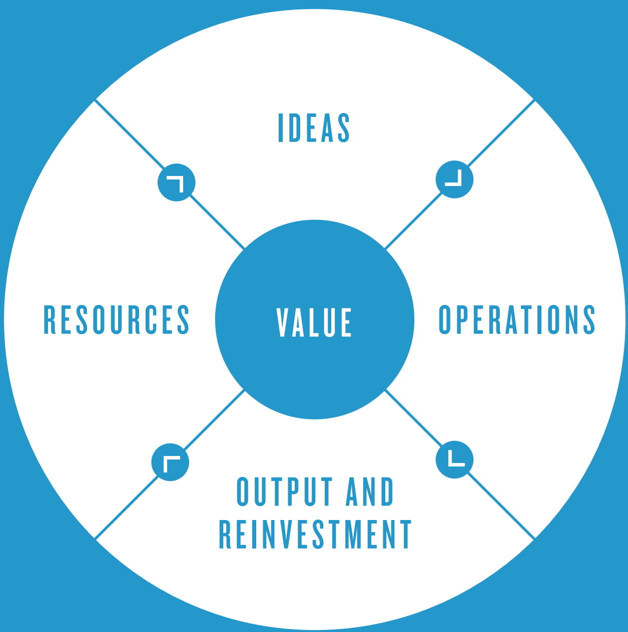
Dr Christopher Richards
Chairman
11 October 2016

OUR BUSINESS MODEL AND STRATEGY

FOCUSED ON CONTINUED TECHNICAL DEVELOPMENT

The business model has changed significantly during the year. Until 31 March 2016 we operated an exclusive business model in the display field with Dow holding the exclusive rights to exploit our core technologies and intellectual property in that field. The Dow agreement was changed to non-exclusive in March this year.

HOW WE GENERATE VALUE



The change to a non-exclusive business model has transformed the opportunities open to us. We appointed two additional licensees in the display field – Merck and Wah Hong – in July and are free to appoint further licensees if we choose.

Nanoco has a successful track record of innovation and is regarded as a world leader in the field of nanomaterials, specifically fluorescent semiconductors called quantum dots. The Group's core technologies are the ability to scale up cost-effective production of high performance cadmium-free quantum dots and applications containing those CFQD® quantum dots. Two of the largest electronic materials companies in the world are licensed to utilise the Group's extensive intellectual property to manufacture, market and sell CFQD® quantum dot products in the display field. In addition the Group's own products are licensed to a converter to produce and distribute CFQD® quantum dot products into the display field.

The Group earns revenues from its CFQD® quantum dot technology in the form of material sales, licence fees and royalties as well as partnership agreements mainly in the form of joint development agreements and grant income.

Resources

Development of successful CFQD® quantum dot products is achieved by our highly skilled scientists applying specialist proprietary techniques and technologies to address market opportunities and customer needs. We use our existing financial resources to fund our developments. The potential for our products is significantly enhanced through our licensing agreements with major multinational companies.

Ideas

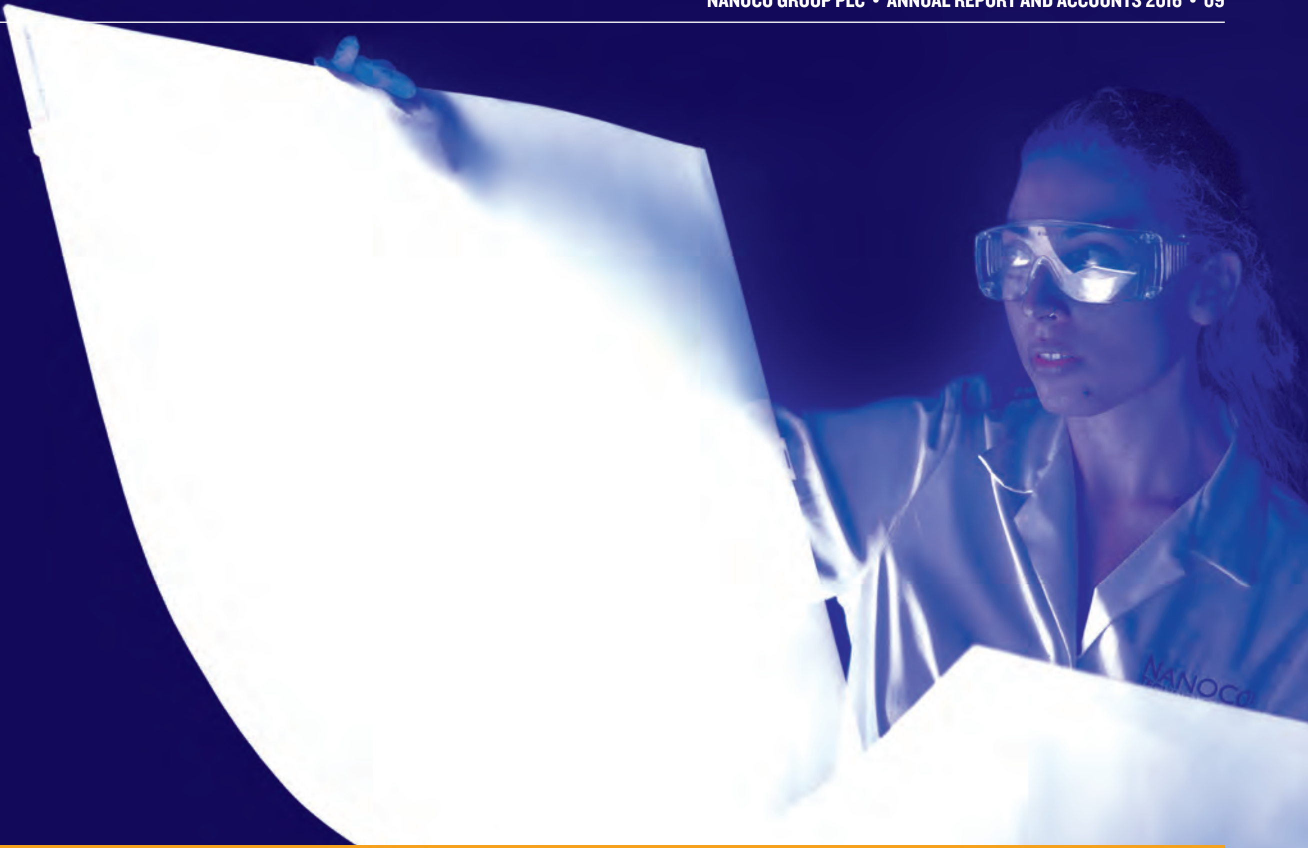
We operate a comprehensive process to identify, screen and prioritise potential concepts for new products and technologies. This involves our own scientific and commercial teams, in collaboration with our partner licensees and customers. Our portfolio of issued patents and pending patent applications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

Operations

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

Output and reinvestment

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



STRATEGY

Our focus

The Group's strategy is to focus on meeting the needs of customers through the application of its scientific know-how and innovative CFQD® quantum dot development and manufacturing technologies.

The Group aims to grow its revenues from its current CFQD® quantum dot products and to continuously strive to improve these products and develop further innovative applications to maintain its position as a world leader in quantum dot technology.

The Group will leverage its CFQD® quantum dot technology through own manufacture and existing licensing partnerships across the world. The current blend of in-house manufacture and external manufacture is expected to be optimal once all partners' manufacturing capabilities are in place – this will be constantly reviewed as the partners develop their capabilities and our collective operational efficiencies improve.

The Board's strategy is to focus its attention primarily on the display industry as its main target market and in parallel continue to explore lighting, life sciences and other applications.

2017 objectives

The key objectives for the financial year are to:

- grow revenue from sales of CFQD® quantum dot products manufactured directly and through our licensees;
- continue to invest in research and development in our core markets;
- continue to develop in-house manufacturing capability and capacity; and
- work with licensing partners in order to assist them in maximising their opportunity in manufacturing and selling CFQD® quantum dot products in order to maximise Group revenues.

Investing for growth

Our goal is to create a balanced product portfolio and development pipeline to generate milestones, royalties and supply revenues while spreading risk through a combination of self-funded and partner-funded projects.

Self-funded projects are likely to continue to be in the core area of our expertise, i.e. display.

Partner-funded projects are likely to be in areas where specialist application/ regulatory knowledge is required or where the level of investment is beyond our capabilities.

Through careful investment in our core areas of expertise, working closely with our licensing partners and building on our reputation as a world leader in the quantum dot field, we believe we can grow our revenues in the near future.

OUR MARKETS

OPERATING IN THE FAST GROWING DISPLAY MARKET

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

The display market

The display sector includes:

- televisions
- monitors
- notebooks
- tablets
- smartphones

The television market is already adopting CFQD® applications and Samsung is actively marketing televisions containing such products.

Overall the television market is expected to grow following a recent decline in revenues.

- Stronger demand for large ultra-high definition ("UHD") and 8K panels could slow declining average selling prices.
- Global display demand could pick up after 2016 if global economy improves.
- Flat panel display ("FPD") area is expected to grow as demand for large TVs rises.
- Samsung and LG were the major brands sold in 2015.

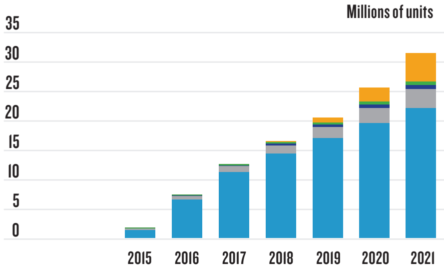
Our other product development areas of Lighting, Life sciences and Solar have attractive market sizes but our applications are further away from market than our display products, so our main focus is on exploiting the display market.

FPD **REVENUE**

Source:
press.ihs.com/press-release/technology/declining-flat-panel-display-revenue-reach-lowest-level-2012-ihs-says.

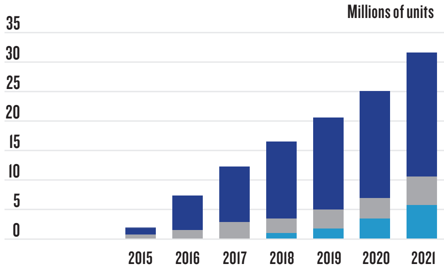
As shown in the tables opposite, independent forecasts of the growth of the application of quantum dot products in the display market show significant anticipated growth over the next five years and the majority of this growth is anticipated to be in "QD surface" products, i.e. film containing quantum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

QD display market forecast by application (volume)



	2015	2016	2017	2018	2019	2020	2021
Smartphone	—	—	—	0.1	0.8	2.3	4.8
Tablet	0.1	0.1	0.2	0.3	0.4	0.5	0.6
Notebook	—	0.1	0.1	0.3	0.4	0.6	0.7
Monitor	0.2	0.6	1.0	1.4	1.9	2.5	3.2
TV	1.4	6.5	11.2	14.3	16.9	19.5	22.0

QD display market forecast by type (volume)



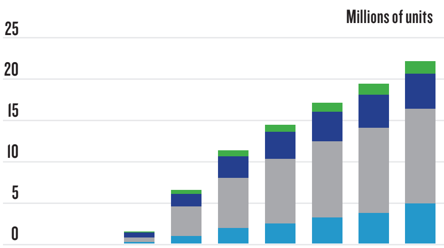
	2015	2016	2017	2018	2019	2020	2021
QD surface	1.2	6.0	10.2	13.0	15.3	18.1	21.0
QD edge	0.4	1.3	2.4	3.0	3.4	3.9	4.1
QD chip	—	—	—	0.4	1.6	3.4	6.0

DISPLAY

ENTERING INTO A NON-EXCLUSIVE LICENCE AGREEMENT WITH MERCK

Quantum dot applications are independently forecast to feature predominantly in the 50 to 59-inch screens:

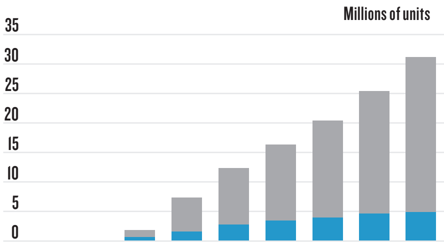
QD TV display market forecast by size (volume)



	2015	2016	2017	2018	2019	2020	2021
>70 inch	0.084	0.461	0.680	0.854	1.073	1.292	1.530
60–69 inch	0.582	1.533	2.610	3.233	3.525	3.976	4.176
50–59 inch	0.598	3.567	6.004	7.728	9.070	10.249	11.339
40–49 inch	0.142	0.939	1.892	2.443	3.205	3.948	4.930

The cadmium-free QD display market is forecast to grow steadily, capturing more than an 80% share in 2018 and, therefore, cadmium-free QD materials will emerge as a key material in the QD market.

QD display market forecast by Cd and Cd-free (volume)



	2015	2016	2017	2018	2019	2020	2021
Cd free	1.1	5.8	9.8	12.9	16.4	20.8	26.2
Cd	0.6	1.5	2.7	3.4	4.0	4.6	4.9

Our focus is on the television and monitor applications. Further product development in thin film or other methods of utilising CFQDs is required to penetrate the smartphones market.

Source: IHS.

New commercial partnerships

Nanoco has signed a worldwide material supply and licensing agreement with Merck. The licence allows Merck to immediately start marketing Nanoco's cadmium-free quantum dots and to ultimately establish its own production facility to meet growing market demand.

"The agreement is in line with Merck's strategy to sustainably secure its position as the global market and technology leader in display materials. With cadmium-free quantum dots, a remarkable increase in the colour range and a significant reduction in power consumption can be achieved. These cadmium-free quantum dots are eco-friendly and also complement our product portfolio for the display industry," said Walter Galinat, member of the Merck Executive Board and CEO of Performance Materials. "The licence agreement with Nanoco will strengthen our position in quantum materials research, for which we laid the foundations by acquiring Qlight Nanotech of Israel last year."

In line with Nanoco's commercialisation strategy in the display market, this agreement is non-exclusive. Merck will begin marketing Nanoco's technology in the near term by selling cadmium-free quantum dots manufactured at Nanoco's expanded production plant in Runcorn, UK.

Quantum materials offer a substantial additional benefit when they are used as colour converters in the light source of liquid crystal displays. In conventional displays, the colours blue, green and red are filtered out of the original white light of the LED light source. A great deal of light is lost in this process. Because a blue LED in combination with red and green quantum materials only generates the blue, green and red light that is perfectly transmitted through the filters, there is much less absorption. This increases the display's brightness, reduces electricity consumption and leads to much purer and potentially stronger colours.

MERCK

Merck will market Nanoco's material to its broad customer base in the display industry.

CHIEF EXECUTIVE OFFICER'S STATEMENT

A TIME OF PROGRESS

Key strategic developments during the year included the new licensing strategy in the display sector and the step-change enhancement of our production processes.

Overview

During the year, we continued to drive the commercialisation of Nanoco's cadmium-free quantum dot technology and to deliver our strategy for the roll-out of our technology in multiple end-use markets.

Key strategic developments during the year included the new licensing strategy in the display sector and the step-change enhancement of our production processes. The new licensing strategy has given us greater control and is allowing us to increase the pace of commercialisation in display.

The improvements to our production processes have dramatically increased the quality and the yield of our cadmium-free quantum dots. One effect of this is to substantially increase production capacity at our Runcorn, UK, facility without significant capital expenditure or the building of new production lines. Nanoco now has the capacity to be a commercial supplier of cadmium-free quantum dots for display and other applications, considerably advancing the Group's manufacturing strategy.

In the near term, it is expected that there will be three manufacturing plants worldwide: Dow's mass production plant in South Korea; our plant in Runcorn; and an anticipated mass production plant to be built by Merck. These plants will drive the market penetration of our technology in display.

Our improved manufacturing processes have been transferred to Dow for use at its mass production plant and will also be available to new licensees such as Merck.

The transition at Runcorn from a pilot plant to a commercial manufacturing operation has required the operational management of the plant to evolve considerably. Our objective is to establish a world class plant, safely and reliably manufacturing high quality cadmium-free quantum dots to meet the needs of customers. To achieve this objective, we have focused on best practice, robust systems and processes. Our recent, successful move to shift work at the plant was an important milestone at the plant.

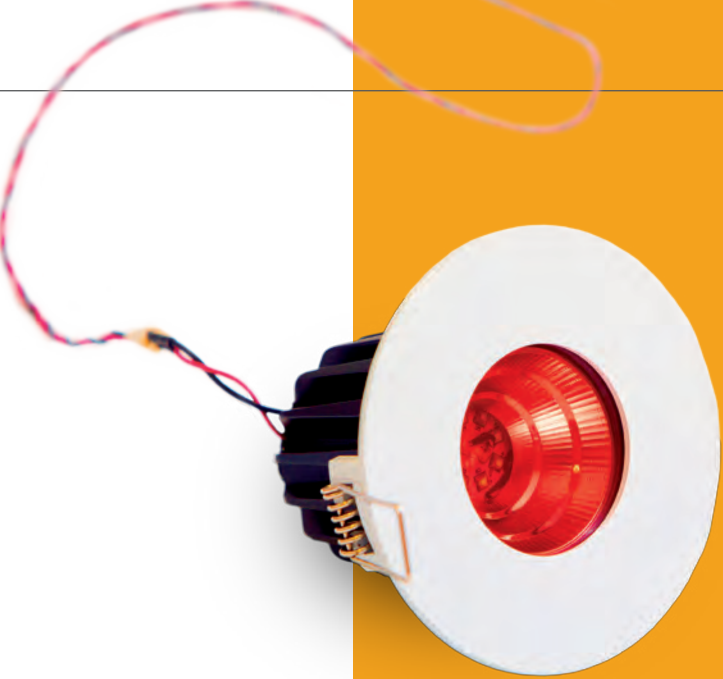
The organisational development of the Group, into a world class entity capable of delivering product efficiently to a global customer base, has extended across the entire business. For example, we have been upgrading our financial systems, working aggressively toward ISO quality registration and improving our supply chain operations and human resources.

Innovation is at the core of Nanoco's research and development activities. We continue to improve our world-leading CFQD® quantum dots and their utility in our chosen areas of business. Each strategic business area in which the Group operates has seen substantial progress, whether it be in enhanced optical performance for displays or cancer imaging.

The Group places much emphasis on protecting its intellectual property by applying for patents. Nanoco currently has a patent portfolio consisting of 467 patent and patent applications covering the materials themselves, our unique seeding process for manufacturing the quantum dots, techniques for incorporating the quantum dots into devices and devices themselves. In addition to developing our intellectual property portfolio organically the Group continues to look for strategic opportunities to acquire patents which enhance Nanoco's technology strength.

Commercial applications – display

When we signed our worldwide licensing deal with Dow in January 2013, the agreement gave Dow exclusive rights to manufacture and market Nanoco CFQD® cadmium-free quantum dots in the display sector. The licensing agreement included an option



LIGHTING

LAUNCHED FOUR PRODUCT GROUPS AT LUXLIVE LONDON

to renegotiate some of the terms, including the opportunity to transition from an exclusive to a non-exclusive agreement.

As announced on 31 March 2016, the Group mutually agreed with Dow to amend the exclusivity of the licensing agreement such that it is now non-exclusive. In return, Nanoco receives a lower royalty rate from Dow on Dow's sales of cadmium-free quantum dot products and the Group will not receive earn-out income from Dow. We saw this new agreement as an ideal outcome for both parties. For our part, we were confident of signing further non-exclusive agreements in the display sector to create the potential for multiple royalty streams for the Group in addition to retaining the option to sell our own manufactured product.

We see considerable benefits to a non-exclusive strategy, including multiple manufacturing facilities coming on stream and the speed with which products with Nanoco cadmium-free quantum dots will penetrate end-use markets. In addition, the new strategy gives us the opportunity to target niche or specific display segments directly.

Dow remains committed to commercialising our technology, which it is marketing under the TREVISTA™ brand name. Dow has received increased sample requests over the past few months for TREVISTA™ cadmium-free quantum dots, which are being fulfilled exclusively from Dow's Cheonan facility. In parallel, the application of Nanoco's improved manufacturing processes to Dow continues to progress.

Having taken the decision to adopt a non-exclusive strategy we were pleased with the speed at which we were able to sign two new licensing agreements in the display sector, one with the Taiwanese company Wah Hong and one with Merck. We are and will continue to evaluate other display industry opportunities for our technology in the LCD marketplace.

Our confidence is underpinned by a very positive market backdrop for our technology in the display industry, underlined by DisplaySearch's forecast that 18.7 million quantum dot TVs will be shipped in 2019.

Finetuned for specific end uses

Nanoco and its partner Marl International, a UK-based pioneer in LED lighting, launched four product groups at LuxLive, including light-emitting ceiling tiles, strip lights, down lighters and grow lights. All of the product groups use Nanoco CFQD® quantum dot film, with the thickness of the film and the size of the quantum dots finetuned for specific end uses where colour quality is the primary requirement.

In the run up to last year's LuxLive trade show, Nanoco was highlighted in the Lux Global Hotlist 2015 of the ten most exciting lighting firms worldwide. The Global Hotlist panel's citation described Nanoco as a producer of "cadmium-free quantum dots which promise near-perfect colour rendering from LEDs". In addition, the Orion strip light developed with Marl was listed among the "ten product innovations to look out for" at the LuxLive show.

