Interim Report for the six months ended 31 January 2018

A BRIGHT FUTURE

NANOCO
GROUP PLC

A BRIGHT FUTURE... THE FUTURE IS CFQD®

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

Review

Highlights **01**

Business Review **02**

Chief Financial Officer's Review **08**

Condensed Consolidated Financial Statements

Responsibility Statement **11**

Condensed Consolidated Statement of Comprehensive Income **12**

Condensed Consolidated Statement of Changes in Equity **13**

Condensed Consolidated Statement of Financial Position **14**

Condensed Consolidated Cash Flow Statement **15**

Notes to the Condensed Consolidated Financial Statements **16**

Independent Review Report **24**

Investor Information **25**

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

HIGHLIGHTS

Operational highlights

- Further encouraging progress in commercial traction
- Successful CES in Las Vegas where Nanoco demonstrated high-end TVs and monitors, generating several important leads
- Exhibition of TVs by AUO containing Nanoco's CFQD® Fine Color Film™ at leading industry show Touch Taiwan
- Commercial Supply and License Agreement with a US corporation in the field of medical devices under the brand name CareWear® (as announced 8 September 2017)
- Other markets in specialised horticultural lighting and life sciences now showing encouraging progress
- First toxicology studies performed on our biological quantum dots indicated no evidence of mutagenicity when evaluated by the widely used Ames test – an important initial safety test
- The Group now benefits from c.600 patents and patent applications

Momentum in current trading

- New Material Development and Supply Agreement announced post-half-year end, with a large US-listed corporation for advanced electronic devices, including capex funding for the expansion of Nanoco's Runcorn facility (as announced 8 February 2018)
- Encouraged by the increasing number of Nanoco-equipped display products moving through to commercial production with customers in Asia
- Materials shipped from the first commercial orders received in 2017 have been utilised in the detailed and lengthy testing process prior to volume production and we expect first products to be in the market during 2018

Financial highlights

- Balance sheet strengthened with the net proceeds of £8.0 million following placing in November 2017
- Revenue and other operating income for the six months was £0.26 million (H1 2017: £0.82 million) and the loss after tax was £4.20 million (H1 2017: £5.43 million)
- Cash and cash on deposit at 31 January 2018 was £8.74 million (31 July 2017: £5.71 million; 31 January 2017: £8.33 million)
- Additional cash resources are receivable in relation to accrued R&D tax credits and the upfront milestone payment and capex funding from our new US partner

BUSINESS REVIEW

MOMENTUM IN CURRENT TRADING

The first half of the new financial year has seen improved commercial performance across the Group with further traction in Display and the negotiation of a contract with a new US partner.

Summary

- Further encouraging progress in commercial traction.
- Successful fundraising in November 2017.
- New Material Development and Supply Agreement announced post-half-year end.

Overview

Whilst our reported revenues are lower than the previous period, the first half of the new financial year has seen improved commercial performance across the Group with further traction in Display and the negotiation of a contract with a new US partner which will be reflected through the income statement in future periods.

In Display, our own production and route to market via our partner Wah Hong is starting to see commercial traction. We delivered successful demonstrations of our technology at one of the leading display industry shows, Touch Taiwan, in September 2017 as well as at CES in Las Vegas in January of this year. Initial monitor products featuring our technology are expected to launch in 2018, with the anticipation that TV orders will follow thereafter.

Other markets in specialised lighting and life sciences are now showing progress. In September, the Life Sciences division announced a Commercial Supply and License Agreement with a US corporation in the field of medical devices under the brand name CareWear®. Meanwhile, the Specialised Lighting division continues to make encouraging progress in the horticulture market, in particular through vertical farming applications, alongside its recent Commercial Supply and License Agreement signed with the Sports Turf Research Institute, announced in December 2017.

While we had previously indicated that the Solar division was to be divested, the Board has recently decided to retain this intellectual property ("IP") within the Group as it is now proving important in other related markets. We believe that this is in the best interests for all shareholders and the future direction of the business. Consideration will be given to licensing the assets for use in the solar field.

Furthermore, since the period end, in February 2018 we were pleased to announce a significant new Material Development and Supply Agreement with a large US-listed corporation for advanced electronic devices, which opens up the nano-materials vertical for the Group and demonstrates our ability to be able to scale and manufacture materials for a wide variety of applications.

Display market

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

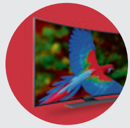
The European Commission announced legislation, which passed into law in October 2017, banning the use of cadmium in displays from 31 October 2019, which we expect to accelerate the shift to CFQDs. Several major Taiwanese and Chinese display and TV manufacturers are now actively seeking CFQD solutions, where Nanoco continues to have a competitive lead.

Commercialisation

Nanoco's cadmium-free CFQD® quantum dots are manufactured at Nanoco's Runcorn facility and at Dow's large manufacturing plant in Cheonan, South Korea, while Merck is also evaluating its manufacturing plans. These sites will manufacture CFQDs, blend them into a resin system and supply the combined CFQD resin system to multiple display integrators located across Asia. Nanoco and our licensees are already actively marketing Nanoco technology to the global display industry.