These accolades contributed to a high level of interest in Nanoco and Marl's stand at the show, along with a number of potential new business opportunities. The lighting products for ambient and speciality lighting displayed at the show included light-emitting ceiling tiles that create diffuse, artificial daylight with a colour temperature of 6,500k and low power consumption. These tiles have outstanding colour performance and are ideally suited to high end retail, healthcare and commercial applications.

The CFQD® quantum dot strip lights shown at LuxLive are particularly suited to architectural lighting applications and the down lights offer high end retailers the opportunity to showcase their merchandise under perfect lighting conditions.

Two versions of Nanoco and Marl's grow lights for horticultural applications were also showcased at LuxLive. These grow lights benefit from cadmium-free quantum dots tuned to the wavelengths of light needed for plant growth, hence saving energy and creating optimum lighting conditions. Nanoco is continuing to develop this grow light technology, for example by creating quantum dot films for specific types of plants.

10 ↑

Nanoco was highlighted in the Lux Global Hotlist 2015 of the ten most exciting lighting firms worldwide.

CHIEF EXECUTIVE OFFICER'S STATEMENT CONTINUED

Commercial applications – display continued

We announced on 1 August 2016 the worldwide material supply and licensing agreement with Merck, a leading German technology business and the manufacturer of approximately 60% of the world's liquid crystals used in LCDs.

Under this agreement, Merck will build its own large-scale manufacturing plant to supply Nanoco cadmium-free quantum dots to the display market. Ahead of Merck's own production capacity coming on stream, it will begin sales with products purchased and supplied from Nanoco's Runcorn plant. We are pleased by the rapid progress Merck is making in establishing their own CFQD® quantum dot business. Nanoco is well advanced in transferring the Group's technology to Merck and we expect them to be running initial manufacturing trials on their pilot manufacturing plants in the near future.

On 22 July 2016, we announced a material supply and licence agreement with Wah Hong, a leading Taiwanese manufacturer and supplier of optical films. Under the terms of this agreement, Nanoco will supply cadmium-free quantum dot resin to Wah Hong, which will process the resin and then market it to its customer base. Wah Hong has moved quickly to optimise its production lines in Taiwan to efficiently convert CFQD® quantum dot resin produced by Nanoco's Runcorn production facility into final product. In parallel Nanoco and Wah Hong have been actively engaged with the large display manufacturers across China, Taiwan and Japan which are currently sampling Wah Hong produced product.

These three agreements – with Dow, Merck and Wah Hong – put the Group in a very strong position to commercialise its technology in the display industry. We are continuing to discuss further licensing opportunities for our technology.

Commercial applications – general lighting

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

Nanoco's commercial strategy in lighting is to work with licensing and marketing partners and also to develop products ourselves. The Group is currently working with a number of lighting companies in the USA and Europe on niche lighting applications.

We have been working under joint development agreements ("JDAs") with OSRAM, one of the world's largest lighting companies, since August 2011. In October last year we announced a further JDA with OSRAM in connection with the development of a near-chip lighting solution. Under the JDA we have been working on encapsulating our quantum dots to optimise them for the operating conditions associated with LEDs.

The Group's Lighting division showcased a number of product lines in November 2015 at LuxLive, an international trade show held in London, where there was considerable interest in Nanoco's technology, primarily because of its ability to create true-to-life colour. The product lines included units for high end lighting applications in retail and architectural settings and also utilising our deep red CFQD® quantum dot film for horticultural applications.

We are currently focusing our development work in two areas: horticultural lighting to enhance seed germination and seedling growth, and a cosmetic facial mask for skin health.

Commercial applications – life sciences

During the first half of the year we formed a Life sciences division to address the substantial opportunity for the Group's cadmium-free quantum dot technology in the healthcare sector. Owing to Nanoco's quantum dots being free of cadmium, they can be used in the human body in, for example, cancer diagnoses and surgical imaging.

The Life sciences division is under the leadership of Dr Imad Naasani, who joined Nanoco in 2009 and is one of the pioneers of the use of quantum dots in life sciences. We now have a business plan for the division, which initially focuses on illumination of cancerous tumours to facilitate their surgical removal and then, with further development, cancer diagnoses.

During the year, Nanoco continued its long-standing work with University College London on the in vivo imaging of cancer in which the fluorescence of Nanoco's VIVODOTS™ cadmium-free quantum dots is being used to pinpoint malignant lymph nodes to guide surgeons in the removal of cancerous tissue.

Commercial applications – solar

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

Development work on our CIGS materials has been focused on increasing the efficiency of the conversion of light into electricity and we have now reached a conversion rate of 17%, which we believe is close to the efficiency level required to form the basis for low cost, printable solar panels. We believe that we could achieve a highly competitive cost performance of less than 0.33$/W.

Development work to scale up the CIGS PV technology from small lab-sized cells to larger area cells is ongoing. As part of this scale-up, Nanoco is working with Loughborough University's Centre for Renewable Energy Systems Technology ("CREST"), a major UK centre of photovoltaic research, under a grant-funded project to optimise the architecture of the mini-modules.

The Group's priority in solar is to identify a suitable partner to assist in the commercial scale-up.

Restriction of the use of Hazardous Substances ("RoHS")

The European Commission ("the Commission") has been conducting a lengthy and ongoing review of the future of cadmium-based quantum dots. Countries including the UK and Sweden believe that cadmium-containing quantum dots should be banned owing to the danger that cadmium presents to human and environmental health. In May 2015, Members of the European Parliament voted overwhelmingly, by 618 votes to 33 votes, to ban cadmium-containing quantum dots.

The Commission's response to the MEPs' vote was to commission a second report by the consultancy firm, the Oeko-Institut, which had authored an earlier report on quantum dots in 2014. The second report was published in June 2016 and it recommended that cadmium-containing quantum dots should be banned in lighting applications but allowed in displays for a three-year period.

The Oeko-Institut's recommendation is not legally binding but forms part of an ongoing review by the European Commission, Member States and the European Parliament. Whilst these deliberations continue, and irrespective of European legislation, display makers worldwide are choosing cadmium-free quantum dots so that their end products are sustainable.

Conclusion

The year to 31 July 2016 was a year of transformation at Nanoco. The decision to adopt a non-exclusive licensing strategy in display has broadened and accelerated the commercialisation of our technology in display. We begin the current year with considerable excitement. During the year ahead we intend to continue to roll out our technology in display whilst also advancing our other target markets.

Dr Michael Edelman
Chief Executive Officer
11 October 2016

KEY PERFORMANCE INDICATORS

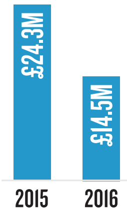
In previous years, the key indicators of performance for the business were qualitative rather than quantitative. During the course of this year the information presented to the Board was radically revised in order that KPIs may be better defined. As a result, the key performance indicators that we now use to monitor our business are:

MEASUREMENT | **WHY** | **RESULTS**

Year-end cash and short-term deposits

This measures the availability of cash for corporate purposes.

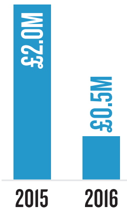
Availability of sufficient liquidity is essential, especially where commitments are made to carry out self-funded research and development activities.



Revenue

Revenue.

Revenue is a key measure of the growth of the Group's business and the Group seeks to optimise revenue from CFQD® products (including joint development projects) and supply activities.



2015 revenue included a milestone payment of £1.3m (2016: £nil).

Loss after tax

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

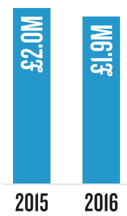
This is key measure and gives an indication of the stage of development of the business.

Fall due to lower revenue in 2016.

Total billings

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

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

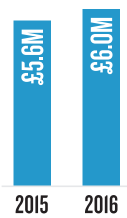


2016 included signing fees from Merck and Wah Hong as well as the first royalty income from Dow.

Total investment in research and development

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

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

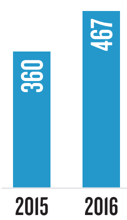


As anticipated, investment in research and development expenditure was higher in 2016 than in 2015 due to an increase in self-funded projects.

Portfolio of patents and patents pending

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

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



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

FINANCIAL REVIEW

A STRONG POSITION

During the year, two significant licences were signed which generated invoices for upfront payments of £1.2 million.

Results

Revenue for the year was £474,000 (2015: £2,029,000) and the loss before tax was £12,600,000 (2015: £10,881,000). As has historically been the case, the timing of revenue receipts in the form of milestone and joint development payments from strategic partners continued to be the major determinant of the results of the business.

During the year, two significant licences were signed which generated invoices for upfront payments of £1.2 million.

This revenue is expected to be recognised as follows:

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

Management had expected to be able recognise this revenue immediately on raising the invoice but this treatment was changed as part of year-end processes due to the terms of the agreement differing from previous agreements and therefore requiring different treatment. The above amounts are included in trade receivables and deferred revenue at 31 July 2016.

The timing of revenue recognition of upfront licence fees is dependent upon the nature of each contract. One of the agreements signed in July 2016 is for a seven-year period and the upfront licence fee, which has been settled in August 2016, is to be recognised as revenue evenly over the seven-year duration of the agreement. Future milestone payments received under this agreement are subject to performance conditions and at this stage the likelihood of this cannot be determined with reasonable certainty. Thus, any future milestone payments will be recognised as revenue once the milestone has been achieved. The other upfront payment will be recognised as revenue in the year ending 31 July 2017.

The impact of this is as follows:

	£'000
Value of sales invoices ("billings") raised during the year	1,912
Movement in deferred grant income from last year end to this year	25
Less revenue deferred to future years	(1,179)
Revenue and other operating income per consolidated statement of comprehensive income	758

The generation of cash for the Group is important and as a result the level of billings is considered a key performance indicator.

Revenues from sale of products and services rendered accounted for 67.1% (2015: 39.3%) with the balance of revenues being royalty and licence income. Revenue from sale of products was £204,000 (2015: £445,000).

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

The increase in research and development expenditure of £415,000 to £5,995,000 (2015: £5,580,000) comprises an increase in R&D labour costs associated with the trialling of production scale-up, partially offset by a small decrease in utility costs. Labour costs represent 76.6% (2015: 74.4%) of total R&D costs with the balance of costs comprising materials and utility costs.

Total payroll costs (before the charge for share-based payments) increased by £908,000 to £6,531,000 (2015: £5,623,000). The increase in payroll costs is attributable to an 18.3% increase in staff numbers compared to 2015 largely due to expanding our supply chain and manufacturing capabilities.

The increase in administrative costs of £237,000 to £7,367,000 reflects increased employee costs (£468,000), increased professional fees related to intellectual property (£205,000) and other matters (£256,000) offset by reductions in depreciation (£115,000), share based payment charges (£349,000) and no repeat of the admission to Main Market fees incurred in 2015 of £926,000.

Non-GAAP measures

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

The adjusted operating loss* for the year ending 31 July 2016 was £12,511,000 (2015: £9,452,000).

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

The increase of £2,219,000 in LBITDA compared to 2015 is a result of the lower revenue leading to a fall in gross profit of £1,416,000, an increase in other operating income of £284,000 and an increase in R&D and administrative costs of £1,087,000 (excluding the items added back in the below table).

With interest income (net of interest payments) of £181,000 (2015: £116,000), an increase of £65,000, the loss before tax was £12,600,000 (2015: loss of £10,881,000).

The tax credit for the year is £1,993,000 (2015: £1,906,000). The tax credit to be claimed, in respect of R&D spend, is £1,970,000 (2015: £1,800,000). There was also a £30,000 credit in respect of the prior year R&D tax claim (2015: £113,000 credit). Overseas corporation tax in respect of the US subsidiary, Nanoco US Inc., was £7,000 during the year (2015: £7,000). There was no deferred tax credit or charge (2015: £nil).

Cash flow and balance sheet

During the year cash, cash equivalents, deposits and short-term investments decreased by £9,800,000 to £14,511,000 (2015: £24,311,000).

The Group reduced its capital spend in the year to a total of £189,000 (2015: £385,000). Expenditure incurred in registering patents totalled £900,000 (2015: £533,000) during the year reflecting the Group's continued focus on developing and registering intellectual property. Capitalised patent spend is amortised over ten years in line with the established Group's accounting policy.

Treasury activities and policies

The Group manages its cash deposits prudently and invests its funds across a number of financial institutions which have investment-grade credit ratings. The deposits range from instant access to six-month term deposits and are regularly reviewed by the Board. Cash forecasts are updated monthly to ensure that there is sufficient cash available for foreseeable requirements. More details on the Group's treasury policies are provided in note 25 to the financial statements.

Credit risk

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

Foreign exchange management

The Group invoices most of its revenues in US Dollars and Euros. The Group is therefore exposed to movements in those currencies relative to Sterling. The Group uses forward currency contracts to fix the exchange rate on invoiced or confirmed foreign currency receipts. The Group does not take out forward contracts against uncertain or forecast income. There were no open forward contracts as at 31 July 2016 (2015: none). The Group's net profit and its equity are exposed to movements in the value of Sterling relative to the US Dollar. The indicative impact of movements in the Sterling exchange rate on profits and equity based on the re-translation of the closing balance sheet are summarised in note 25 to the financial statements and were based on the year-end position.

Summary

The Group is well positioned to exploit the exciting opportunities ahead.

David Blain
Chief Financial Officer
11 October 2016

	2016 £'000	2015 £'000
Operating loss	**(12,781)**	(10,997)
Share-based payment charge	**270**	619
Costs associated with the move to the Main Market	**–**	926
Adjusted operating loss*	**(12,511)**	(9,452)
Depreciation	**991**	1,106
Amortisation	**298**	269
Costs associated with the move to the Main Market	**–**	(926)
LBITDA	**(11,222)**	(9,003)

* Adjusted basic loss per share was 4.36 pence (2015: 3.36 pence) as shown in note 10. Basic loss per share was 4.47 pence (2015: loss of 4.05 pence). No dividend has been proposed (2015: £nil).

CORPORATE SOCIAL RESPONSIBILITY

MAKING AN IMPACT

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

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

SHAREHOLDERS

Nanoco seeks to increase shareholder value over the long term.

EMPLOYEES

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

CUSTOMERS

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

Health and safety

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

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

i) reporting all incidents (including near misses) with appropriate ownership and action tracking systems;

ii) communication of relevant topics and incidents via weekly toolbox talks to all departments;

iii) monthly and quarterly leadership safety and observation audits with the focus on immediate action resolution by the executive or senior manager leading the audit;

iv) monthly departmental audits with action owner and tracking processes in place to address issues; and

v) monthly health and safety reports issued across the organisation to communicate performance against annual metrics and progress on key improvement initiatives and projects.

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

i) the storage, handling and processing of hazardous substances;

ii) fire safety and emergency evacuation;

iii) use of mechanical and electrical equipment; and

iv) other workplace operations involving manual handling and ergonomic risks, working at height and other hazards identified as part of the EHS improvement programme.

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

Standard operating procedures are documented and regularly reviewed. All documents are reviewed and approved via the electronic document management system.

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

LIFE SCIENCES

FIGHTING CANCER WITH QUANTUM DOTS

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

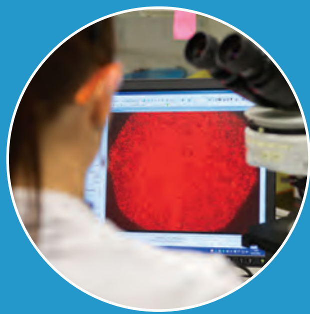
The Group has an excellent safety record and there have been no reportable incidents to the respective UK authorities across all our operations. Nanoco is committed to the continuous improvement of the health and safety management system and have recently completed a safety culture survey designed by the Health and Safety Executive ("HSE"). The survey has identified specific areas for improvement which are being tracked via the health and safety management plan.

Environment

Nanoco is committed to protecting the environment in which activities are conducted. This commitment is directly expressed in our decision to develop our products to be free of toxic heavy metals like cadmium, which is widely used by our competitors in their quantum dot products. Our products are also designed to improve the energy efficiency of high performance lighting and display equipment and to generate energy from solar power.

The Group's environmental policy aims to foster a positive attitude towards the environment and to raise the awareness of employees of responsible environmental practices at all sites operated by the Group. The Group endeavours to ensure compliance with all relevant legislation and regulatory requirements and, where practical and economically viable, standards are developed in excess of such requirements.

Exploring using quantum dots for medical treatments



**Dr Imad Naasani,
Chief Technology Officer Life sciences**

We have been working with a team of researchers led by Sandy MacRobert at University College London to explore quantum-dot technology for various medical treatments including delineating malignant tumours and the pathways along which they spread.

One hurdle for this technology has been that quantum dots typically contain cadmium, a heavy metal that's extremely toxic. Because of environmental concerns, countries are outlawing the use of cadmium in electronic products, which spurred us to devise quantum dots that are free of this element as well as other toxic heavy metals. Along the way, we realised that such cadmium-free quantum dots might also have important uses in medicine.

Excitingly, quantum dots have several advantages over the organic dyes now employed during certain cancer surgeries. Unlike organic dyes, quantum dots migrate relatively slowly, do not photo-bleach and can maintain their ability to fluoresce for many hours. So, the surgeon could perform the procedure based on what the dots reveal in real time. The surgeon could take as much time as needed to determine the locations of tumour lesions, or sentinel nodes, making such procedures more accurate.

In addition, physicians may someday be able to use quantum dots to destroy cancerous tumours in place and quantum dots could be used in photodynamic therapy, an alternative to surgery to treat cancer by killing malignant cells through exposure to light.

Injecting substances into the body is never without risk, and quantum dots have long been a worry in that regard. But eliminating toxic heavy metals and using biocompatible coatings should help alleviate concerns. We won't know how allergenic our quantum dots are until we conduct human trials, which are probably two to three years away, but our dots could begin helping to extend the lives of cancer patients just a few short years after that. It will be a triumph well worth remembering while enjoying the especially vivid picture on the television you have at home, where the same fundamental technology will by that time probably be at work.

CORPORATE SOCIAL RESPONSIBILITY CONTINUED

Whole portfolio carbon generation

			2016 tCO_2e	2015 tCO_2e	% change
Scope 2	Energy use	Electricity	**604**	n/a	n/a
	Energy use	Natural gas	**204**	n/a	n/a
Scope 3	Energy use	Air travel	**618**	n/a	n/a
Total			**1,426**	n/a	n/a

Intensity

tCO_2e/average number of employees	**11**	n/a	n/a

Data notes

Reporting period	1 August 2015 to 31 July 2016
Baseline period	n/a
Boundary	Operational control
Reporting method	The Greenhouse Gas ("GHG") Protocol Corporate Accounting and Reporting Standard
Emissions factor source	Department for Business, Energy & Industrial Strategy, 1 June 2016
Data changes and restatements	n/a

Environment continued

The CEO has responsibility for reporting on relevant environmental matters to the Board. There have been no incidents to report to the authorities across all our operations.

Shareholders and other interested parties are encouraged to use the online version of the Annual Report and Accounts rather than requesting hard copies. Interested parties are encouraged to visit the Group's website or use the regulatory news services instead of a hard copy. Employees are also encouraged to recycle paper, plastic, glass, cardboard and cans wherever possible.

Greenhouse gas ("GHG") reporting

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

As both of the Group's UK premises are in multi-occupancy sites we place reliance upon its respective landlords to provide the data needed to determine emissions. Our laboratories require continuous negative pressure environments and, consequently, it is not possible to set realistic reduction targets in the consumption of electricity. Our gas consumption is used for heating premises and site costs are shared between tenants on the basis of area of occupancy.

In the absence of significant amounts of revenue from the sale of commercial products, the emissions of the business primarily arise from the occupation of its research and administration facilities rather than from revenue related production operations. Emissions in respect of the Group's US office are considered to be negligible.

As stated in our Annual Report last year, we do not have comparative figures for the year to 31 July 2015. Our emissions, based on appropriate conversion factors published by the Department for Business, Energy & Industrial Strategy, for the current year are shown in the table on the left.

Waste

During the year, the Group generated 69.3 tonnes of waste (2015: 60.0 tonnes) and recycled 62.1 tonnes of this (2015: 50.1 tonnes). The Group engages a specialist contractor to destroy batches of chemicals and other materials no longer required. All waste contractors are assessed to ensure the waste hierarchy approach is applied to all of our materials handled, and that their operations and systems are compliant with the relevant legislation. Audits are performed every three years in line with our duty of care as a waste producer.

Other environmental matters

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

A video conferencing system is in place to link the Group's Manchester and Boston facilities, benefiting communication between senior management at each site. This is expected to reduce considerably the Group's environmental footprint through fewer flights and other means of travel.

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

Diversity

Gender diversity

Although there are no female members on the Board or executive management team, there were four (2015: seven) female members out of 24 (2015: 22) on the senior management team as at 31 July 2016. Women constituted 24% (2015: 25%) of the Group's employees as a whole at that date. The Group is committed to providing flexible working arrangements for employees and to providing equal access to opportunities for employees, regardless of gender.

Racial and geographical diversity

The Group's employees are from many different backgrounds and are 15 different nationalities, including British, American, Australian, Chinese, German, Greek, Indian, Irish, Italian, Japanese, Korean, Polish, Portuguese, Syrian, and Vietnamese. The Board itself comprises three different nationalities, being British, American and Irish.