Commercialisation – Runcorn

Runcorn now has the capacity to produce enough CFQDs to supply approximately 1 million large TVs per annum. Further capacity can be achieved with limited capital expenditure and will be brought online as demand increases. Alongside this, the Material Development and Supply Agreement with a large US-listed corporation announced after the period end includes additional funding for the further expansion of Nanoco's Runcorn facility to scale up and mass produce novel nano-particles for advanced electronic devices.



26 MILLION
DISPLAYS WILL BE QUANTUM DOT ("QD") EQUIPPED BY 2021

+90%
OF THE MARKET CADMIUM FREE BY 2021

Commercialisation continued

Commercialisation – Runcorn continued

This expansion plan is already underway, after Nanoco reached an agreement on 19 March 2018 to take over 10,000 sq ft of additional space in The Heath Business and Technical Park in Runcorn, for state-of-the-art laboratories, offices and storage capacity.

Commercialisation – Wah Hong

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

In September 2017, CFQD® Fine Color Film™ from Nanoco/Wah Hong was used by AUO, a leading Taiwanese display manufacturer listed on the New York Stock Exchange, to demonstrate next generation 8k and 4k UHD TVs at Touch Taiwan. For the second year, Nanoco also had its own suite at CES in Las Vegas in January 2018, demonstrating TVs and monitors containing our technology to an array of potential customers, industry players and the financial community.

At CES we also launched the next generation of Nanoco CFQD® Fine Color Film™. This new film delivers outstanding levels of brightness and colour performance, as the industry progresses on the roadmap to DCI-P3 and BT.2020 standards, and away from cadmium-based solutions.

10,000 SQ FT
OF ADDITIONAL SPACE IN RUNCORN

C.600
PATENTS AND PATENT APPLICATIONS

Several important leads for both monitors and TVs were generated at CES.

In conjunction with our partner Wah Hong, we continue to develop an active pipeline of sales opportunities. The Group's key short-term focus is on TV and monitor projects with near-term potential and we are encouraged by the increasing number of Nanoco-equipped display products moving through to commercial production with customers in Asia. Materials shipped from the first commercial orders received in 2017 have been utilised in the detailed and lengthy testing process prior to mass production and we expect the first products to be in the market during 2018.

Commercialisation – Dow

Dow has a non-exclusive licence to manufacture, market and sell Nanoco's heavy-metal-free quantum dots into the display market. Dow sells product under the TREVISTA™ brand, manufactured in its facility in South Korea. We generate royalty revenue from Dow calculated as a percentage of Dow's sales of Nanoco cadmium-free CFQD® quantum dots.

While this licensing agreement has, to date, performed below expectations, Dow continues to make progress in commercial engagements with a variety of customers.

Commercialisation – Merck

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

Nanoco completed the transfer of its technology to Merck during 2017. Merck has successfully produced pilot plant scale quantities of CFQDs at its facility in Darmstadt, Germany, and is working closely with potential customers on new applications to use quantum dots directly in the display stack. While Merck has no manufacturing facility of its own, we expect it to continue using quantum dots made by Nanoco. Merck is actively engaged with its potential customers on various CFQD application projects and sells under the Livilux® brand.

Commercialisation – nano-materials

Nano-material research and development is a core competency of Nanoco. Our ability to design and develop new nano-particles and the capability to scale up and manufacture these nano-materials in commercial quantities is unique to Nanoco.

Under the Material Development and Supply Agreement announced in February 2018, Nanoco will scale up and mass produce novel nano-particles for advanced electronic devices and supply them from our production facility in Runcorn, UK. In preparation for the quantity of materials needed for these markets, our new US-listed partner (which cannot be named for confidentiality reasons) will fund the capital expenditure required to expand Nanoco's Runcorn facility. This process is already underway, with an agreement now in place to take over 10,000 sq ft of additional space in The Heath Business and Technical Park, Runcorn, which will include laboratories, offices and additional storage capacity.

The commercial terms of the agreement with our new US-listed partner also include payments for success-based milestones, and commercial supply of materials, both of which will have a beneficial impact on Nanoco's cash flows. Based on current timelines, commercial supply is anticipated to begin in early 2019.

Commercialisation – staying ahead of the technology curve

We continue to relentlessly research, develop and pursue new partnerships to ensure that our technology remains relevant and that Nanoco continues to be at the forefront of next generation products. To that end, we are working on a new generation of electroluminescent quantum dots which will compete directly with OLED materials for a new generation of display products.

We already have an exciting partnership with Kyulux, where Nanoco's cadmium-free CFQD® quantum dots are combined with Kyulux's hyperfluorescent thermally activated delayed fluorescence ("TADF") technology to create future generation hybrid OLED/QLED display technology with superior qualities to existing products in the display market.