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

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

Equal opportunities

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

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

Disabled employees

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

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

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

Nanoco is particularly concerned that disabled workers are treated equally in the following areas: recruitment and selection; promotion, transfer and training; terms of employment, benefits, facilities and services; and dismissals and redundancies.

Employee communication and involvement

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

Communication channels include all-Group meetings, senior team meetings which then cascade information down, regular team meetings, cross-functional working group meetings and management one-to-one updates with their team members. Communication media used includes the Group intranet, all-Group email briefings and online meeting software.

Consultations occur to allow employee opinions to be heard when making decisions affecting their interests and all employees can discuss any business or personal concerns with the human resources management team.

Nanoco promotes the achievement of a good work-life balance for employees by offering family-friendly policies like flexible working and the operation of a childcare voucher scheme. Nanoco also have procedures for emergency domestic leave.

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

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

Ethics

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

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

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

The community

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

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

On behalf of the Board

Dr Christopher Richards
Chairman

Dr Michael Edelman
Chief Executive Officer
11 October 2016

PRINCIPAL RISKS AND UNCERTAINTIES

SUCCESSFULLY MANAGING RISK

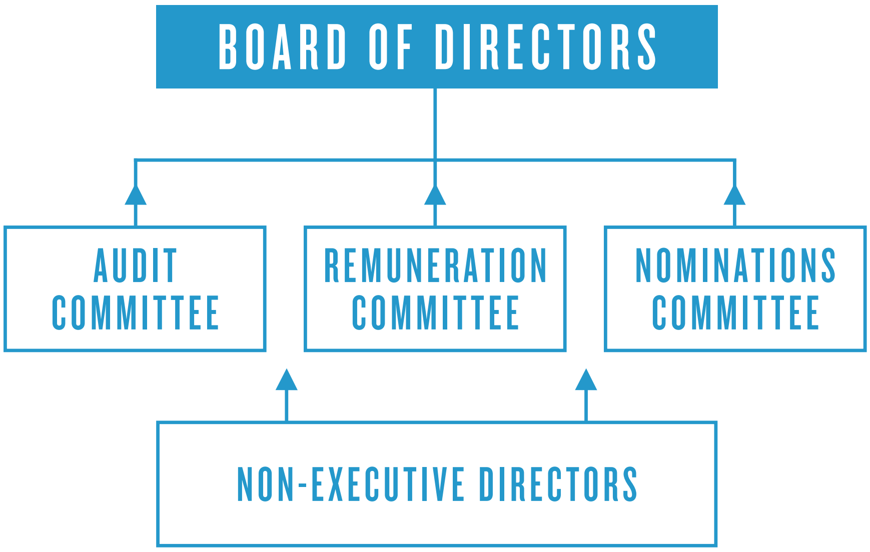
The Group has successfully managed to reduce the inherent risk for the business by appointing two new partners in the display field: Wah Hong for the production and sale of CFQD® film and Merck for the manufacture and sale of products containing CFQDs.

These new agreements significantly reduce the dependency on Dow, which was the Group's exclusive partner in the display field.

Inherent risks have been further reduced by the significant improvement in capacity at the Group's production facility in Runcorn following the introduction of more efficient production processes and shift working.

In common with all businesses at Nanoco's stage of development, the Group is exposed to a range of risks, some of which are not wholly within its control or capable of complete mitigation or protection through insurance. The Group has identified, actively monitors and is taking action to mitigate many different risks. This section does not include them all, but focuses on those risks that the Directors believe to be the most important that are currently faced by the business. Some risks may be unknown at present. Others, currently regarded as not key, could become material risks in the future.

The Board has established a routine process for carrying out a robust risk assessment which evaluates and manages the principal risks faced by the Group. The Board reviews the process and a detailed review of risks was undertaken by the Audit Committee during 2016.



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

RISK DESCRIPTION	POTENTIAL CAUSES AND IMPACT	MITIGATION	CHANGE
Strategic and financial (growth)			
Lack of widespread adoption and lifespan of CFQD®s in the display market.	Nanoco technology does not become fully accepted by the market. Drawn-out qualification process by display customers. Stronger than anticipated competition from non-CFQD® solutions. Nanoco is slow to generate revenue from own product sales and royalty from licensees and suffers financially.	High sales and technical sales engagement with all the major display OEM brands and all parts of the display supply chain. Rapid product development. Active control of costs within the business. Actively pursue alternative markets such as lighting and life sciences as substitutes for a lack of uptake of CFQD® in the display market.	→
Cash shortfall.	Revenues from own product sales and licensee royalties do not materialise as planned. The Group is unable to carry out its operations.	Ensure operations are able to support market demand. Prudent management of the Group's cash. Active sales engagement with the display market to ensure sales come through cash. Maintaining strong investor support.	↑
Rapid commoditisation of products.	Over capacity for CFQD®s leads to price erosion. Nanoco suffers financially.	Phased capacity expansion. Increase pace at which new generations of CFQD® products are brought to market.	↑
Strategic (growth)			
Intellectual property.	Competitors unlawfully infringing Nanoco's IP. Nanoco not getting value for its investment.	Nanoco constantly scans the market for signs of infringement. Prosecute infringers.	→
Operational			
Manufacturing capacity is unable to fulfil market demand.	Failure of planned CFQD® capacity at Nanoco and licensees to come on line in time to meet demand. Key components within the CFQD® supply chain are unable to support the demand. Unable to fulfil sales potential and miss out on profitable business.	Close monitoring of the market with the Group's licensees to ensure capacity is in place in a timely manner to meet the demand. Detailed production plans in place. Active engagement with the CFQD® supply chain ahead of anticipated demand. Consideration can be given to subcontracting some, or all, of the components of our products in order to increase our focus on key IP related areas.	NEW
Compliance			
Major EH&S issue.	Failure to follow existing procedures or a new unforeseen risk. Injury to staff, equipment, reputation and finances and potential loss of operating licences.	Extensive and ongoing EH&S procedures to bolster procedures and strengthen leadership focus and engagement throughout the organisation. Continuous training of staff in risks and how to mitigate risks.	↓

We previously referred to risks associated with solar, lighting and life sciences and these risks are no longer considered as significant as the ones in the table above following the change in business model in display.

Key

→ No change in risk

↑ Increase in risk

↓ Decrease in risk

NEW New risk identified during the year

VIABILITY STATEMENT

ENSURING VIABILITY

In accordance with the new provisions in the UK Corporate Governance Code (C2.2 of the 2014 revision), the Directors have assessed the viability of the Group and they determined that a two-year period is a suitable period to be utilised. The Directors' assessment has been made with reference to the Group's current strategy, strong balance sheet and the Group's principal risks as described in this Strategic report.

Whilst the Directors have no reason to believe the Group will not be viable over a longer period, a two-year period is considered appropriate given the nature of forecasting in the market for CFQD® products, the recent significant change in the Group's business model, the recent appointment of two new significant licensing partners, the need to increase the Group's own production and the Group's principal risks and uncertainties.

Forecasting in the CFQD market is difficult as it is currently in the very early stages of its development. There are very strong indications that the market is likely to grow rapidly as Samsung is actively promoting its televisions containing quantum dots and industry analysts are forecasting a large market in the display field; however, accurate forecasting in the short term remains very difficult.

In recent months the Group has dramatically changed its business model by moving to a non-exclusive model. On 31 March 2016 the agreement with Dow was changed to non-exclusive and this enabled the Group to sell directly to OEMs and also to appoint additional licensees to manufacture the Group's CFQD® products. As a result R&D efforts focused on improving manufacturing efficiencies to maximise output from the Group's Runcorn-based production facility in order to be able to sell sufficient volumes to be able to attract OEM interest in the Group's products. The new processes developed during this period have been implemented and production capacity has been increased by moving to a 24-hour shift for 3.5 days per week. The new processes and shift working are at a very early stage of implementation. The licence agreements agreed in July 2016 with Wah Hong and Merck are also still in their infancy and it is too early to make longer-term forecasts of the levels of business with these partners.

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

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

- Is the display market a viable market for the Group's CFQD® technology?
  - Based on the Group's knowledge of the market and independent forecasts of the development of the display market, the Directors believe that the display market will remain a viable and growing market for the Group's CFQD® products for a number of years.
- Are the Group's current partners likely to be able to effectively manufacture and distribute CFQD® products?
  - The relationships with the two recently appointed partners are still in their early stages but the Directors believe that both new partners will be very effective in exploiting the opportunity with the Group's CFQD® products.
  - Sample requests have increased over the past few months for Dow's TREVISTA™ cadmium-free quantum dots and are being fulfilled exclusively from Dow's Cheonan factory. Wah Hong is in the process of optimising its production of film containing CFQD® nanoparticles and also working with its potential customers to qualify its products in order to formally appoint customers. The Directors believe that Wah Hong will be able to produce good quality CFQD® film and that it will be able to appoint suitable OEM customers.
  - Merck is planning its manufacturing facility which it intends to build. The Directors believe that Merck is well positioned to build a CFQD® manufacturing facility and successfully sell its output.
  - The Directors are confident that they would be able to appoint new partners to replace any of its current partners should the licences terminate for any reason.
  - In the event that alternative partners cannot be appointed the Directors believe that the Group would be able to significantly increase its own manufacturing capabilities in order to meet market demand. The attractiveness of the opportunity should mean that any additional finance required to fund any additional capital expenditure required is available.

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

Going concern

In assessing whether the going concern basis is an appropriate basis for preparing the 2016 Annual Report, the Directors have utilised its detailed forecasts which take into account its current and expected business activities, its cash balance of £14.5 million as shown in its balance sheet at 31 July 2016, the principal risks and uncertainties the Group faces and other factors impacting the Group's future performance.

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

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

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

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

Various sensitivity analyses have been performed to reflect possible downside scenarios as referred to above. Even in the worst case scenario whereby the Group achieves no revenues for the twelve months following the date of this Annual Report, the Company and the Group have sufficient resources to continue in operational existence for the foreseeable future. In order to provide sufficient headroom the Directors have identified variable cost savings associated with the reduction in revenues and have the ability to identify further cost savings if necessary.

At the time of approving the financial statements the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the 2016 Annual Report.

STRATEGIC REPORT APPROVAL

The Strategic report on pages 1 to 25, incorporates:

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

By order of the Board

Dr Michael Edelman
Chief Executive Officer
11 October 2016

BOARD OF DIRECTORS

AN EXPERIENCED TEAM

DR CHRISTOPHER RICHARDS (N)
Non-executive Chairman

Chris was appointed Chairman of Nanoco Group plc in May 2016, having joined the Board as a Non-executive Director in November 2015. Following a successful international career in the agrochemical and life sciences industries, Chris has become a highly experienced non-executive director and business adviser. He currently holds a number of executive and non-executive roles at quoted and private businesses. He is the executive chairman of Plant Health Care plc (AIM: PHC) and a non-executive director of Origin Enterprises plc (AIM: OGN). He is also a non-executive director at Cibus Global Inc, a privately owned US biotechnology company, and the founder of Talestris Ltd, his consultancy business. Christopher is the former chief executive officer of Arysta LifeScience, a Japan-based agrochemical business which grew rapidly under his leadership. After stepping down as CEO in 2009, he became Arysta LifeScience's non-executive chairman until the sale of the business in 2015 to Platform Specialty Products.

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

DR MICHAEL EDELMAN
Chief Executive Officer

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

Prior to Nanoco, Michael held a number of executive roles, including having responsibility for licensing the technology developed by GE/Bayer joint venture, Exatec LLP, vice president and managing director at yet2.com, commercial director at Colloids Ltd and business manager at Brunner Mond & Co Ltd. Michael started his career with ICI, has a PhD in organometallic chemistry from the University of Sussex, UK, and an undergraduate degree in classics and chemistry from Tufts University, Boston, MA, USA.

DR NIGEL PICKETT
Chief Technology Officer

Nanoco's technology team is led by Nigel who is a co-founder of Nanoco and inventor of Nanoco's key quantum dot scale up technology. In 2000 he moved to Manchester where he co-founded Nanoco Technologies in 2001. Nigel has co-authored over 70 academic papers, is an inventor on 150 patents and pending. He has a passion and experience in taking research work from the academic bench through to full commercialisation. Nigel graduated from Newcastle University in 1991 and chose to remain at Newcastle to pursue a PhD in the field of main group organometallics. After graduation in 1994 he undertook a postdoctoral fellowship at St. Andrews University, Scotland, in the field of precursor design for metalorganic vapour phase epitaxy ("MOVPE") growth and synthesis of nanoparticles using chemical vapour deposition ("CVD") techniques. In 1996 he won a Japan Society for the Promotion of Science ("JSPS") fellowship and spent the following year working at Tokyo University of Agriculture and Technology, Japan. In 1998 he became a research fellow at Georgia Institute of Technology, USA, working on the design and evaluation of precursors used in MOVPE.

KEITH WIGGINS
Chief Operating Officer

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

A Audit Committee
N Nominations Committee
R Remuneration Committee
◯ Chairman

DAVID BLAIN
Chief Financial Officer

David is a chartered accountant with considerable operational, commercial and strategic experience gained at a number of businesses quoted on the London Stock Exchange. He joined Nanoco from the role of chief financial officer of Inspired Capital plc, an AIM-listed finance provider. After qualifying as a chartered accountant David joined the Newcastle office of Price Waterhouse (now PwC), where he worked for nine years in audit and business advisory services. He then spent eleven years as the finance director of Drew Scientific Group plc, a medical diagnostics company on the Main Market. His next role was at the AIM-traded IT business eg Solutions plc, after which he became chief financial officer of Renovo Group plc, the Manchester-based biotechnology company that later became Inspired Capital plc.

GORDON HALL A N R
Non-executive Director

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

ROBIN WILLIAMS A N R
Non-executive Director

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

BRENDAN CUMMINS A N R
Non-executive Senior Independent Director

Brendan Cummins was appointed to the Board on 28 May 2015. He is an experienced chemical industry executive with 40 years of industry and leadership experience. Formerly, he was chief executive officer of Ciba Inc., the major international chemicals company acquired by BASF in 2009. During his executive career he worked for many years at the Ciba-Geigy Group and then at Ciba Inc., which was formed in 1998 when Ciba-Geigy separated its chemical and pharmaceutical interests. He joined Ciba-Geigy in Ireland in the early 1970s and went on to hold many senior international positions in locations including Switzerland, China, Hong Kong and Singapore. He is currently a non-executive director of Ashland Inc., a global speciality chemical company, quoted on the New York Stock Exchange, where he is also a member of the Ashland audit committee and the environmental, health, safety and product compliance committee. In addition, Brendan serves as a non-executive board member of The Perstorp Group, Sweden, (Perstorp Group is controlled by the French Private Equity Fund PAI Partners). Brendan is a member of the Remuneration, Audit and Nominations Committees.

CORPORATE GOVERNANCE STATEMENT

I am pleased to present the Corporate governance report for the year ended 31 July 2016.

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

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

This section of the Annual Report describes our corporate governance structures and processes and how they have been applied throughout the year ended 31 July 2016.

My role as Chairman

My role is to ensure that Nanoco has an effective Board which is collectively responsible for the long-term success of the Group. One of my most important jobs is to ensure that the Board and its Committees have the right balance of skills, experience and knowledge suitable for Nanoco's evolving strategy and growth aspirations as we progress through a new phase of our development.

Board and Committee evaluation

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

It was felt that the balance of time allocated to strategy, operations and functional areas and governance was broadly correct, although it was decided that additional time should be spent discussing strategy and this is being implemented. Some improvements in the co-ordination between Board sub-committees and the Board itself were also agreed and are being implemented.

Audit Committee

The Audit Committee dealt with a number of significant accounting judgements during the year including, in particular, revenue recognition in relation to our new licence agreements signed in July 2016. Further details can be found on page 48.

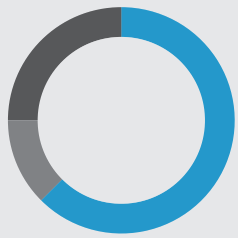
BOARD COMPOSITION

Executive Director (4)
Non-executive Director (4)

SECTOR EXPERIENCE

Advisers (2)
Chemical (5)
Finance (1)

TENURE



0–5 years (5)
6–10 years (1)
11–15 years (2)

Longer-Term Viability Statement

The Group utilised the first two years of its five-year forecast to assess its long-term viability. The two period was chosen due to the inherent difficulty and uncertainties in preparing forecasts for the Group at its current stage of development. Further details are provided on page 24.

Dr Christopher Richards
Chairman
11 October 2016

This section contains the Group's reporting disclosures on corporate governance required by the Companies Act 2006, the 2014 UK Corporate Governance Code of the Financial Reporting Council (the "Code") and the UKLA's Disclosure and Transparency Rule 7 including the required statement of compliance. A copy of the Code is publicly available at www.frc.org.uk/corporate/ukcgcode.cfm.

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

Statement of compliance with the Code

Following the Company's admission to the Main Market, the Company has been in compliance with provisions set out in sections A to E of the Code.

Disclosure and Transparency Rule 7

This statement complies with sub-sections 2.1, 2.2(i), 2.3(i), 2.5, 2.7 and 2.10 of Rule 7 of the UK Listing Authority Disclosure Rules. The information required to be disclosed by sub-section 2.6 of Rule 7 is shown in the Statement of Directors' responsibilities on page 56 and is incorporated in this section by reference.

The Board

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

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

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

As at 31 July 2016, the Board comprised the Non-executive Chairman, three independent Non-executive Directors and four Executive Directors.

	Full Board	Audit Committee	Nominations Committee	Remuneration Committee
Number of meetings in period	10	4	3	3
Attendance:				
Executive Directors:				
Dr Michael Edelman	10	–	–	–
Dr Nigel Pickett	8	–	–	–
Keith Wiggins	9	–	–	–
David Blain	10	–	–	–
Non-executive Directors:				
Dr Christopher Richards	6	1	1	–
Gordon Hall	10	4	3	3
Robin Williams	10	4	3	3
Brendan Cummins	8	3	3	3
Former Directors:				
Anthony Clinch	7	–	1	–
Dr Peter Rowley	7	3	1	2

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

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

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

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

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

The Board meets at least eight times a year and the Audit, Remuneration and Nominations Committees meet at least twice a year.

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

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

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

The Board has carried out a thorough evaluation each year of its own performance and that of its Committees and individual Directors.

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

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

The number of Board and Committee meetings attended by each of the Directors during the year are shown above.

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

CORPORATE GOVERNANCE STATEMENT CONTINUED

The Board continued

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

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

The roles of the Chairman and Chief Executive Officer

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

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

Commitments and performance of the Chairman

The Chairman has sufficient time to devote to his duties as Chairman and this has been demonstrated by his active participation in the Group's activities. His performance will be reviewed annually by the Non-executive Directors and led by the Senior Non-executive Director, but one has not taken place yet as he was only recently appointed as Chairman in May 2016.

Professional development

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

Performance evaluation

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

Information

Board reports and papers are circulated to the Directors in advance of the relevant Board or Committee meeting. These papers are supplemented by information specifically requested by the Directors from time to time. Minutes of Board and Committee meetings are circulated to all Board members.

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

Director dealings in Company shares

In addition, the Company has adopted a model code for Directors' dealings in securities of the Company which is appropriate for a company quoted on the premium list of the London Stock Exchange. The Directors comply with the rules relating to Directors' dealings and also take all reasonable steps to ensure compliance by the Group's "applicable employees" as defined in the rules.

Investor relations

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

Annual General Meeting ("AGM")

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

Relations with shareholders and other stakeholders

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

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

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

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

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

Dr Christopher Richards
Chairman
11 October 2016

REMUNERATION COMMITTEE REPORT
STATEMENT FROM THE CHAIRMAN OF THE REMUNERATION COMMITTEE

MEMBERS

- **Gordon Hall (Chairman)**
- **Robin Williams**
- **Brendan Cummins**

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

Dear shareholder

As the Chairman of Nanoco's Remuneration Committee (the "Committee"), I am pleased to present our Directors' remuneration report for the year ended 31 July 2016. The terms of reference of the Remuneration Committee can be found in the Investor section of the Group's website. Our Directors' remuneration policy was approved by shareholders at the AGM on 10 December 2015, and has been applied throughout the year ended 31 July 2016. The Committee considers that the policy remains appropriate for the Group going forwards and it will continue to apply for the year ending 31 July 2017. The full Directors' remuneration policy as approved can be found in the Annual Report and Accounts for the year ending 31 July 2015 on the Group's website at www.nanocotechnologies.com.

The Annual report on remuneration section of this report provides details of the amounts earned by Directors in respect of the year ended 31 July 2016 and how the Directors' remuneration policy will be operated for the year commencing 1 August 2016. This will be subject to an advisory vote at the 2016 AGM.

Our approach to remuneration

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

A key part of our remuneration policy is our incentive arrangements, which are aligned to the strategic direction of the Group and our stakeholder philosophy. At the AGM in December 2015, shareholder approval was granted for a deferred bonus plan (the "DBP") and a new Long-Term Incentive Plan ("LTIP").

The new share plans were designed to:

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

The first awards under the LTIP were granted on 23 December 2015 in respect of a three-year performance period ending with the 2017/2018 financial year. The first DBP awards will be granted in respect of the bonuses earned for the year ending 31 July 2016.

REMUNERATION COMMITTEE REPORT CONTINUED
STATEMENT FROM THE CHAIRMAN OF THE REMUNERATION COMMITTEE CONTINUED

Remuneration decisions in respect of the year ended 31 July 2016

As referred to in the 2015 Directors' remuneration report, our Executive Directors' salaries for the year ending 31 July 2016 were increased by 1%, in line with the increases for the wider workforce.

The 2016 bonus opportunity for the Executive Directors was based on a combination of financial and corporate measures and challenging personal objectives. Having tested individual performance against the targets originally set, the Committee determined that aggregate bonuses payable to Dr Michael Edelman, Dr Nigel Pickett, Keith Wiggins and David Blain would be 40% of salary, half of which will be paid in cash and half of which will be delivered via an award of deferred shares under the DBP; further information is given on pages 41 and 42.

Long-term incentive awards were granted in the year under the new LTIP, and further information is given on page 43. Long-term incentive awards vested in 2015/2016 are reported in note 21 to the financial statements.

During the year the Remuneration Committee decided to harmonise notice periods for the Executive Directors and to bring them into line with the Directors' remuneration policy. As a result, the notice periods for Keith Wiggins and David Blain increased from three months to six months (twelve months in the event of a change of control); the notice period required to be given by each of Messrs Wiggins and Blain was similarly increased to six months.

In March 2016, Dr Christopher Richards was appointed as Chairman of the Company. From 11 November 2015 (the date on which he was appointed as a Non-executive Director) until his date of appointment as Chairman, he was paid an annual fee of £25,000. From the date of his appointment as Chairman, his fee was increased to £75,000. The Committee set Dr Richards' fee as Chairman at this level reflecting the anticipated time commitment for the role, Dr Richards' experience and fee levels at comparable companies.

Due to the extensive work and travel commitments shown by all the Executive Directors, on 26 July 2016 and in accordance with the approved Directors' remuneration policy the Remuneration Committee decided to increase the life cover for each Executive Director to eight times annual base salary.

Remuneration in the year commencing 1 August 2016

The approved Directors' remuneration policy will be applied as follows in the year commencing 1 August 2016:

- Executive Directors will receive a 0.5% base salary increase, below the range of increases awarded to the wider workforce.
- For the year commencing 1 August 2016, employer pension contributions above the amount of any salary sacrifice (and the associated employer National Insurance contributions savings) will continue to be capped at 5% of salary.
- Annual bonus opportunity will remain at 100% of salary, subject to the achievement of stretching performance conditions. Half of any bonus earned will be delivered via an award of deferred shares under the DBP; further information is given on page 46.
- As referred to in the Strategic report, the Group has significantly changed its partnership arrangements. Moving forwards the Committee considers it crucial that the existing executive team is appropriately incentivised to implement and execute this revised strategy. Taking this into account and reflecting a desire to ensure that the Executive Directors' overall remuneration is structured to reward longer-term performance and is aligned with shareholders, the Committee has decided that LTIP awards for the year commencing 1 August 2016 will be granted above the usual policy level of 100% of salary. The levels of award (as a percentage of salary) will be:
  - Dr Michael Edelman 131%
  - Dr Nigel Pickett 151%
  - Keith Wiggins 192%
  - David Blain 197%
- LTIP awards will continue to be subject to stretching share price and revenue targets with an underpin applying to both elements. Further information is given on pages 46 and 47. It is intended that awards for future years will revert back to 100% of salary.
- In line with best practice, clawback will continue to apply to any cash bonus paid and malus provisions to any unvested deferred bonus awards and awards granted under the new LTIP.
- Dr Christopher Richards' fee as Chairman will continue at the level of £75,000 set when he was appointed Chairman (as referred to above). No increases to the Non-executive Director fee levels are proposed for 2017.

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

Gordon Hall
Remuneration Committee Chairman
11 October 2016

DIRECTORS' REMUNERATION REPORT

This remuneration report for the year ended 31 July 2016 complies with the requirements of the Listing Rules of the UK Listing Authority, Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and the provisions of the UK Corporate Governance Code (September 2014). The Regulations require the auditor to report to the Company's members on certain parts of the Directors' remuneration report and to state whether, in its opinion, those parts of the report have been properly prepared in accordance with the accounting regulations.

Directors' remuneration policy

This part of the report sets out the Company's Directors' remuneration policy as approved at the December 2015 AGM, except that we have updated the scenario chart on page 36 to reflect the application of the policy in 2016/17. The Directors' remuneration policy is not audited.

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

Element and purpose	Operation	Maximum opportunity	Performance measures
Base salary Core element of fixed remuneration that provides the basis to recruit and retain talent necessary to deliver the business strategy.	Normally reviewed annually, any increases generally apply from 1 August (but may be reviewed more frequently if required). When determining base salary levels, consideration is given to the following: • the role, responsibility and experience of the individual; • corporate and individual performance; • market conditions, including typical pay levels for comparable roles in companies of a similar size and complexity; and • the range of salary increases awarded across the Group.	Whilst there is no maximum salary, salary increases will normally be in line with the wider workforce, with the following exceptions: • where an Executive Director has been promoted or their role has had a change in scope or responsibility; • due to an individual's development or performance in their role (e.g. a newly appointed Executive Director being moved to be aligned with the market over time); • where there has been a change in market practice; or • where there has been a change in the size and/or complexity of the business.	N/A
Benefits Provide a market-competitive benefits package and promote the wellbeing of employees.	Directors are entitled to receive reimbursement for out-of-pocket expenses incurred on Company business. Where tax is payable in respect of expenses incurred by Directors wholly and necessarily for business purposes, the Board has agreed that the relevant tax will be paid by the Company. The Company provides benefits, principally life assurance, for all Directors. Directors' business expenses are reimbursed on submission of an authorised expense claim. The benefits provided would be reviewed periodically, taking individual circumstances into consideration. Benefits provided may include, for example, medical expenses, relocation expenses, expatriate allowances and travel expenses.	Whilst the Committee has not set an absolute maximum on the level of benefits Executive Directors may receive, the value of benefits is set at a level which the Committee considers to be appropriately positioned taking into account relevant market levels based on the nature and location of the role, the level of benefits provided to other employees in the Group and individual circumstances.	N/A
Retirement benefits Provide market-competitive post-employment benefits to recruit and retain Directors of the calibre required for the business.	The Company currently operates a salary sacrifice pension arrangement under which Executives may elect to sacrifice salary and the Company pays an amount equal to the amount of the salary sacrifice, together with the employer National Insurance saved, into a private pension scheme. Executive Directors are also eligible to participate in the Company's defined contribution scheme (or such other pension plan as may be deemed appropriate). In appropriate circumstances, such as where contributions exceed the annual or lifetime allowance, Executive Directors may be permitted to take a cash supplement instead of contributions to a pension plan (this would not count towards the bonus or LTIP opportunity).	For the year commencing 1 August 2016, employer pension contributions above the amount of any salary sacrifice and employer NIC saved, will be capped at 5% of salary. An overall contribution limit of up to 10% of base salary may be made in future years (in addition to the amount of any salary sacrifice and employer NIC saved) to take account of a change in the scope of the role, increase in responsibility and/or a change in the size and/or complexity of the business.	N/A

DIRECTORS' REMUNERATION REPORT CONTINUED

Directors' remuneration policy continued

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

Notes to the policy table

Application of clawback and malus to variable remuneration

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

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

Notes to the policy table continued

Explanation of performance measures chosen

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

Annual bonus

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

LTIP

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

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

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

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

Operation of the LTIP and DBP

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

Early vesting of awards

As described on page 38, awards under the DBP and LTIP may vest earlier than anticipated in "good leaver" circumstances.

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

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

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

How the Executive Directors' remuneration policy relates to the Group

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

DIRECTORS' REMUNERATION REPORT CONTINUED

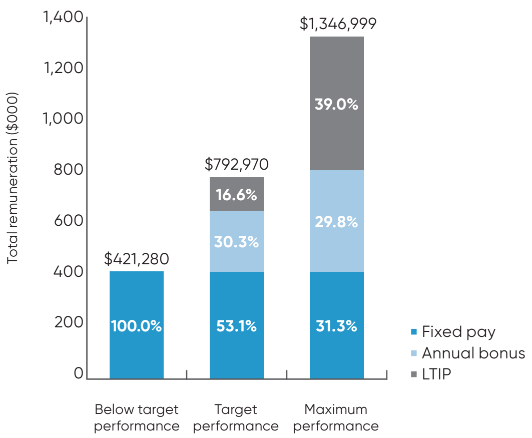
Remuneration outcomes in different performance scenarios

The charts below set out an illustration of the remuneration policy for 2017. The charts provide an illustration of the proportion of total remuneration made up of each component of the remuneration policy and the value of each component.

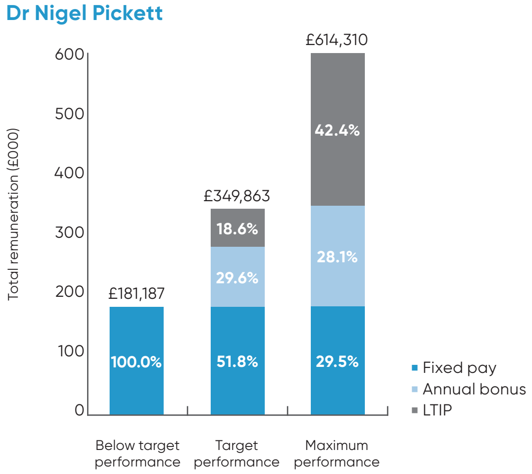
Three scenarios have been illustrated for each Executive Director:

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

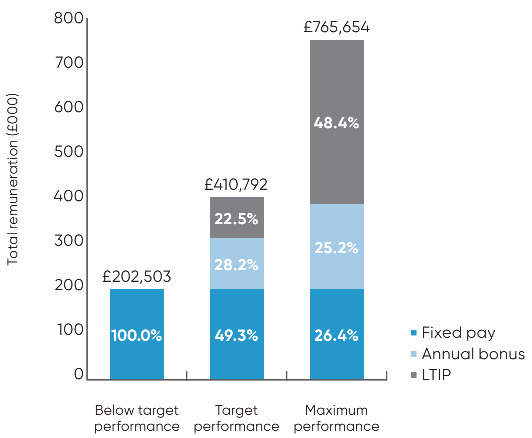
Dr Michael Edelman



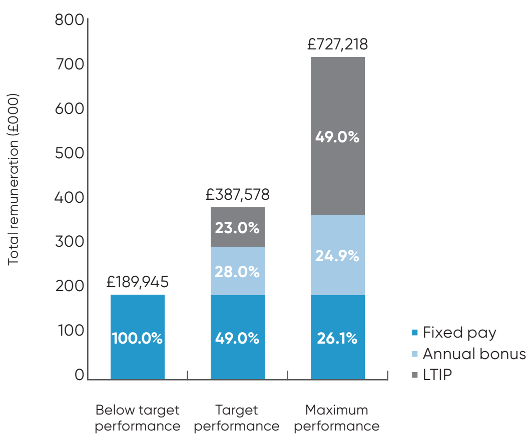
Dr Nigel Pickett



Keith Wiggins



David Blain



Fixed pay currently comprises the following elements:

	Current base salary	Benefits*	Pension**	Total
Chief Executive Officer – Dr Michael Edelman	$400,744	–	$20,536	$421,280
Chief Technical Officer – Dr Nigel Pickett	£172,559	–	£8,628	£181,187
Chief Operating Officer – Keith Wiggins	£192,860	–	£9,643	£202,503
Chief Financial Officer – David Blain	£180,900	–	£9,045	£189,945

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

** Based on 5% employer pension contribution/cash supplement in lieu of pension which applies for the year ended 31 July 2017.

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

Remuneration policy for Non-executive Directors

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

Remuneration policy on recruitment

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

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

- base salary will be set at a level appropriate to the role and the experience of the Director being appointed. This may include agreement on future increases up to a market rate, in line with increased experience and/or responsibilities, subject to good performance, where it is considered appropriate;
- benefits will only be provided in line with the above policy;
- pension contributions will only be provided in line with the above policy;
- the Committee will not offer non-performance related incentive payments (for example a "guaranteed sign-on bonus" or "golden hello");
- other elements may be included in the following circumstances:
  - an interim appointment being made to fill an Executive Director role on a short-term basis;
  - if exceptional circumstances require that the Chairman or a Non-executive Director takes on an Executive function on a short-term basis;
  - if an Executive Director is recruited at a time in the year when it would be inappropriate to provide a bonus or long-term incentive award for that year as there would not be sufficient time to assess performance. Subject to the limit on variable remuneration set out below, the quantum in respect of the months employed during the year may be transferred to the subsequent year so that reward is provided on a fair and appropriate basis; and
  - if the Director will be required to relocate in order to take up the position, it is the Company's policy to allow reasonable relocation, travel and subsistence payments. Any such payments will be at the discretion of the Committee;
- the Committee may also alter the performance measures, performance period and vesting period of the annual bonus or LTIP, if the Committee determines that the circumstances of the recruitment merit such alteration. The rationale of any such alterations will be clearly explained in the next Directors' remuneration report; and
- the maximum level of variable remuneration which may be granted (excluding "buyout" awards as referred to below) is 350% of salary, in line with the policy set out on pages 33 to 37.

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

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

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

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

DIRECTORS' REMUNERATION REPORT CONTINUED

External appointments

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

None of the Executive Directors currently have an external appointment.

Payment for loss of office

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

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

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

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

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

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

Consideration of employees' pay

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

Existing contractual arrangements

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

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

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

Consultation with shareholders

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

ANNUAL REPORT ON REMUNERATION

This report sets out details of the amounts earned during 2016 and provides details as to how the Committee intends to implement the policy during 2017. This part of the report will be subject to an advisory shareholder vote at the 2016 AGM. This report contains unaudited information except where stated that it is audited.

Remuneration Committee

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

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

Policy on other appointments

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

Advisers to the Committee

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

Adviser	Details of appointment	Services provided by the adviser	Fees paid by the Company for advice to the Remuneration Committee and basis of charge	Other services provided to the Company in the year ended 31 July 2016
Deloitte LLP ("Deloitte")	Appointed by the Remuneration Committee in June 2015.	Various advice on executive remuneration.	The fees for advice provided to the Committee during the financial year were £8,000 (2015: £7,500). Charged on a time/cost basis or fixed fee dependent on nature of project.	None.

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

DIRECTORS' REMUNERATION REPORT CONTINUED

ANNUAL REPORT ON REMUNERATION CONTINUED

Single total figure of remuneration for 2016 – Executive Directors (audited information)

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

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

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

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

	Base salary and fees £'000	Benefits in kind £'000	Annual bonus £'000	Long-term incentives £'000	Pension £'000	Total 2015 £'000
Executive Directors:						
Dr Michael Edelman[1]	252	–	70	313	–	635
Dr Nigel Pickett	170	–	60	266	10	506
Keith Wiggins[2]	160	6	50	–	–	216
Total Executive Directors	582	6	180	579	10	1,357
Non-executive Directors:						
Anthony Clinch	50	–	–	–	–	50
Dr Peter Rowley	26	–	–	–	–	26
Gordon Hall	26	–	–	–	–	26
Robin Williams	35	–	–	–	–	35
Brendan Cummins[3]	6	–	–	–	–	6
Total Non-executive Directors	143	–	–	–	–	143
Former Directors:						
Colin White[4]	91	–	–	220	–	311
	816	6	180	799	10	1,811

ANNUAL REPORT ON REMUNERATION CONTINUED

Single total figure of remuneration for 2016 – Executive Directors (audited information) continued

1 Dr Michael Edelman's remuneration is paid in US Dollars but reported in Sterling for the purpose of this table. The exchange rate used for this purpose varied throughout the year.
2 Keith Wiggins was appointed to the Board on 1 October 2014.
3 Brendan Cummins was appointed to the Board on 28 May 2015.
4 Colin White resigned on 31 December 2014.

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

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

(a) Salary and fees	The amount of salary/fees received in the year. A salary sacrifice arrangement is operated under which executives may elect to sacrifice salary and the Company pays an amount equal to the amount of the salary sacrifice, together with the employer National Insurance saved, into a private pension scheme. Directors' salaries are shown before the salary sacrifice pension contributions.
(b) Benefits	The taxable value of benefits received in the year.
(c) Bonus	The cash value of the bonuses and the market value of awards to be made under the DSP earned in respect of the financial year, including in relation to the 2016 bonus, the amount to be satisfied in the form of an award of deferred shares under the DBP. Further information in relation to the 2016 bonus is provided on pages 41 and 42.
(d) Long-term incentives	The share options granted on 25 November 2011 and 22 October 2012 were subject to commercial revenue targets. The targets were met in full; therefore, these share options vested in full on 31 July 2015. The value shown in respect of the year ended 31 July 2015 is the 75.5 pence share price on 31 July 2015 less the exercise price of 50 and 57 pence per share for the 2011 and 2012 options respectively, multiplied by the number of shares subject to the achieved performance conditions. One third of the 22 October 2012 share options were subject to a service condition until 22 October 2015 which was met. These share options vested on 22 October 2015. The value shown in respect of this is nil as the 54 pence share price at the date of vesting was equal to the exercise price.
(e) Pension	The pension figure represents the cash value of Company pension contributions and/or cash in lieu of pension contributions paid to the Executive Directors. This does not include the amount of the salary sacrifice paid as a pension but does include the employer National Insurance saved that is paid into a private pension scheme.

Individual elements of remuneration for the year ending 31 July 2016

Base salary

As referred to in the 2015 Directors' remuneration report our Executive Directors' salaries for the year ending 31 July 2016 were $398,750 in the case of our Chief Executive Officer, £171,700 in the case of our Chief Technology Officer, £191,900 for our Chief Operating Officer and £180,000 for our Chief Financial Officer.

Annual bonus

For the year ended 31 July 2016, the maximum bonus for Dr Michael Edelman, Dr Nigel Pickett, Keith Wiggins and David Blain was 100% of salary. The annual bonuses comprise two elements: achievement of financial and corporate measures (60% of salary) and achievement of personal objectives (40% of salary). The Remuneration Committee determined that 0% of salary should be awarded as a bonus for each Director in relation to achievement of corporate objectives (compared to a maximum of 60%). The Remuneration Committee also determined that each Director had exceeded their personal objectives and awarded a bonus of 40% of salary (the maximum award) to each Director.

The financial and corporate measures and their weighting as a percentage of salary for the year ended 31 July 2016 were:

Measure and weighting as a percentage of salary	Threshold performance level	Maximum performance level	Performance achieved	Bonus earned as a percentage of salary
Revenue (35%)	£2.25 million	£4 million	£0.5 million	Nil
EBITDA (20%)	Loss of £10.8 million	Loss of £9.1 million	Loss of £11.2 million	Nil
Share price (5%)	75 pence	105 pence	72.25 pence	Nil

DIRECTORS' REMUNERATION REPORT CONTINUED

ANNUAL REPORT ON REMUNERATION CONTINUED

Individual elements of remuneration for the year ending 31 July 2016 continued

Annual bonus continued

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

Director	Measure	Weighting (% of maximum bonus opportunity)	Achievement	Payout (% of salary)
Dr Michael Edelman	Financial and corporate measures	60	Not achieved as referred to above	0
	Personal objectives:	40	Achieved	40
	Ensure executive team in place and fully functioning		Achieved	
	Ensure all four business units are in place		Achieved	
	Dow royalty revenues to commence		Achieved	
	Start IR in USA and continue to support UK investor base		Achieved	
Dr Nigel Pickett	Financial and corporate measures	60	Not achieved as referred to above	0
	Personal objectives:	40	Achieved	40
	Project 1		Achieved	
	Project 2		Achieved	
	Project 3		Achieved	
	Project 4		Achieved	
	Project 5		Achieved	
Keith Wiggins	Financial and corporate measures	60	Not achieved as referred to above	0
	Personal objectives:	40	Achieved	40
	Support licensing partner		Achieved	
	Deliver business plan for Solar and Life sciences businesses		Achieved	
	Deliver organisational change to bed down new manufacturing plant and grow output		Achieved	
	Arrange ISO registration		Achieved	
	Financial target for sales of lighting products		Partially achieved	
David Blain	Financial and corporate measures	60	Not achieved as referred to above	0
	Personal objectives:	40	Achieved	40
	Upgrade accounting systems		Ongoing	
	Develop robust cost accounting systems to improve information available		Ongoing	
	Develop investor relations		Achieved	
	Develop business modelling and close involvement in strategic planning		Achieved	
	Ensure the amount of cash on hand at year end is above target		Achieved	

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

Long-term incentives vesting in respect of the year ended 31 July 2016

One third of the 22 October 2012 share options were subject to a service condition until 22 October 2015 which was met. These share options vested on 22 October 2015. The value shown in respect of this is nil as the 54 pence share price at the date of vesting was equal to the exercise price.

ANNUAL REPORT ON REMUNERATION CONTINUED

LTIP awards granted in 2016

As noted in the Company's 2015 Directors' remuneration report, as part of the terms agreed as part of his recruitment, the Committee granted an LTIP award to David Blain over 350,000 shares on 23 December 2015. Awards to the other Executive Directors made on that date were granted at the level of 100% of salary.

Director	Type of award	Percentage of salary %	Number of shares	Face value* at grant £'000	Face value at grant less exercise price £'000	% of award vesting at threshold %	Performance period Years
Dr Michael Edelman	Share award	100	443,548	257	257	25	3
Dr Nigel Pickett	Share award	100	284,193	165	165	25	3
Keith Wiggins	Share award	100	317,627	184	184	25	3
David Blain	Share award	128	350,000	203	203	25	3

* Face value has been calculated using the share price at the date of grant of £0.58 in accordance with the rules of the LTIP approved by shareholders at the 2015 AGM.

These awards are subject to the following share price growth and Group revenue performance conditions measured over three financial years ending 31 July 2018.

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

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

Straight-line vesting will apply between these points. The share price will also be averaged across a three-month period (unless the Committee decides to apply a different averaging period) to avoid rewarding for short-term spikes in performance.

50% based on Group revenue targets measured over three financial years ending 31 July 2018

% of Group revenue element vesting	Group revenue target
25	2018 threshold revenue target
100	2018 maximum revenue target

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

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

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

Directors' interests in jointly owned Employee Benefit Trust ("EBT") shares and in share options to acquire ordinary shares of 10 pence in the Company as at 31 July 2016 were:

Share options:	Date granted	Exercise price	At 31 July 2015	Exercised during the year	Lapsed	Granted during the year	**At 31 July 2016**
Dr Michael Edelman	25 Nov 2011	50.00p	500,000	–	–	–	**500,000**[1]
	22 Oct 2012	57.00p	1,000,000	–	–	–	**1,000,000**[1]
	23 Dec 2015	Nil	–	–	–	443,548	**443,548**[2]
Dr Nigel Pickett	25 Nov 2011	50.00p	500,000	–	–	–	**500,000**[1]
	22 Oct 2012	57.00p	750,000	–	–	–	**750,000**[1]
	23 Dec 2015	Nil	–	–	–	284,193	**284,193**[2]
Keith Wiggins	14 Oct 2014	10.00p	380,000	–	–	–	**380,000**[2]
	23 Dec 2015	Nil	–	–	–	317,627	**317,627**[2]
David Blain	23 Dec 2015	Nil	–	–	–	350,000	**350,000**[2]
Jointly owned EBT shares:							
Dr Nigel Pickett	7 April 2008	Nil	530,089	–	–	–	**530,089**[1]

1 Vested but unexercised share options.
2 Unvested share options still subject to performance conditions.

DIRECTORS' REMUNERATION REPORT CONTINUED

ANNUAL REPORT ON REMUNERATION CONTINUED

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

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

Both Dr Michael Edelman and Dr Nigel Pickett hold shares substantially in excess of the shareholding guideline (circa 2,700% and 6,200% of salary respectively using the three-month average closing share price to the end of July 2016). As a new Director, David Blain will be expected to meet the shareholding guideline by the fifth anniversary of his appointment and to retain 50% of any shares (on a post-tax basis) vesting under any incentive plans until this has been met.

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

Directors' interests in the shares of the Company, including family and beneficial interests, at 31 July 2016 were:

	Ordinary shares of 10p each			
	31 July 2016 Number	**31 July 2016 %**	31 July 2015 Number	31 July 2015 %
Dr Christopher Richards	**43,421**	**0.02**	–	–
Dr Michael Edelman	**5,431,615**	**2.29**	6,988,640	2.94
Dr Nigel Pickett	**10,945,681**	**4.62**	10,945,681	4.62
Keith Wiggins	**–**	**–**	–	–
David Blain	**14,700**	**0.01**	–	–
Gordon Hall	**250,000**	**0.10**	100,000	0.04
Robin Williams	**9,523**	**0.00**	9,523	0.00
Brendan Cummins	**–**	**–**	–	–
	16,694,940	**7.04**	18,043,844	7.60

1 There have been no changes in Directors' interests between 31 July 2016 and 11 October 2016.

2 As at 31 July 2016, none of the Directors had any interests in shares of any other Group company.

The market price for Nanoco shares as at 31 July 2016 was 72.25 pence per share; the highest and lowest prices during the year were 76.50 pence and 36.25 pence respectively.

Details of share options and shares held in the EBT are set out in note 21 to the financial statements.

Dilution

The Company complies with the relevant institutional investor guidelines on employee share plans which state that in any ten-calendar-year period the Company may not issue more than 10% of the issued ordinary share capital of the Company under the LTIP plan or any other employee share plan adopted by the Company. Including only option grants post admission to AIM and excluding any awards that have lapsed, the current dilution is 5.9%.

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

Anthony Clinch resigned on 17 May 2016 and was paid his fee up to the date of resignation; he received a further payment of £25,000 in respect of the six-month notice period under his letter of appointment. There were no other payments made to past Directors during the year or the preceding year in respect of services provided to the Company as a Director or for loss of office.

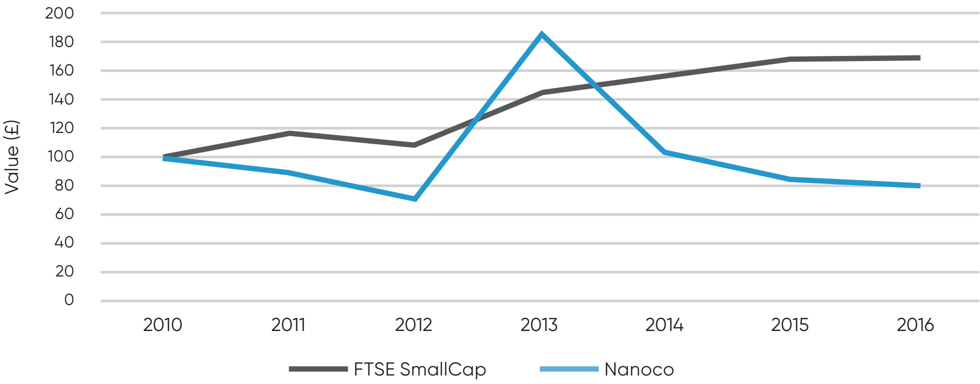
ANNUAL REPORT ON REMUNERATION CONTINUED

Unaudited information

Historical comparative TSR performance graph

The performance graph below shows the Company's total shareholder return ("TSR") against the FTSE SmallCap over the period from 1 August 2010 to 31 July 2016. In the opinion of the Board, the FTSE SmallCap is the most appropriate index against which the TSR of the Company should be measured because it represents a broad equity market index of which the Company is a constituent member.

Total shareholder return



The graph shows the value at 31 July 2016 of £100 invested in the Company's shares on 1 August 2010 compared with the value of £100 notionally invested in the FTSE SmallCap index. The other points plotted are the values at intervening financial year ends.

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

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

Percentage increase in the remuneration of the CEO

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

	Salary			Taxable benefits			Bonus		
	2016 £'000	2015 £'000	Change %	**2016 £'000**	2015 £'000	Change %	**2016 £'000**	2015 £'000	Change %
CEO*	**279**	252	10.7	**–**	–	–	**114**	70	62.9
Average for all other employees	**39**	36	8.3	**–**	–	–	**4**	3	33.3

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

Relative importance of spend on pay

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

	Year ended 31 July 2016 £'000	Year ended 31 July 2015 £'000	% change
Dividends	**–**	–	–
Overall expenditure on pay	**6,531**	6,039	12.3

Implementation of policy for the year commencing 1 August 2016

Base salary

Base salaries are reviewed annually with effect from 1 August. For the year commencing 1 August 2016 Executive Directors will receive a 0.5% base salary increase which is below the range of increases given to the wider workforce as follows:

	2017	2016	% change
Chief Executive Officer – Dr Michael Edelman	**$400,744**	$398,750	0.5
Chief Technical Officer – Dr Nigel Pickett	**£172,559**	£171,700	0.5
Chief Operating Officer – Keith Wiggins	**£192,860**	£191,900	0.5
Chief Financial Officer – David Blain	**£180,900**	£180,000	0.5

DIRECTORS' REMUNERATION REPORT CONTINUED

ANNUAL REPORT ON REMUNERATION CONTINUED

Unaudited information continued

Implementation of policy for the year commencing 1 August 2016 continued

Changes to Non-executive Directors' fees

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

	2017	2016
Chairman	**£75,000**	£50,000
NED base fee	**£25,000**	£25,000
Chair of Committee fee	**£10,000**	£10,000

The increase in the Chairman's fee reflects the anticipated time commitment for the role, Dr Christopher Richards' experience and fee levels at comparable companies.

Pension

The Company operates a salary sacrifice pension arrangement. For the year commencing 1 August 2016, employer pension contributions above the amount of any salary sacrifice (and the associated employer National Insurance contributions savings) will be capped at 5% of salary.

Annual bonus

For the year ending 31 July 2017, the maximum annual bonus potential will be 100% of base salary for Executive Directors. 50% of any such bonus earned will be paid in cash, whilst the remainder is paid as deferred shares under the DBP vesting after two years, in accordance with the policy adopted at the 2015 AGM. This reflects our stakeholder philosophy, provides a longer-term retention mechanism and provides alignment with shareholders.

Consistent with the 2016 annual bonus, performance will be assessed on the basis of a balanced scorecard approach in respect of performance measures. Up to 60% of the potential maximum annual bonus will be subject to achievement of a combination of financial and corporate measures, whilst the remaining 40% will be based on challenging personal objectives. The financial/corporate measures for FY17 will include annual revenue, EBITDA and share price targets weighted 35%:20%:5% respectively. The Committee will disclose the metrics and performance against these on a retrospective basis to the extent that these are not commercially sensitive.

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

Long-term incentive

The Committee intends to approve the grant of LTIP awards for the Executive Directors for the year ending 31 July 2017. Taking into account the exceptional circumstances, the award level for the 2016 award has been increased as referred to below. It is intended that awards will revert back to 100% of salary for 2017 and subsequent awards.

The awards for each Director are as follows:

Director	Type of award	Percentage of salary %
Dr Michael Edelman	Share award	131
Dr Nigel Pickett	Share award	151
Keith Wiggins	Share award	192
David Blain	Share award	197

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

These awards will be subject to the following performance conditions:

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

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

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

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

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

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

ANNUAL REPORT ON REMUNERATION CONTINUED

Unaudited information continued

Implementation of policy for the year commencing 1 August 2016 continued

Long-term incentive continued

Performance underpin

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

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

Statement of voting at 2015 AGM

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

Resolution	Votes for	% for	Votes against	% against	Votes withheld
To approve the Directors' remuneration report	120,927,534	99.7	327,644	0.3	3,909
To approve the Directors' remuneration policy	109,395,766	90.2	181,769	0.1	11,681,552
To approve the LTIP	104,548,022	86.2	359,494	0.3	16,351,571
To approve the DBP	118,912,382	98.1	171,064	0.1	2,175,641

Directors' contracts

Executive Directors

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

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

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

The notice periods of the COO and the CFO were increased to six months with effect from January 2016 and are increased to twelve months in the event of a change of control.

Non-executive Directors

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

	Date of letter of appointment	Date of appointment	Unexpired term of contract on 31 July 2016
Dr Christopher Richards (Chairman)	28 October 2015	11 November 2015	2 years and 4 months
Gordon Hall	30 March 2015	9 July 2007	1 year and 8 months
Robin Williams	30 March 2015	9 July 2014	1 year and 8 months
Brendan Cummins	19 May 2015	28 May 2015	1 year and 10 months

On behalf of the Board

Gordon Hall
Remuneration Committee Chairman
11 October 2016

AUDIT COMMITTEE REPORT

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

MEMBERS

- **Robin Williams (Chairman)**
- **Gordon Hall**
- **Brendan Cummins**

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

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

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

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

Roles and responsibilities

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

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

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

Committee membership

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

Activities of the Audit Committee

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

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

External audit

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

The Committee has considered the independence requirements, including that the rotation policy has been complied with. Furthermore, the only fees paid for non-audit services related to a review of the interim results in the current year and therefore does not jeopardise their independence. A separate external firm is engaged for taxation advice. However, in view of the period which has elapsed since the appointment of its current auditor in 2008, the Committee will consider the need for a re-tender following the finalisation of this year's audit and in any case will put the audit out to tender following the 2017 audit.

Independence safeguards

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

Non-audit services provided by the external auditor

During the financial year the non-audit services provided to the Group by the auditor (£8,000) comprised a review of the interim results. In the prior year fees of £173,000 were paid in respect of work undertaken in association with the Company's move from AIM to the Main Market. The Board concluded last year that this level of income did not affect the independence and objectivity of the external auditor.

Independence assessment by the Audit Committee

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

Financial reporting

The Committee reviewed the interim and annual financial statements. As part of that review process, the members of the Committee were provided with a draft of the full Annual Report enabling them to ensure that the numbers therein are consistent with those in the financial statements or are sourced from appropriate data and their knowledge gained from the monthly management accounts. More importantly, the Committee assessed whether the words used were consistent with their understanding of the Group's business obtained through Board and Audit Committee meetings and other interaction they had had with management, using their experience to assess whether the Annual Report taken as a whole is fair, balanced and understandable. This additional review by the Committee, supplemented by advice received from external advisers during the drafting process, assisted the Board in determining that the report is fair, balanced and understandable at the time that it was approved. The Committee considered the appropriateness of preparing the accounts on a going concern basis, including consideration of forecast plans and supporting assumptions and concluded that the Group's financial position was such that it continued to be appropriate for accounts to be prepared on a going concern basis. The Committee also considered the introduction of the new viability report and ensured that such report was appropriate.

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

(i) The Committee reviewed the revenue recognition policies adopted in these accounts in relation to new licence agreements and determined that the treatment was appropriate. However, the initial treatment of the upfront fees arising on the new licences signed in July 2016 in the Group's draft financial statements was found to be inappropriate as the agreements referred to periods of time either for the licence duration, or the IP had not been transferred by Nanoco. As a result, the timing of revenue recognition was revised and the Audit Committee will ensure all future agreements are considered individually and treated appropriately in accordance with the prevailing accounting standards at the time. These changes during the audit to revenue recognition whilst material were isolated to an incorrect application of accounting standards in relation to these licence agreements.

(ii) The Committee considered the use of the going concern basis, due to the continued losses being incurred.

(iii) The Committee reviewed the need for an impairment of the carrying value of tangible and intangible fixed assets as the Group incurred losses during year.

(iv) The Committee has overseen the preparation of the viability statement produced for the first time in this year's Annual Report and has conducted a robust examination of the risks identified, the resultant actions that may be required and the projected outcomes.

AUDIT COMMITTEE REPORT CONTINUED

Internal controls and risk management

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

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

Some key features of the internal control system are that:

(i) annual budgets and rolling forecasts are reviewed and approved by the Board;

(ii) monthly management accounts information are compared and reconciled with budgets;

(iii) the Group has written operational, accounting and employment policies in place;

(iv) the Board actively identifies and evaluates the risks inherent in the business and ensures that appropriate controls and procedures are in place to manage these risks;

(v) the Group has well established financial reporting and approval systems and procedures which cover all key transactional processes and Group commitments; and

(vi) the Group has a uniform system of investment appraisal.

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

As part of its move to the premium list of the London Stock Exchange in 2015 the Board was required to undertake an assessment of the Company's and Group's key risks and of its financial position and prospects ("FPP") procedures. This assessment identified a number of areas where remedial action (such as the formalisation of procedures) was needed. The Board has carried out the remedial action necessary to embed these areas into the annual Board calendar so as to ensure that they are reviewed on a regular and systematic basis. Additional procedures are to be designed by the Audit Committee to ensure that revenue recognition is correctly determined as part of the process of agreeing new licences and other technical areas of IFRSs are properly applied.

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

Internal accountability

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

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

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

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

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

Details of the Group's financial risk management objectives and policies are disclosed in note 25 to the financial statements.

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

The Group seeks to manage liquidity by ensuring funds are available to meet foreseeable needs and to invest cash assets safely and profitably. The Group had cash, cash equivalent and deposit balances of £14.5 million as at 31 July 2016 (2015: £24.3 million). Cash deposits are spread across a range of financial institutions with "investment grade" credit status. Deposits are invested in a mixture of fixed-term and notice accounts. The Board approves all financial institutions before deposits are placed and regularly reviews the level of funds allocated to each institution.

Robin Williams
Audit Committee Chairman
11 October 2016

NOMINATIONS COMMITTEE REPORT

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

MEMBERS

- Dr Christopher Richards (Chairman)
- Gordon Hall
- Robin Williams
- Brendan Cummins

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

Roles and responsibilities

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

Committee membership

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

Committee activities during the year

The Nominations Committee met three times during the financial year to discuss Board structure and independence, its skillset and the appointment of Dr Christopher Richards as a Non-executive Director and subsequently as Chairman. The Nominations Committee also considered the appointment of Brendan Cummins as Senior Independent Director following the vacancy created by the appointment of Dr Christopher Richards as Chairman. The Nominations Committee will be closely involved in appointing the successor to Gordon Hall, who is retiring on 31 January 2017.

Diversity

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

Dr Christopher Richards
Nominations Committee Chairman
11 October 2016

DIRECTORS' REPORT

The Directors present their report and the audited financial statements for the Group and Parent Company for the year ended 31 July 2016.

Financial instruments

Details of the Group's financial risk management objectives and policies are disclosed in note 25 to the financial statements.

Research and development

The principal activity of the Group is research and development, a review of which is included in the Chairman's and Chief Executive Officer's statements on pages 6 and 7 and 12 to 14 respectively.

Total research and development spend was £5,995,000 (2015: £5,580,000). No development expenditure was capitalised in the period (2015: £nil) for the reasons provided in note 3(h) to the accounts.

Dividends

The Directors do not recommend payment of an ordinary dividend (2015: £nil).

Disclosures reported elsewhere in the Annual Report

The strategic review of the business of the Company and its subsidiaries is given on pages 1 to 25. Certain information required for disclosure in this report is provided in other appropriate sections of this Annual Report. These include the:

- Corporate governance report on pages 28 to 30;
- Operating review on pages 12 to 14 in respect of the Group's activities in the fields of research and development (where the outlook section covers likely future developments in the business of the Company and its subsidiaries);
- Finance review on pages 16 and 17;
- Directors' remuneration report on pages 33 to 47;
- disclosures on the Group's greenhouse gas emissions, Director and employee gender and human rights, which are included in the Corporate social responsibility report on pages 18 to 21;
- Going concern statement on page 25; and
- disclosures on financial instruments in note 25 of the notes to the consolidated financial statements.

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

Requirements of the Listing Rules

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

Listing Rule requirement	Location
A statement of the amount of interest capitalised during the period under review and details of any related tax relief	Not applicable
Information required in relation to the publication of unaudited financial information	Not applicable
Details of any long-term incentive schemes	Directors' remuneration report, pages 33 to 47
Details of any arrangements under which a Director has waived emoluments, or agreed to waive any future emoluments, from the Company	No such waivers
Details of any non-pre-emptive issues of equity for cash	No such share allotments
Details of any non-pre-emptive issues of equity for cash by any unlisted major subsidiary undertaking	No such share allotments
Details of UK Parent participation in a placing by a listed subsidiary	No such share participations
Details of any contract of significance in which a Director is or was materially interested	No such contracts
Details of rules regarding appointment and replacement of Directors	See Directors' report
Details of any contract of significance between the Company (or one of its subsidiaries) and a controlling shareholder	No such contracts
Details of a waiver of dividends by a shareholder	No such waivers
Board statement in respect of relationship agreement with the controlling shareholder	No such agreements

Acquisition of the Company's own shares

The Company made no purchases of its own shares in the period under review. As at 31 July 2016 the authority given by the shareholders at the 2015 Annual General Meeting is for the Company to make market purchases of up to £2,370,653.50 nominal value of its ordinary shares at a price per share of not less than 10 pence, and not more than 5% above the average of the middle market quotations for ordinary shares of the Company for the five business days immediately preceding the day of purchase. This authority is being proposed for renewal at the 2016 Annual General Meeting.

Share capital and funding

No shares were issued during the year to 31 July 2016.

As at 31 July 2016 share capital comprised 237.1 million ordinary shares of 10 pence each (2015: 237.1 million). There is only one class of share and all shares are fully paid. Full details of the Group's and Company's share capital movements during the period are given in note 20 to the financial statements.

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

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

Details of shares under option are provided in note 21 to the financial statements.

Directors and their interests

The following Directors held office throughout the year:

Dr Christopher Richards	Appointed 11 November 2015
Dr Michael Edelman	
Dr Nigel Pickett	
Keith Wiggins	
David Blain	Appointed 3 August 2015
Gordon Hall	
Robin Williams	
Brendan Cummins	Appointed 28 May 2015
Dr Peter Rowley	Resigned 12 April 2016
Anthony Clinch	Resigned 17 May 2016

Biographies of the Directors at the date of this report can be found on pages 26 and 27.

Details of Directors' remuneration are shown in the Directors' remuneration report on pages 33 to 47.

Directors' interests in the shares of the Company, including family and beneficial interests, at 31 July 2016 were:

	Ordinary shares of 10p each			
	31 July 2016 Number	**31 July 2016 %**	31 July 2015 Number	31 July 2015 %
Dr Christopher Richards	**43,421**	**0.02**	–	–
Dr Michael Edelman	**5,431,615**	**2.29**	6,988,640	2.94
Dr Nigel Pickett	**10,945,681**	**4.62**	10,945,681	4.62
Keith Wiggins	**–**	**–**	–	–
David Blain	**14,700**	**0.01**	–	–
Gordon Hall	**250,000**	**0.10**	100,000	0.04
Robin Williams	**9,523**	**0.00**	9,523	0.00
Brendan Cummins	**–**	**–**	–	–
	16,694,940	**7.04**	18,043,844	7.60

1 There have been no changes in Directors' interests between 31 July 2016 and 11 October 2016.
2 As at 31 July 2016, none of the Directors had any interests in shares of any other Group company.

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

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

DIRECTORS' REPORT CONTINUED

Directors' indemnity insurance

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

Substantial shareholders

The Company is aware that the following had an interest in 3% or more of the issued ordinary share capital of the Company at 31 July 2016:

	Number of 10p ordinary shares at 31 July 2016	% of issued share capital
Henderson Global Investors	48,032,945	20.3
Baillie Gifford & Co	27,987,839	11.8
Richard I Griffiths	19,125,097	8.1
Universities Superannuation Scheme	11,676,893	4.9
Hargreaves Lansdown Asset Management	11,376,160	4.8
Dr Nigel Pickett	10,945,681	4.6
Killick Asset Management	7,470,009	3.2

By 7 October 2016, the following parties had notified the Company that their shareholdings had changed since 31 July 2016 – Henderson Global Investors increase to 22.35% and Baillie Gifford & Co increase to 11.97%, Apart from the above, there were no other notified significant changes in the holdings between 31 July 2016 and the date the Annual Report and Accounts were signed.

Donations

No charitable or political donations were made in the year (2015: £nil).

Additional information for shareholders

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the UK Corporate Governance Code 2014, the Companies Act 2006 and related legislation.

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

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

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

Employment policies

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

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

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

Compliance with the UK Corporate Governance Code

The statements of compliance with the principles of the UK Corporate Governance Code published by the FCA in 2014 are set out on page 29.

Foreign branches

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

Post balance sheet events

There was a post balance sheet event – see note 29 as a former Director exercised share options on 4 August 2016 (2015: none).

Auditor

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

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

Annual General Meeting notice

The Annual General Meeting of the Company will be held on 15 December 2016 at 11am, at the Company's headquarters at 46 Grafton Street, Manchester M13 9NT. The notice convening the AGM, together with an explanation of the resolutions to be proposed at the meeting, will be sent to shareholders separately from this document.

On behalf of the Board

Dr Michael Edelman
Chief Executive Officer
11 October 2016

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

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

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

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

The financial statements for the year ended 31 July 2016 are included in the 2016 Annual Report, which is published by the Company in hardcopy printed form and available to download on the Group's website on the internet. The maintenance and integrity of the Nanoco website is the responsibility of the Directors; the work carried out by the auditor does not involve consideration of these matters and, accordingly, the auditor accepts no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' remuneration

The Directors' remuneration report on pages 33 to 47 sets out the remuneration policies operated by the Company and disclosures on Directors' remuneration and other disclosable information relating to Directors and officers and their interests.

Internal control

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

The UK Corporate Governance Code

The Board considers that the Company applies the principles of the UK Corporate Governance Code of the Financial Reporting Council, as described under "Corporate governance" on pages 28 to 30 and has complied with all relevant principles and provisions of the Code. As required by the Listing Rules of the Financial Conduct Authority, the auditor has considered the Directors' statement of compliance in relation to those points of the Code which are specified for their review.

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

Auditor

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

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

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

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

Directors' responsibility statement

In accordance with the FCA's Disclosure and Transparency Rules, the Directors listed on pages 26 and 27 confirm, to the best of their knowledge, that:

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

Annual Report

The Annual Report for the year ended 31 July 2016, comprising the Strategic report, the Directors' remuneration report, the Directors' report, the financial statements and additional information for investors, has been approved by the Board of Directors.

By order of the Board

David Blain
Company Secretary
11 October 2016

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF NANOCO GROUP PLC

Our opinion on the financial statements

In our opinion:

- Nanoco Group plc's group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the parent company's affairs as at 31 July 2016 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the group financial statements, Article 4 of the IAS Regulation.

What we have audited

Nanoco Group plc's financial statements comprise:

Group	Parent company
Consolidated statement of financial position as at 31 July 2016	Statement of financial position as at 31 July 2016
Consolidated statement of comprehensive income for the year then ended	Statement of changes in equity for the year then ended
Consolidated statement of changes in equity for the year then ended	Cash flow statement for the year then ended
Consolidated cash flow statement for the year then ended	Related notes 1 to 29 to the financial statements
Related notes 1 to 29 to the financial statements	

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

Overview of our audit approach

Risks of material misstatement	• Revenue Recognition – occurrence of revenue under licence agreements • Going concern • Carrying value of intellectual property and tangible fixed assets
Audit scope	• We performed an audit of the complete financial information of one component and audit procedures on specific balances of a further one component. • The components where we performed full or specific audit procedures accounted for 100% of operating expenses, 100% of Revenue, 100% of Loss before taxation and 100% of Total assets.
Materiality	• Overall group materiality of £236,000 which represents 2% of operating expenses.

INDEPENDENT AUDITOR'S REPORT CONTINUED TO THE MEMBERS OF NANOCO GROUP PLC

Our assessment of risk of material misstatement

We identified the risks of material misstatement described below as those that had the greatest effect on our overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the audit team. In addressing these risks, we have performed the procedures below which were designed in the context of the financial statements as a whole and, consequently, we do not express any opinion on these individual areas.

Risk	Our response to the risk	What we concluded to the Audit Committee
Revenue Recognition – occurrence of revenue under licence agreements (£156,000 plus deferred revenue of £1,179,000; 2015: £1,231,000) *Refer to the Audit Committee Report (page 48); Accounting Policies (page 68); and Note 4 of the Consolidated Financial Statements (page 73).* Licence agreements with partners can be significant in delivering the Group's revenue during its pre-commercialisation phase. There is a risk of inappropriate revenue recognition if the treatment of payments received do not reflect the substance of each agreement. Inappropriate judgements applied by management could result in material misstatement in the income statement. Remaining revenue streams related to products sold of £204,000 (2015: £445,000) and rendering of services under joint development agreements of £114,000 (2015: £353,000). These revenue streams are non-complex and not material in the current year and therefore a significant risk of material misstatement was not considered to be prevalent in the current year.	We obtained an understanding and tested the design and implementation of the key controls around the revenue recognition process. We did not seek to obtain reliance on the control framework. We obtained and reviewed each of the new licence agreements to understand the nature of each transaction. This consisted primarily of an analysis of the contractual terms of each new agreement against the criteria and guidance within IAS18. We made inquiries of technical project managers in relation to the extent of work performed and inspected evidence to support the achievement of any performance obligations under the contracts, most notably the timing of the sharing of IP. We read minutes of board meetings and other committees for evidence of changes in contractual terms. We agreed invoiced amounts to contract terms and to receipt of payment or customer acknowledgement.	We identified a number of differences in relation to revenue recognition, with all material misstatements being adjusted for by management. We concluded we agreed with revenue as adjusted. We concluded that, based on the procedures performed, the internal controls designed to prevent or correct material errors in the reported revenue had been ineffective with specific reference to application of accounting standards.
Going concern *Refer to the Strategic Report (page 25); Audit Committee Report (page 48); Statement of financial position (page 65); and Basis of Preparation (page 67).* At 31 July 2016 the Group had cash and cash equivalents and short-term investments and cash on deposit of £14.5m (2015: £24.3m) and incurred an operating loss of £12.8m (2015: £11.0m). The Strategic Report on pages 22 and 23 identifies the Group's principal risks and uncertainties. Judgement is required by the directors in assessing whether any material uncertainties exist which cast significant doubt as to the Group's ability to meet its liabilities and whether the mitigating actions identified by management are achievable. Judgement is also required in assessing whether the disclosures provided in the financial statements adequately describe the risks and underlying assumptions. This is a new risk this year due to the Group's continuing operating losses and reducing cash resources.	We obtained an understanding and tested the design and implementation of the key controls around management's assessment of the going concern basis. We did not seek to obtain reliance on the control framework. We obtained and reviewed the going concern assessment prepared by management including financial forecasts. We tested the financial forecasts to ensure integrity of the model, that they reflected an accurate starting position and that they were consistent with the budget that had been approved by the directors. We tested the sensitivities applied by management in the financial forecast and considered management's ability to apply the identified cost savings in an appropriate time frame. We made inquiries of management and obtained support to understand the mitigating actions identified by the directors and to evaluate whether they were achievable. We performed further sensitivity analysis to test the impact of delays in the implementation of mitigating actions on the going concern assumption. We compared the costs reported in the consolidated statement of comprehensive income with those that had been budgeted by management to evaluate the accuracy of previous financial forecasts. We read the disclosures in the Annual Report and Accounts to confirm that they were consistent with our understanding of the going concern assessment that had been undertaken by the directors and that they appropriately reflected the risks and mitigating actions that had been considered.	We concluded that we concurred with management's view that the entity remains a going concern.

Our assessment of risk of material misstatement continued

Risk	Our response to the risk	What we concluded to the Audit Committee
Carrying value of intellectual property (£2,423,000; 2015: £1,821,000) and tangible fixed assets (£1,260,000; 2015: 2,062,000) *Refer to the Accounting Policies (page 71); Note 11 (page 76); and Note 12 (page 77).* At 31 July 2016 the carrying value of the Group's non-current assets was £3.7m. The Group's operating loss for the year then ended was £12.8m. There is a risk that the carrying value of the Group's non-current assets might not be recoverable. Any inappropriate judgements in measuring the recoverable amount of the non-current assets could result in a material misstatement in the consolidated statement of comprehensive income and in the statement of financial position. This is a new risk this year due to the Group's continuing operating losses.	We obtained an understanding and tested the design and implementation of the key controls around management's assessment of the carrying value of intellectual property and tangible fixed assets. We did not seek to obtain reliance on the control framework. We tested the completeness of management's impairment review by reading board minutes and minutes of other committees, making inquiries of management regarding the registration and protection of patents and checking for consistency with other judgements such as going concern, capitalisation of development costs and our understanding of the new licence agreements. We obtained the financial forecasts prepared by management to assess the recoverable amount and tested the integrity of the forecasts, consistency with the budget approved by management and those forecasts used in the going concern assessment. We also compared the royalty rates assumed in the forecasts with the new licence agreements signed in the period. We performed sensitivity analysis to evaluate the impact on the recoverable amount of delays in forecast revenues by a year, assessed that forecast royalties could reduce by up to 90% and further we assessed the carrying balance if only guaranteed revenues under the new licence agreements materialised.	We concluded that management's judgement that the carrying value of non-current assets at 31 July 2016 was not impaired was appropriate.

In the prior year, our auditor's report included a risk of material misstatement in relation to equity-settled share based payments. In the current year, the financial statements were not sensitive to the assumptions relating to equity share based payments and therefore this risk did not have a significant effect on our overall strategy in the current year.

In the prior year, our auditor's report also included a risk of material misstatement in relation to costs incurred in moving to the main list of the London Stock Exchange and the issue of new shares. These costs were non-recurring and therefore this risk has been removed in the current year.

The scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the group. Taken together, this enables us to form an opinion on the consolidated financial statements.

The group's subsidiaries are described in Note 13 to the financial statements. We view the group as having two components based on geographical location, being the UK and US. The group's processes and controls are consistent across the group and lie primarily in one location, Manchester, with responsibility being with group management for the preparation of financial information and for judgemental processes and significant risk areas. The US based subsidiary predominantly provides management and technical expertise to the group. All of our audit procedures were performed by the group audit team.

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

The reporting components where we performed audit procedures accounted for 100% (2015: 100%) of the group's operating expenses, 100% (2015: 100%) of the group's Revenue, 100% (2015: 100%) of loss before taxation and 100% (2015: 100%) of the group's Total assets. For the current year, the full scope component contributed 92% (2015: 94%) of the group's operating expenses, 100% (2015: 100%) of the group's Revenue and 100% (2015: 100%) of the group's Total assets. The specific scope component contributed 8% (2015: 6%) of the group's operating expenses, 0% (2015: 0%) of the group's Revenue and 0% (2015: 0%) of the group's Total assets. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the group.

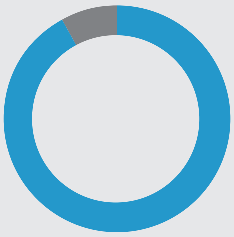
INDEPENDENT AUDITOR'S REPORT CONTINUED
TO THE MEMBERS OF NANOCO GROUP PLC

The scope of our audit continued

Tailoring the scope continued

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

OPERATING EXPENSES



92% Full scope components
8% Specific scope components

REVENUE

100% Full scope components
0% Specific scope components

TOTAL ASSETS

100% Full scope components
0% Specific scope components

Involvement with component teams

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

Our application of materiality

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

Materiality

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

We determined materiality for the group to be £236,000 (2015: £179,000), which is 2% (2015: 2%) of operating expenses which we measured using the basis described in the table below. It was considered inappropriate to calculate materiality using group profit before tax due to the loss making position of the group. It was also considered inappropriate to use revenue to calculate materiality as revenue reported by the group relates to its pre-commercialisation activities. Operating expenses represent a measure of the rate at which the group is using its cash resources in reaching its strategic objective of commercialising its technology. We therefore considered operating expenses to be the most appropriate performance metric on which to base our materiality calculation as we considered that to be the most relevant performance measure to the stakeholders of the entity.

STARTING BASIS	• Research and development expenses £5,995,000 (2015: £5,580,000) • Administrative expenses £7,367,000 (2015: £7,130,000)

ADJUSTMENTS	• Exclude non-cash items:
	  • Depreciation – decrease basis by £991,000 (2015: £1,106,000)
	  • Amortisation – decrease basis by £298,000 (2015: £269,000)
	  • Share based payments - decrease basis by £270,000 (2015: £619,000)
	• Exclude non-recurring items £nil (2015: decrease basis for costs of admission to main market £926,000)

MATERIALITY	• Total £11,768,000 operating expenses (2015: £9,790,000) • Materiality of £236,000 (2% of operating expenses) (2015: £179,000; 2%)

Our initial materiality was based on forecast operating expenses. We reassessed initial materiality and no revisions were required as actual operating expenses did not differ significantly to forecast operating expenses.

Our application of materiality continued

Performance materiality

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

On the basis of our risk assessments, together with our assessment of the group's overall control environment, our judgement was that performance materiality was 75% (2015: 75%) of our planning materiality, namely £177,000 (2015: £134,000). Our objective in adopting this approach was to ensure that total uncorrected and undetected audit differences in all accounts did not exceed our materiality level.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £35,000 to £168,000 (2015: £27,000 to £134,000).

We reconsidered whether our assessment of performance materiality should change given our identification of a material control weakness, which was that internal controls designed to prevent or correct material errors in reported revenue had been ineffective with specific reference to application of accounting standards. We concluded that this was a specific control area and that its application and implications could be isolated, principally to the new licence agreements. We reconsidered our assessment of the remaining control environment and considered that the entity level controls and other financial reporting process controls were robust. We therefore did not consider it necessary to adjust our performance materiality.

Reporting threshold

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

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £11,800 (2015: £9,000), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

Scope of the audit of the financial statements

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

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 56, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

INDEPENDENT AUDITOR'S REPORT CONTINUED TO THE MEMBERS OF NANOCO GROUP PLC

Matters on which we are required to report by exception

ISAs (UK and Ireland) reporting	We are required to report to you if, in our opinion, financial and non-financial information in the annual report is: • materially inconsistent with the information in the audited financial statements; or • apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group acquired in the course of performing our audit; or • otherwise misleading. In particular, we are required to report whether we have identified any inconsistencies between our knowledge acquired in the course of performing the audit and the directors' statement that they consider the annual report and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the entity's performance, business model and strategy; and whether the annual report appropriately addresses those matters that we communicated to the audit committee that we consider should have been disclosed.	We have no exceptions to report.
Companies Act 2006 reporting	We are required to report to you if, in our opinion: • adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or • the parent company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or • certain disclosures of directors' remuneration specified by law are not made; or • we have not received all the information and explanations we require for our audit.	We have no exceptions to report.
Listing Rules review requirements	We are required to review: • the directors' statement in relation to going concern, set out on page 25, and longer-term viability, set out on page 24; and • the part of the Corporate governance statement relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review.	We have no exceptions to report.

Statement on the Directors' Assessment of the Principal Risks that Would Threaten the Solvency or Liquidity of the Entity

ISAs (UK and Ireland) reporting	We are required to give a statement as to whether we have anything material to add or to draw attention to in relation to: • the directors' confirmation in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity; • the disclosures in the annual report that describe those risks and explain how they are being managed or mitigated; • the directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and • the directors' explanation in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.

Jennifer Hazlehurst
(Senior statutory auditor)
for and on behalf of Ernst & Young LLP
Statutory Auditor
11 October 2016

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

2 Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 JULY 2016

	Notes	2016 £'000	2015 £'000
Revenue	4	**474**	2,029
Cost of sales		**(177)**	(316)
Gross profit		**297**	1,713
Other operating income	5	**284**	–
Operating expenses			
Research and development expenses		**(5,995)**	(5,580)
Administrative expenses		**(7,367)**	(7,130)
Operating loss	6	**(12,781)**	(10,997)
- before share-based payments and the costs of the move to the Main Market		**(12,511)**	(9,452)
- cost of admission to the Main Market		**–**	(926)
- share-based payments	21	**(270)**	(619)
Finance income	8	**193**	119
Finance expense	8	**(12)**	(3)
Loss on ordinary activities before taxation		**(12,600)**	(10,881)
Taxation	9	**1,993**	1,906
Loss on ordinary activities after taxation for the year and total comprehensive loss for the year		**(10,607)**	(8,975)
Loss per share			
Basic and diluted loss for the year	10	**(4.47)p**	(4.05)p

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

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

The notes on pages 67 to 88 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 JULY 2016

Group	Issued equity capital £'000	Share-based payment reserve £'000	Merger reserve £'000	Revenue reserve £'000	Total £'000
At 31 July 2014	37,791	1,826	(1,242)	(21,482)	16,893
Loss for the year and total comprehensive loss for the year	–	–	–	(8,975)	(8,975)
Issue of share capital	20,826	–	–	–	20,826
Expenses of placing	(560)	–	–	–	(560)
Issue of shares by EBT	–	–	–	297	297
Share-based payments	–	619	–	–	619
At 31 July 2015	58,057	2,445	(1,242)	(30,160)	29,100
Loss for the year and total comprehensive loss for the year	–	–	–	(10,607)	(10,607)
Share-based payments	–	270	–	–	270
At 31 July 2016	**58,057**	**2,715**	**(1,242)**	**(40,767)**	**18,763**

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 JULY 2016

Company	Issued equity capital £'000	Share-based payment reserve £'000	Capital redemption reserve £'000	Revenue reserve £'000	Total £'000
At 31 July 2014	115,659	1,826	4,402	(25,671)	96,216
Profit for the year and total comprehensive profit for the year	–	–	–	82	82
Issue of share capital	20,826	–	–	–	20,826
Expenses of placing	(560)	–	–	–	(560)
Issue of shares by EBT	–	–	–	297	297
Share-based payments	–	619	–	–	619
At 31 July 2015	135,925	2,445	4,402	(25,292)	117,480
Profit for the year and total comprehensive profit for the year	–	–	–	167	167
Share-based payments	–	270	–	–	270
At 31 July 2016	**135,925**	**2,715**	**4,402**	**(25,125)**	**117,917**

STATEMENTS OF FINANCIAL POSITION
AT 31 JULY 2016
Registered no. 05067291

	Notes	31 July 2016 Group £'000	31 July 2016 Company £'000	31 July 2015 Group £'000	31 July 2015 Company £'000
Assets					
Non-current assets					
Tangible fixed assets	11	**1,260**	**–**	2,062	–
Intangible assets	12	**2,423**	**–**	1,821	–
Investment in subsidiaries	13	**–**	**66,322**	–	66,052
		3,683	**66,322**	3,883	66,052
Current assets					
Inventories	14	**208**	**–**	208	–
Trade and other receivables	15	**2,045**	**42,988**	902	31,866
Income tax asset	9	**1,970**	**–**	1,800	–
Short-term investments and cash on deposit	16	**5,000**	**5,000**	20,000	20,000
Cash and cash equivalents	16	**9,511**	**4,057**	4,311	12
		18,734	**52,045**	27,221	51,878
Total assets		**22,417**	**118,367**	31,104	117,930
Liabilities					
Current liabilities					
Trade and other payables	17	**2,443**	**–**	1,909	–
Financial liabilities	18	**32**	**–**	63	–
Deferred revenue	19	**531**	**–**	–	–
		3,006	**–**	1,972	–
Non-current liabilities					
Financial liabilities	18	**–**	**–**	32	–
Other payables	17	**–**	**450**	–	450
Deferred revenue	19	**648**	**–**	–	–
		648	**450**	32	450
Total liabilities		**3,654**	**450**	2,004	450
Net assets		**18,763**	**117,917**	29,100	117,480
Capital and reserves					
Issued equity capital	20	**58,057**	**135,925**	58,057	135,925
Share-based payment reserve	21	**2,715**	**2,715**	2,445	2,445
Merger reserve	22	**(1,242)**	**–**	(1,242)	–
Capital redemption reserve	22	**–**	**4,402**	–	4,402
Retained earnings	23	**(40,767)**	**(25,125)**	(30,160)	(25,292)
Total equity		**18,763**	**117,917**	29,100	117,480

Approved by the Board and authorised for issue on 11 October 2016.

The notes on pages 67 to 88 form an integral part of these financial statements.

Dr Michael Edelman
Director
11 October 2016

STRATEGIC REPORT
CORPORATE GOVERNANCE
FINANCIAL STATEMENTS

CASH FLOW STATEMENTS
FOR THE YEAR ENDED 31 JULY 2016

	Notes	31 July 2016 Group £'000	31 July 2016 Company £'000	31 July 2015 Group £'000	31 July 2015 Company £'000
(Loss)/profit before tax		**(12,600)**	**167**	(10,881)	82
Adjustments for:					
Net finance income	8	**(181)**	**(167)**	(116)	(58)
Depreciation of tangible fixed assets	11	**991**	**–**	1,106	–
Amortisation of intangible assets	12	**298**	**–**	269	–
Share-based payments	21	**270**	**–**	619	–
Changes in working capital:					
Increase in inventories		**–**	**–**	(74)	–
Increase in trade and other receivables		**(1,143)**	**–**	(250)	(24)
Increase in trade and other payables		**503**	**–**	580	–
Increase/(decrease) in deferred revenue	19	**1,179**	**–**	(119)	–
Cash outflow from operating activities		**(10,683)**	**–**	(8,866)	–
Research and development tax credit received		**1,830**	**–**	1,323	–
Overseas corporation tax paid		**(7)**	**–**	(7)	–
Net cash outflow from operating activities		**(8,860)**	**–**	(7,550)	–
Cash flow from investing activities					
Purchases of tangible fixed assets	11	**(189)**	**–**	(385)	–
Purchases of intangible fixed assets	12	**(900)**	**–**	(533)	–
Cash advance to subsidiary	15	**–**	**(11,153)**	–	(4,323)
Increase in cash placed on deposit	16	**–**	**–**	(20,000)	(20,000)
Decrease in cash placed on deposit	16	**15,000**	**15,000**	5,791	–
Interest received		**224**	**198**	100	39
Net cash inflow/(outflow) from investing activities		**14,135**	**4,045**	(15,027)	(24,284)
Cash flow from financing activities					
Proceeds from issues of ordinary share capital		**–**	**–**	21,123	21,123
Expenses on issue of shares	20	**–**	**–**	(560)	(560)
Interest paid		**(12)**	**–**	(3)	–
Loan repayment	18	**(63)**	**–**	(63)	–
Net cash (outflow)/inflow from financing activities		**(75)**	**–**	20,497	20,563
Increase/(decrease) in cash and cash equivalents		**5,200**	**4,045**	(2,080)	(3,721)
Cash and cash equivalents at the start of the year		**4,311**	**12**	6,391	3,733
Cash and cash equivalents at the end of the year		**9,511**	**4,057**	4,311	12
Monies placed on deposit at the end of the year		**5,000**	**5,000**	20,000	20,000
Cash, cash equivalents and deposits at the end of the year	16	**14,511**	**9,057**	24,311	20,012

The notes on pages 67 to 88 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Reporting entity

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

These Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") for the year ended 31 July 2016.

The financial statements of Nanoco Group plc and its subsidiaries (the "Group") for the year ended 31 July 2016 were authorised for issue by the Board of Directors on 11 October 2016 and the statements of financial position were signed on the Board's behalf by Dr Michael Edelman.

The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the Parent Company's income statement. The Parent Company's result for the period ended 31 July 2016 was a profit of £167,000 (2015: £82,000). There were no other recognised gains or losses in either the current or prior year.

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

2. Basis of preparation

(a) Statement of compliance

The Group's and Parent Company's financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") and IFRS Interpretations Committee ("IFRIC") interpretations as they apply to the financial statements of the Group for the year ended 31 July 2016.

(b) Basis of measurement

The Parent Company and Group financial statements have been prepared on the historical cost basis. The methods used to measure fair values of assets and liabilities are discussed in the respective notes in note 3 below.

(c) Going concern

In assessing whether the going concern basis is an appropriate basis for preparing the 2016 Annual Report, the Directors have utilised its detailed forecasts which take into account its current and expected business activities, its cash balance of £14.5 million as shown in its balance sheet at 31 July 2016, the principal risks and uncertainties the Group faces and other factors impacting the Group's future performance.

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

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

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

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

Various sensitivity analyses have been performed to reflect possible downside scenarios as referred to above. In the worst case scenario whereby the Group achieves no revenues for the twelve months following the date of this Annual Report, the Company and the Group have sufficient resources to continue in operational existence for the foreseeable future. In order to provide sufficient headroom the Directors have identified variable cost savings associated with the reduction in revenues and have the ability to identify further cost savings if necessary.

At the time of approving the financial statements the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the 2016 Annual Report.

(d) Functional and presentational currency

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. Basis of preparation continued

(e) Use of estimates and judgements

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

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

Equity-settled share-based payments

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

Intellectual property and tangible fixed assets

Management judgement is required to determine the carrying value of these assets. As the Group has not, to date, made a profit the carrying value of these assets may need to be impaired. Management has concluded that as all assets are currently in use and all registered intellectually property is capable of generating future revenue no impairment is required at this juncture. Judgements are based on the information available at each reporting date, which includes the progress with testing and certification and progress on, for example, establishment of commercial arrangements with third parties. Management has adopted the prudent approach of amortising patent registration costs over a ten-year period, which is substantially shorter than the life of the patent. For external patents acquired the same rule is adopted unless the remaining life of the patent is shorter, in which event the cost of acquisition is amortised over the remaining life of the patent.

Taxation

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

Research and development

Careful judgement by the Directors is applied when deciding whether the recognition requirements for development costs have been met. This is necessary as the economic success of any product development is uncertain until such time as technical viability has been proven and commercial supply agreements are likely to be achieved. Judgements are based on the information available at each reporting date which includes the progress with testing and certification and progress on, for example, establishment of commercial arrangements with third parties. In addition, all internal activities related to research and development of new products are continuously monitored by the Directors. Further information is included in note 3.

Revenue recognition

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

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 21). The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

3. Significant accounting policies

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

(a) Basis of consolidation

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

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

3. Significant accounting policies continued

(a) Basis of consolidation continued

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

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

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

(b) Foreign currency transactions

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

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

(c) Segmental reporting

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

(d) Revenue recognition

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

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

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

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

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

(e) Government grants

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

Government grants of a revenue nature are recognised as other operating income (2015: rendering of services) in the consolidated statement of comprehensive income.

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

(f) Cost of sales

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

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

(g) Operating loss

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

(h) Research and development

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

3. Significant accounting policies continued

(h) Research and development continued

The criteria for recognising expenditure as an asset are:

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

Development costs are currently charged against income as incurred since the criteria for their recognition as an asset are not met.

(i) Lease payments

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

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

(j) Finance income and expense

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

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

(k) Income tax

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

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

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

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

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

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

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

(l) Property, plant and equipment

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

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

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

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

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

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

3. Significant accounting policies continued

(m) Intangible assets

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

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

Patents – straight line over ten years

(n) Impairment of assets

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

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

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

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

(o) Investments in subsidiaries

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

(p) Inventories

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

(q) Financial instruments

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

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

Loans and receivables

(i) Trade and other receivables

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

3. Significant accounting policies continued

(q) Financial instruments continued

Financial liabilities at amortised cost

(i) Trade and other payables

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

(ii) Loans

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

(r) Share capital

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

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

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

(t) Share-based payments

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

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

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

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

(u) Defined contribution pension scheme

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

(v) New accounting standards and interpretations

There were no new or amended IFRS, IAS and IFRIC interpretations which were mandatory for accounting periods ending 31 July 2016 and thereafter that were relevant to the Group.

A number of new standards, amendments to standards and interpretations are effective for annual periods ending 31 July 2017 or thereafter and have not been applied in preparing these consolidated financial statements and those that are relevant to the Group are summarised below. Other than the introduction of IFRS 16, none of these are expected to have a significant effect on the consolidated financial statements of the Group in the period of initial application. The Directors consider the adoption of IFRS 15 will not have a material effect on revenue recognised in earlier periods in view of the nature of existing licensing contracts. Management will, however, keep the situation under review and report any deviation from this position at each reporting period.

3. Significant accounting policies continued

(v) New accounting standards and interpretations continued

The following standards and interpretations have an effective date after the date of these financial statements and are relevant to the Group:

	Effective date
IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception – Amendments to IFRS 10, IFRS 12 and IAS 28	1 January 2016
IAS 1 Disclosure Initiative – Amendments to IAS 1	1 January 2016
IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38	1 January 2016
IAS 27 Equity Method in Separate Financial Statements – Amendments to IAS 27	1 January 2016
IAS 12 Recognition of Deferred Tax Assets for Unrelieved Losses – Amendments to IAS 12	1 January 2017
IAS 7 Disclosure Initiative – Amendments to IAS 7	1 January 2017
IFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRS 9 Financial Instruments (issued in 2013)	1 January 2018
IFRS 16 Leases	1 January 2019
Annual Improvements to IFRSs 2012 to 2014 Cycle	1 January 2016

4. Segmental information

Operating segments

At 31 July 2016 the Group operated as one segment, being the provision of high performance nanoparticles manufactured for sale and for research and development purposes. This is the level at which operating results are reviewed by the chief operating decision maker (i.e. the Chief Executive) 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 2016 £'000	31 July 2015 £'000
Analysis of revenue		
Products sold	**204**	445
Rendering of services	**114**	353
Royalties and licences	**156**	1,231
	474	2,029

Included within rendering of services is revenue from one material customer amounting to £114,000 (2015: one material customer amounting to £106,000). All revenue from royalties and licences is from one material customer (2015: one material customer).

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 2016 £'000	31 July 2015 £'000
Revenue		
UK	**20**	130
Europe (excluding UK)	**42**	–
Asia	**135**	395
USA	**277**	1,504
	474	2,029

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

5. Other operating income

	31 July 2016 £'000	31 July 2015 £'000
Government grants	**284**	–

In the prior year income from government grants was not material and was reported within revenue for rendering of services and totalled £129,000.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

6. Operating loss

	31 July 2016 £'000	31 July 2015 £'000
Operating loss is stated after charging/(crediting):		
Depreciation of tangible fixed assets (see note 11)	**991**	1,106
Amortisation of intangible assets (see note 12)	**298**	269
Staff costs (see note 7)	**6,801**	6,242
Foreign exchange losses/(gains)	**4**	(27)
Research and development expense*	**5,995**	5,580
Operating lease rentals (see note 24):		
Land and buildings	**723**	684

* Included within research and development expense are staff costs totalling £4,590,000 (2015: £4,150,000) also included in note 7.

Auditor's remuneration		
Audit services:		
– Fees payable to Company auditor for the audit of the Parent and the consolidated accounts	**20**	17
– Auditing the accounts of subsidiaries pursuant to legislation	**23**	20
Fees payable to Company auditor for other services:		
– Services in connection with the review of interim results	**8**	–
– Services in connection with the Company's move to the Main Market	**–**	173
Total auditor's remuneration	**51**	210

7. Staff costs

	31 July 2016 £'000	31 July 2015 £'000
Wages and salaries	**5,622**	4,833
Social security costs	**567**	508
Pension contributions	**342**	282
Share-based payments	**270**	619
	6,801	6,242
Directors' remuneration (including benefits in kind) included in the aggregate remuneration above comprised:		
Emoluments for qualifying services	**1,227**	1,012

Directors' emoluments (excluding social security costs and long-term incentives, but including benefits in kind) disclosed above include £349,000 paid to the highest paid Director (2015: £322,000).

Aggregate gains made by Directors during the year following the exercise of share options and jointly owned EBT shares were £nil (2015: £27,000).

Not included in the costs reported above are share awards to be made to Directors under the deferred bonus plan amounting to £166,000 which are included in the Directors' remuneration report. The awards will be recognised in the income statement by way of a share-based payment charge over the deferral period as required by IFRS 2.

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

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

Group	31 July 2016 Number	31 July 2015 Number
Directors	**9**	8
Laboratory and administrative staff	**120**	101
	129	109

8. Finance income and expense

Group	31 July 2016 £'000	31 July 2015 £'000
Finance income		
Bank interest receivable	**193**	119
Finance expense		
Loan interest payable	**(12)**	(3)
	181	116

Bank interest receivable includes £12,000 (2015: £44,000), which is receivable after the year end.

9. Taxation

The tax credit is made up as follows:

Group	31 July 2016 £'000	31 July 2015 £'000
Current income tax		
Research and development income tax credit receivable	**(1,970)**	(1,800)
Adjustment in respect of prior years	**(30)**	(113)
Overseas corporation tax	**7**	7
	(1,993)	(1,906)
Deferred tax		
Charge for the year	**–**	–
Total income tax credit	**(1,993)**	(1,906)

The adjustments in respect of prior years relate to research and development income tax credits. The research and development income tax for the year ended 31 July 2015 was submitted in March 2016 and the repayment was received in April 2016. The income tax receivable shown in the statement of financial position is the R&D tax credit receivable reported above.

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

Group	31 July 2016 £'000	31 July 2015 £'000
Loss on ordinary activities before taxation	**(12,600)**	(10,881)
Tax at standard rate of 20% (2015: 20.67%)	**(2,520)**	(2,249)
Effects of:		
Expenses not deductible for tax purposes	**243**	194
Additional reduction for research and development expenditure	**(1,556)**	(1,456)
Surrender of research and development relief for repayable tax credit	**2,758**	2,609
Research and development tax credit receivable	**(1,970)**	(1,800)
Share options exercised (CTA 2009 Pt 12 deduction)	**–**	(155)
Overseas corporation tax	**7**	7
Losses and share-based payment charges carried forward not recognised in deferred tax	**1,075**	1,001
Adjustment in respect of prior years	**(30)**	(113)
Changes in tax rate/other adjustments	**–**	56
Tax credit in income statement	**(1,993)**	(1,906)

The Group has accumulated losses available to carry forward against future trading profits of £24.3 million (2015: £19.2 million).

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

	31 July 2016 £'000	31 July 2015 £'000
Accelerated capital allowances	**189**	336
Share-based payments	**(189)**	(336)
Tax losses	**–**	–
	–	–

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

9. Taxation continued

The Group also has deferred tax assets, measured at a standard rate of 20% (2015: 20%), in respect of share-based payments of £455,000 (2015: £247,000) and tax losses of £4,850,000 (2015: £3,842,000) which have not been recognised as an asset as it is not yet probable that future taxable profits will be available against which the assets can be utilised.

10. Earnings per share

Group	31 July 2016 £'000	31 July 2015 £'000
Loss for the financial year attributable to equity shareholders	**(10,607)**	(8,975)
Cost of the move to the Main Market	**–**	926
Share-based payments	**270**	619
Loss for the financial year before the cost of the move to the Main Market and share-based payments	**(10,337)**	(7,430)
Weighted average number of shares		
Ordinary shares in issue	**237,077,578**	221,360,893
Adjusted loss per share before the cost of the move to the Main Market and share-based payments (pence)	**(4.36)**	(3.36)
Basic loss per share (pence)	**(4.47)**	(4.05)

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

11. Property, plant and equipment

Group	Laboratory infrastructure £'000	Office equipment, fixtures and fittings £'000	Plant and machinery £'000	Total £'000
Cost				
At 1 August 2014	2,501	308	4,380	7,189
Additions	77	36	272	385
Disposals	–	(114)	–	(114)
At 31 July 2015	2,578	230	4,652	7,460
Additions	67	26	96	189
At 31 July 2016	**2,645**	**256**	**4,748**	**7,649**
Depreciation				
At 1 August 2014	1,645	229	2,532	4,406
Provided during the year	362	46	698	1,106
Eliminated on disposal	–	(114)	–	(114)
At 31 July 2015	2,007	161	3,230	5,398
Provided during the year	394	47	550	991
At 31 July 2016	**2,401**	**208**	**3,780**	**6,389**
Net book value				
At 31 July 2016	**244**	**48**	**968**	**1,260**
At 31 July 2015	571	69	1,422	2,062

The aggregate original cost of tangible assets now fully depreciated but considered to be still in use is £3,301,000 (2015: £1,570,000).

12. Intangible assets

Group	Patents £'000
Cost	
At 1 August 2014	2,270
Additions	533
At 31 July 2015	2,803
Additions	900
At 31 July 2016	**3,703**
Amortisation	
At 1 August 2014	713
Provided during the year	269
At 31 July 2015	982
Provided during the year	298
At 31 July 2016	**1,280**
Net book value	
At 31 July 2016	**2,423**
At 31 July 2015	1,821

Intangible assets are amortised on a straight-line basis over ten years. Amortisation provided during the period is recognised in administrative expenses. The Group does not believe that any of its patents in isolation are material to the business. The aggregate original cost of intangible assets now fully depreciated but considered to be still in use is £154,000 (2015: £50,000).

13. Investment in subsidiaries

Company	Shares £'000	Loans £'000	Loan impairment £'000	Total £'000
At 1 August 2014	63,235	22,484	(20,286)	65,433
Increase in respect of share-based payments	–	619	–	619
At 31 July 2015	63,235	23,103	(20,286)	66,052
Increase in respect of share-based payments	–	270	–	270
At 31 July 2016	**63,235**	**23,373**	**(20,286)**	**66,322**

By subsidiary				
Nanoco Tech Limited	63,235	–	–	63,235
Nanoco Life Sciences Limited	–	20,286	(20,286)	–
Nanoco Technologies Limited	–	3,087	–	3,087
At 31 July 2016	**63,235**	**23,373**	**(20,286)**	**66,322**

Loans to subsidiary undertakings carry no interest and are repayable on demand. Further information in relation to these loans is given in note 26.

Subsidiary undertakings	Country of incorporation	Principal activity	Share of issued ordinary share capital 31 July 2016	Share of issued ordinary share capital 31 July 2015
Nanoco Life Sciences Limited	England and Wales	Research and development	**100%**	100%
Nanoco Tech Limited	England and Wales	Holding company	**100%**	100%
Nanoco Technologies Limited*	England and Wales	Manufacture and development of nanoparticles	**100%**	100%
Nanoco US Inc.**	USA	Management services	**100%**	100%

With the exception of the two companies footnoted below all other shareholdings are owned by Nanoco Group plc.

* Share capital is owned by Nanoco Tech Limited.

** Nanoco US Inc. is a wholly owned subsidiary of Nanoco Tech Limited. It was formed in July 2013 primarily in order to provide the services of US-located staff to the rest of the Group.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

14. Inventories

	31 July 2016 Group £'000	31 July 2016 Company £'000	31 July 2015 Group £'000	31 July 2015 Company £'000
Raw materials, finished goods and consumables	208	–	208	–

A total of £85,000 was included in cost of sales with respect to inventory during the year.

15. Trade and other receivables

	31 July 2016 Group £'000	31 July 2016 Company £'000	31 July 2015 Group £'000	31 July 2015 Company £'000
Trade receivables	1,455	–	107	–
Prepayments and accrued income	422	12	430	43
Inter-company short-term loan to subsidiary	–	42,976	–	31,823
Other receivables	168	–	365	–
	2,045	42,988	902	31,866

Trade receivables are non-interest bearing and are generally due and paid within 30 to 60 days. The Directors consider that the carrying amount of trade and other receivables approximates to their fair value and that no impairment is required at the reporting date. Therefore there is no provision for impairment at the balance sheet date (2015: same).

Trade receivables are denominated in the following currency:

	31 July 2016 Group £'000	31 July 2016 Company £'000	31 July 2015 Group £'000	31 July 2015 Company £'000
US Dollars	1,032	–	106	–
Euros	423	–	–	–
Sterling	–	–	1	–
	1,455	–	107	–

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

	Not yet due £'000	Due but not impaired £'000	Past due but not impaired >90 days £'000	Past due but not impaired 120 to 150 days £'000	Total £'000
2016	1,374	30	8	43	1,455
2015	18	89	–	–	107

16. Cash, cash equivalents and deposits

	31 July 2016 Group £'000	31 July 2016 Company £'000	31 July 2015 Group £'000	31 July 2015 Company £'000
Short-term investments and cash on deposit	5,000	5,000	20,000	20,000
Cash and cash equivalents	9,511	4,057	4,311	12
	14,511	9,057	24,311	20,012

Under IAS 7, cash held on long-term deposits (being deposits with maturity of greater than three months and no more than twelve months) that cannot readily be converted into cash has been classified as a short-term investment. The maturity on this investment was less than twelve months at the reporting date.

Cash and cash equivalents at 31 July 2016 include deposits with original maturity of three months or less of £5,000,000 (2015: £4,311,000).

An analysis of cash, cash equivalents and deposits by denominated currency is given in note 25.

17. Trade and other payables

	31 July 2016 Group £'000	31 July 2016 Company £'000	31 July 2015 Group £'000	31 July 2015 Company £'000
Current				
Trade payables	**1,093**	**–**	862	–
Other payables	**185**	**–**	137	–
Accruals	**1,165**	**–**	910	–
	2,443	**–**	1,909	–
Non-current				
Long-term loan from subsidiary	**–**	**450**	–	450
	–	**450**	–	450

The Directors consider that the carrying amount of trade and other payables approximates to their fair value. Interest is not charged on inter-company loans (2015: no interest). The average credit period taken is 45 days (2015: 45 days).

18. Financial liabilities

	31 July 2016 Group £'000	31 July 2016 Company £'000	31 July 2015 Group £'000	31 July 2015 Company £'000
Other loan				
Current	**32**	**–**	63	–
Non-current	**–**	**–**	32	–
	32	**–**	95	–

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

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

19. Deferred revenue

	31 July 2016 Group £'000	31 July 2016 Company £'000	31 July 2015 Group £'000	31 July 2015 Company £'000
Current	**531**	**–**	–	–
Non-current	**648**	**–**	–	–
	1,179	**–**	–	–

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

20. Issued equity capital

Group	Number	Share capital £'000	Share premium £'000	Reverse acquisition reserve £'000	Total £'000
Allotted, called up and fully paid ordinary shares of 10p					
At 31 July 2014	216,530,436	21,653	94,006	(77,868)	37,791
Shares issued on exercise of options	1,499,523	150	676	–	826
Shares issued in placing	19,047,619	1,905	18,095	–	20,000
Expenses of placing	–	–	(560)	–	(560)
At 31 July 2015 and 31 July 2016	**237,077,578**	**23,708**	**112,217**	**(77,868)**	**58,057**

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

The balances classified as share capital and share premium include the total net proceeds (nominal value and share premium respectively) on issue of the Company's equity share capital, comprising ordinary shares.

The retained loss and other equity balances recognised in the Group financial statements reflect the consolidated retained loss and other equity balances of Nanoco Tech Limited immediately before the business combination which was reported in the year ended 31 July 2009. The consolidated results for the period from 1 August 2008 to the date of the acquisition by the Company are those of Nanoco Tech Limited. However, the equity structure appearing in the Group financial statements reflects the equity structure of the legal parent, including the equity instruments issued under the share-for-share exchange to effect the transaction. The effect of using the equity structure of the legal parent gives rise to an adjustment to the Group's issued equity capital in the form of a reverse acquisition reserve.

Shares issued on exercise of options

No options were exercised this year. Last year the Company issued 1,499,523 shares which had an average exercise price of 55.1 pence.

Company	Number	Share capital £'000	Share premium £'000	Total £'000
Allotted, called up and fully paid ordinary shares of 10p				
At 31 July 2014	216,530,436	21,653	94,006	115,659
Shares issued on exercise of options	1,499,523	150	676	826
Shares issued in placing	19,047,619	1,905	18,095	20,000
Expenses of placing	–	–	(560)	(560)
At 31 July 2015 and 31 July 2016	**237,077,578**	**23,708**	**112,217**	**135,925**

21. Share-based payment reserve

Group and Company	£'000
At 31 July 2014	1,826
Share-based payments	619
At 31 July 2015	2,445
Share-based payments	270
At 31 July 2016	**2,715**

The share-based payment reserve accumulates the corresponding credit entry in respect of share-based payment charges. Movements in the reserve are disclosed in the consolidated statement of changes in equity.

A charge of £270,000 has been recognised in the statement of comprehensive income for the year (2015: £619,000).

21. Share-based payment reserve continued

Share option schemes

The Group operates the following share option schemes, all of which are operated as Enterprise Management Incentive ("EMI") schemes insofar as the share options being issued meet the EMI criteria as defined by HM Revenue & Customs. Share options issued that do not meet EMI criteria are issued as unapproved share options, but are subject to the same exercise performance conditions.

Nanoco Group plc Long Term Incentive Plan ("LTIP")

Grant in November 2011

Share options were granted to staff and Executive Directors on 25 November 2011. The options granted to Executive Directors were subject to commercial targets being achieved. The exercise price was set at 50 pence, being the average closing share price on the day preceding the issue of the share options. The fair value benefit is measured using a binomial model, taking into account the terms and conditions upon which the share options were issued. Share options issued to staff vest over a three-year period from the date of grant but are not subject to performance conditions.

Grant in October 2012

Share options were granted to staff and Executive Directors on 22 October 2012. The options granted to Executive Directors were subject to commercial targets being achieved. The exercise price was set at 57 pence, being the average closing share price on the day preceding the issue of the share options. The fair value benefit is measured using a binomial model, taking into account the terms and conditions upon which the share options were issued. Share options issued to staff vest over a three-year period from the date of grant but are not subject to performance conditions.

Grant in May 2014

Share options were granted to certain staff on 23 May 2014. The exercise price was set at 89 pence, being the average closing share price on the day preceding the issue of the share options. The fair value benefit is measured using a binomial model, taking into account the terms and conditions upon which the share options were issued. The options vest at the end of three years from the date of grant and are exercisable until the tenth anniversary of the award. The awards are not subject to performance conditions. Exercise of the award is subject to the employee remaining a full-time member of staff at the point of exercise. No options were granted to Executive Directors.

Grant in October 2014

Share options were granted to an Executive Director on 14 October 2014. The exercise price was set at 10 pence, being the nominal value of the share. The fair value benefit is measured using a binomial model, taking into account the terms and conditions upon which the share options were issued. The options vest at the end of three years from the date of grant and are exercisable until the tenth anniversary of the award. The awards are subject to performance conditions which were amended during the year so as to be in line with the 2015 LTIP scheme. As a result of the modification, the fair value of the award was reduced. However, in accordance with IFRS 2 no change was made to the charge in the financial statements. Exercise of the award is subject to the employee remaining a full-time member of staff at the point of exercise.

Nanoco Group plc 2015 Long Term Incentive Plan ("LTIP")

Grant in December 2015

Following approval of the new scheme at the 2015 AGM, share options were granted to all four Executive Directors at nil cost. The fair value benefit is measured using a stochastic model, taking into account the terms and conditions upon which the share options were issued. The options vest at the end of the three-year performance period subject to meeting the performance criteria (as detailed in the Directors' remuneration report on page 43) and are exercisable after a two-year holding period until the tenth anniversary of the award.

Grant in April 2016

Share options were granted to an employee on 12 April 2016 at nil cost. The fair value benefit is measured using a stochastic model, taking into account the terms and conditions upon which the share options were issued. The options vest at the end of a three-year performance period subject to meeting performance criteria and are exercisable until the tenth anniversary of the award.

Other awards

Share options are awarded to management and key staff as a mechanism for attracting and retaining key members of staff. The options are issued at either market price on the day preceding grant, or in the event of abnormal price movements, at an average market price for the week preceding grant date. On 14 October 2015, unapproved options were granted to a member of staff with an exercise price of 56.5 pence. These options vest over a three-year period from the date of grant with performance conditions and are exercisable until the tenth anniversary of the award. Exercise of the award is subject to the employee remaining a full-time member of staff at the point of exercise. The fair value benefit is measured using a binomial valuation model, taking into account the terms and conditions upon which the share options were issued.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

21. Share-based payment reserve continued

Shares held in the Employee Benefit Trust ("EBT")

The Group operates a jointly owned EBT share scheme for senior management under which the trustee of the Group-sponsored EBT acquired shares in the Company jointly with a number of employees. The shares were acquired pursuant to certain conditions set out in jointly owned agreements ("JOA"). Subject to meeting the performance criteria conditions set out in the JOA, the employees are able to exercise an option to acquire the trustee's interests in the jointly owned EBT shares at the option price. The jointly owned EBT shares issued on 1 September 2006 had met the option conditions on 1 August 2010 and the option to gain sole ownership was exercised by the option holder on 2 August 2016.

The fair value benefit is measured using a binomial valuation model, taking into account the terms and conditions upon which the jointly owned shares were issued.

The following tables illustrate the number and weighted average exercise prices of, and movements in, share options and jointly owned EBT shares during the year.

Group and Company	Share options Number	EBT Number	**2016 total Number**	2015 total Number
Outstanding at 1 August	12,004,233	530,089	**12,534,322**	14,224,256
Granted during the year	1,695,368	–	**1,695,368**	380,000
Exercised during the year	–	–	**–**	(1,819,934)
Forfeited/cancelled	(221,668)	–	**(221,668)**	(250,000)
Outstanding at 31 July	13,477,933	530,089	**14,008,022**	12,534,322
Exercisable at 31 July	10,998,565	530,089	**11,528,654**	9,251,989

Weighted average exercise price of options

Group and Company	**2016 Pence**	2015 Pence
Outstanding at 1 August	**51.9**	54.4
Granted during the year	**5.0**	10.0
Exercised during the year	**–**	61.7
Forfeited/cancelled	**61.7**	57.0
Outstanding at 31 July	**48.9**	51.9

The weighted average exercise price of options granted during the year to 31 July 2016 was 5 pence (2015: 10 pence). The range of exercise prices for options and jointly owned EBT shares outstanding at the end of the year was nil–110 pence (2015: nil–146 pence).

For the share options outstanding as at 31 July 2016, the weighted average remaining contractual life is 6.1 years (2015: 6.8 years).

No share options were exercised during the year. The weighted average share price at the date of exercise for those share options exercised during the year to 31 July 2015 was 109 pence.

21. Share-based payment reserve continued

Weighted average exercise price of options continued

The following table lists the inputs to the models used for the years ended 31 July 2016 and 31 July 2015.

	Performance-linked grants		Non-performance-linked grants	
Group and Company	**2016**	2015	**2016**	2015
Expected volatility	**54%**	55%	**n/a**	n/a
Risk-free interest rate	**0.85%**	1.78%	**n/a**	n/a
Expected life of options (years average)	**3**	3	**n/a**	n/a
Weighted average exercise price	**5.0p**	10.0p	**n/a**	n/a
Weighted average share price at date of grant	**56.5p**	147.0p	**n/a**	n/a
Model used	**Stochastic**	Binomial	**n/a**	n/a

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

Certain awards are subject to a holding period after vesting. A Finnerty model has been used to determine a discount for the lack of marketability of the shares.

22. Merger reserve and capital redemption reserve

Merger reserve

Group	£'000
At 31 July 2014, 31 July 2015 and 31 July 2016	**(1,242)**

The merger reserve arises under section 612 of the Companies Act 2006 on the shares issued by Nanoco Tech Limited to acquire Nanoco Technologies Limited as part of a simple Group reorganisation on 27 June 2007.

Capital redemption reserve

Company	£'000
At 31 July 2014, 31 July 2015 and 31 July 2016	**4,402**

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

23. Movement in revenue reserve and treasury shares

Group	Retained deficit £'000	Treasury shares £'000	Total revenue reserve £'000
At 31 July 2014	(21,088)	(394)	(21,482)
Issue of shares by the EBT	–	297	297
Loss for the year	(8,975)	–	(8,975)
At 31 July 2015	(30,063)	(97)	(30,160)
Loss for the year	(10,607)	–	(10,607)
At 31 July 2016	**(40,670)**	**(97)**	**(40,767)**

No jointly owned EBT shares were granted during the year (2015: nil).

During the year, no jointly owned EBT shares were exercised (2015: 320,411) for an aggregate consideration of £nil (2015: £297,000).

Retained deficit represents the cumulative loss attributable to the equity holders of the Parent Company.

Treasury shares include the value of Nanoco Group plc shares issued as jointly owned equity shares and held by the Nanoco Group-sponsored EBT jointly with a number of the Group's employees. At 31 July 2016 530,089 shares in the Company were held by the EBT (2015: 530,089). In addition there are 12,222 (2015: 12,222) treasury shares not held by the EBT.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

23. Movement in revenue reserve and treasury shares continued

Company	Retained deficit £'000	Treasury shares £'000	Total revenue reserve £'000
At 31 July 2014	(25,277)	(394)	(25,671)
Issue of shares by the EBT	–	297	297
Profit for the year	82	–	82
At 31 July 2015	(25,195)	(97)	(25,292)
Profit for the year	167	–	167
At 31 July 2016	**(25,028)**	**(97)**	**(25,125)**

24. Commitments

Operating lease commitments

The Group leases premises under non-cancellable operating lease agreements. The future aggregate minimum lease and service charge payments under non-cancellable operating leases are as follows:

	31 July 2016 Group £'000	31 July 2015 Group £'000
Land and buildings:		
Not later than one year	**594**	723
After one year but not more than five years	**1,551**	1,752
After five years	**226**	614
	2,371	3,089

25. Financial risk management

Overview

This note presents information about the Group's exposure to various kinds of financial risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Executive Directors report regularly to the Board on Group risk management.

Capital risk management

The Company reviews its forecast capital requirements on a half-yearly basis to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders.

The capital structure of the Group consists of equity attributable to equity holders of the Parent, comprising issued share capital, reserves and retained earnings as disclosed in notes 20 to 23 and in the Group statement of changes in equity. At 31 July 2016 total equity was £18,763,000 (2015: £29,100,000).

The Company is not subject to externally imposed capital requirements.

Liquidity risk

The Group's approach to managing liquidity is to ensure that, as far as possible, it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages all of its external bank relationships centrally in accordance with defined treasury policies. The policies include the minimum acceptable credit rating of relationship banks and financial transaction authority limits. Any material change to the Group's principal banking facility requires Board approval. The Group seeks to mitigate the risk of bank failure by ensuring that it maintains relationships with a number of investment-grade banks.

At the reporting date the Group was cash positive with no outstanding borrowings, apart from a long-term loan which is being repaid on a quarterly basis in line with the terms of the loan agreement.

25. Financial risk management continued

Categorisation of financial instruments

Financial assets/(liabilities)	Loans and receivables £'000	Financial liabilities at amortised cost £'000	Group £'000	Loans and receivables Company £'000
31 July 2016				
Trade receivables	**1,455**	**–**	**1,455**	**–**
Inter-company short-term loan to subsidiary	**–**	**–**	**–**	**42,976**
Short-term investments and cash on deposit	**5,000**	**–**	**5,000**	**5,000**
Trade and other payables	**–**	**(2,443)**	**(2,443)**	**–**
Inter-company long-term loan from subsidiary	**–**	**–**	**–**	**(450)**
Financial liabilities	**–**	**(32)**	**(32)**	**–**
	6,455	**(2,475)**	**3,980**	**47,526**

Financial assets/(liabilities)	Loans and receivables £'000	Financial liabilities at amortised cost £'000	Group £'000	Loans and receivables Company £'000
31 July 2015				
Trade receivables	107	–	107	–
Inter-company short-term loan to subsidiary	–	–	–	31,823
Short-term investments and cash on deposit	20,000	–	20,000	20,000
Trade and other payables	–	(1,909)	(1,909)	–
Inter-company long-term loan from subsidiary	–	–	–	(450)
Financial liabilities	–	(95)	(95)	–
	20,107	(2,004)	18,103	51,373

The values disclosed in the above table are carrying values. The Board considers that the carrying amount of financial assets and liabilities approximates to their fair value.

The main risks arising from the Group's financial instruments are credit risk and foreign currency risk. The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below.

Other loans (see note 18) are subject to interest at base rate plus 2%; however, as the Group's cash deposits, which attract interest at rates set for the period of the respective deposit, are of a greater amount, any increase in base rate and thus interest payable is more than offset by higher interest income.

Credit risk

The Group's principal financial assets are cash, cash equivalents and deposits. The Group seeks to limit the level of credit risk on the cash balances by only depositing surplus liquid funds with multiple counterparty banks that have investment-grade credit ratings.

The Group trades only with recognised, creditworthy third parties. Receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The Group's maximum exposure is the carrying amount as disclosed in note 15, which was neither past due nor impaired. All trade receivables are ultimately overseen by the Chief Financial Officer and are managed on a day-to-day basis by the UK credit control team. Credit limits are set as deemed appropriate for the customer.

The maximum exposure to credit risk in relation to cash, cash equivalents and deposits is the carrying value at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

25. Financial risk management continued

Foreign currency risk

The Group is exposed to currency risk on sales and purchases that are denominated in a currency other than the respective functional currency of the Company. These are primarily US Dollars ("USD") and Euros. Transactions outside of these currencies are limited.

Almost all of the Company's revenue is denominated in USD. The Group purchases some raw materials, certain services and some assets in USD which partly offsets its USD revenue, thereby reducing net foreign exchange exposure.

The Group may use forward exchange contracts as an economic hedge against currency risk, where cash flow can be judged with reasonable certainty. Foreign exchange swaps and options may be used to hedge foreign currency receipts in the event that the timing of the receipt is less certain. There were no open forward contracts as at 31 July 2016 or at 31 July 2015.

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

Group	31 July 2016 GBP £'000	31 July 2016 EUR £'000	31 July 2016 USD £'000	31 July 2016 Total £'000	31 July 2015 GBP £'000	31 July 2015 USD £'000	31 July 2015 Total £'000
Cash, cash equivalents and deposits	**14,477**	**5**	**29**	**14,511**	24,271	40	24,311
Trade receivables	**–**	**423**	**1,032**	**1,455**	1	106	107
Trade payables	**(546)**	**(49)**	**(498)**	**(1,093)**	(767)	(95)	(862)
	13,931	**379**	**563**	**14,873**	23,505	51	23,556

Sensitivity analysis to movement in exchange rates

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

Increase/(decrease)	Impact on loss before tax and Group equity 2016 £'000	Impact on loss before tax and Group equity 2015 £'000
10%	**(83)**	(4)
5%	**(39)**	(2)
(5)%	**35**	3
(10)%	**68**	6

Interest rate risk

As the Group has no significant borrowings the risk is limited to the reduction of interest received on cash surpluses held at bank which receive a floating rate of interest. The principal impact to the Group is to interest-bearing cash and cash equivalent balances held, which are as set out below:

Group	31 July 2016 Fixed rate £'000	31 July 2016 Floating rate £'000	31 July 2016 Total £'000	31 July 2015 Fixed rate £'000	31 July 2015 Floating rate £'000	31 July 2015 Total £'000
Cash, cash equivalents and deposits	**5,000**	**9,511**	**14,511**	20,000	4,311	24,311
Company						
Cash, cash equivalents and deposits	**5,000**	**4,057**	**9,057**	20,000	12	20,012

The exposure to interest rate movements is immaterial.

25. Financial risk management continued

Maturity profile

Set out below is the maturity profile of the Group's financial liabilities at 31 July 2016 based on contractual undiscounted payments, including contractual interest.

2016	Less than one year £'000	One to five years £'000	Greater than five years £'000	Total £'000
Financial liabilities				
Trade and other payables	**2,443**	**–**	**–**	**2,443**
Other loans (including contractual interest)	**32**	**–**	**–**	**32**
	2,475	**–**	**–**	**2,475**

2015	Less than one year £'000	One to five years £'000	Greater than five years £'000	Total £'000
Financial liabilities				
Trade and other payables	1,909	–	–	1,909
Other loans (including contractual interest)	65	33	–	98
	1,974	33	–	2,007

Trade and other payables are due within three months.

The Directors consider that the carrying amount of the financial liabilities approximates to their fair value.

As all financial assets are expected to mature within the next twelve months, an aged analysis of financial assets has not been presented.

The Company's financial liability, a long-term loan from a subsidiary undertaking, is due after more than five years.

26. Related party transactions

The Group

There were no sales to, purchases from or, at the year end, balances with any related party.

The Company

The following table summarises inter-company balances at the year end between Nanoco Group plc and subsidiary entities:

	Notes	31 July 2016 £'000	31 July 2015 £'000
Long-term loans owed to Nanoco Group plc by			
Nanoco Life Sciences Limited		**20,286**	20,286
Nanoco Technologies Limited*		**3,087**	2,817
	13	**23,373**	23,103
Less provision against debt owed by Nanoco Life Sciences Limited	13	**(20,286)**	(20,286)
		3,087	2,817
Short-term loan owed to Nanoco Group plc by			
Nanoco Technologies Limited**	15	**42,976**	31,823
Long-term loan owed by Nanoco Group plc to			
Nanoco Tech Limited	17	**(450)**	(450)

* The movement in the long-term loan due from Nanoco Technologies Limited relates to the recharge in respect of the expense for share-based payments for staff working for Nanoco Technologies Limited and is included in investments.

** The movement in the short-term loan due from Nanoco Technologies Limited relates to transfers of cash balances between the entities for the purposes of investing short-term funds and the funding of trading losses.

There are no formal terms of repayment in place for these loans and it has been confirmed by the Directors that the long-term loans will not be recalled within the next twelve months.

None of the loans are interest bearing.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

27. Compensation of key management personnel (including Directors)

	2016 £'000	2015 £'000
Short-term employee benefits	**1,370**	1,228
Pension costs	**60**	98
Benefits in kind	**–**	6
Share-based payments	**190**	405
	1,620	1,737

The key management team comprises the Directors and two members of staff (2015: one) who are not Directors of the Company. The staff members of the team are the Supply Chain and Compliance director and the newly appointed Applications Development director.

28. Contingent liabilities

The Directors consider there are no contingent liabilities at the date of these financial statements (2015: £nil).

29. Post balance sheet events

On 4 August 2016 a former Director exercised options over 1,000,000 shares with an aggregate exercise price of £535,000.

INVESTOR INFORMATION

Directors

Dr Christopher Richards	Non-executive Chairman
Dr Michael Edelman	Chief Executive Officer
Dr Nigel Pickett	Chief Technology Officer
Keith Wiggins	Chief Operating Officer
David Blain	Chief Financial Officer
Gordon Hall	Non-executive Director
Robin Williams	Non-executive Director
Brendan Cummins	Senior Independent Non-executive Director

Secretary

David Blain

Broker

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