We also have a novel 2D material development programme in partnership with the University of Manchester's National Graphene Institute to develop and commercialise future generations of materials in collaboration with Nobel Laureate Professor Kostya Novoselov.

The Group now benefits from c.600 patents and patent applications.

Other markets

Nanoco continued to develop its other target markets of life sciences and specialised lighting. Whilst we previously indicated that our Solar division was to be divested, the Board has recently decided to retain this IP within the Group as it is now proving important in other related markets. We believe it is in the best interests for all shareholders and the future direction of the business. Accordingly, at 31 January 2018, the Group's Solar assets have been reclassified as fixed assets.

Other markets continued

Other markets – life sciences

Nanoco Life Sciences ("NLS") is led by Dr Imad Nassani, who joined Nanoco in 2009 and is one of the pioneers of the use of quantum dots in the sector. Quantum dots have favourable optical and physical properties compared with organic dyes and radioisotopes, but their use in medical applications has been hindered due to the presence of cadmium. Because Nanoco's quantum dots are cadmium free, they can be used in the human body in, for example, cancer diagnosis and surgical imaging.

The initial focus of the division is on illumination of cancerous tumours to facilitate their surgical removal and then, with further development, cancer diagnosis. The NLS team has made great strides in the development of safe and clinically acceptable quantum dot nano-materials based on the Company's heavy-metal-free quantum dot technology.

The promising progress may lead to the development of quantum dot probes for the early detection of aggressive tumours such as those in pancreatic and bladder cancers. This, in addition to our burgeoning relationships with commercial and research institutions at the cutting edge of the battle against cancer, demonstrates the scope of our ambition and the value of our technology.

We are now working to prepare the technology for clinical trials, and have already started toxicology studies with a global contract research organisation ("CRO"). First toxicology studies performed at the CRO on our biological quantum dots (Vivodot™630 nano-particles) indicated no evidence of mutagenicity when evaluated by the widely used Ames test. This is an important stepping stone for confirming the safety of our biological dots in medical applications. More safety studies are ongoing as required by regulatory guidelines.

We are also working with the MIT Sloan Business School consulting programme with a remit to produce a business plan to spin NLS out of Nanoco.

In September 2017, we announced that we had signed a Commercial Supply and License Agreement with a US corporation in the field of medical devices, under the brand name CareWear®. The product is a wearable therapeutic light patch using printed LEDs and CFQD film to treat pain and accelerate recovery from soft tissue injury. Nanoco supplies the CFQD film product through the same route to market as used for display.

Other markets – specialised lighting

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

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

In December 2017, the division signed a Commercial Supply and License Agreement with STRI Group, the world's leading consultancy for design, research and management of natural and synthetic sports turf surfaces, which is developing CFQD enabled lighting systems to enhance seed germination and speed up the growth of turf for sporting venues and stadia fields.

Restriction of Hazardous Substances ("RoHS")

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

Financial performance

Revenues and other operating income for the six months to 31 January 2018 were £0.26 million (2017: £0.82 million) and the loss before tax was £4.8 million (2017: loss before tax of £6.40 million).

The Group continued to exercise careful cost control during the period. Cash, cash equivalents and deposits at 31 January 2018 was £8.74 million (31 July 2017: £5.71 million; 31 January 2017: £8.33 million). Cash balances have benefited from the equity rise in November 2017 of £8.0 million net of expenses.

A further £1.84 million due in the second half from HMRC in the form of an accrued R&D tax credit refund and the upfront cash receivable from our new US-listed partner will further strengthen Nanoco's cash position and puts us on a strong footing for the opportunities ahead.

No dividend is proposed for the year (2017: £nil).

Outlook

The first half of the financial year has seen encouraging developments for Nanoco, underlining the strength and breadth of Nanoco's know-how and the relevance of our intellectual property and technology across a wide range of different end markets and applications. The announcement post-period end of a new contract with a large US-listed corporation for the scale-up and mass production of novel nano-particles is a testament to the significant momentum we are seeing as a Group.

Nanoco continues to make solid progress in the commercialisation of CFQDs in the display industry and expects displays containing Nanoco product to be in the market during 2018. In addition, we anticipate further progress in the current period from the healthy pipeline of opportunities we are currently pursuing, while our other markets of life sciences and lighting are starting to demonstrate their potential.

The Board remains confident that the relevance and opportunity for our technology in display and in new developing verticals, as well as in lighting and life sciences, remains exciting and that the Company continues to have a competitive lead in this technology.

Dr Christopher Richards
Chairman

Dr Michael Edelman
Chief Executive Officer
10 April 2018

CHIEF FINANCIAL OFFICER'S REVIEW

STRENGTHENED FINANCIAL POSITION

The benefits arising from the new commercial agreements signed during the period are expected to make a positive impact on future revenues.

Revenue

Revenues in the six months to 31 January 2018 were £0.20 million (H1 2017: £0.68 million) and the loss before tax was £4.84 million (H1 2017: loss of £6.40 million). Other operating income was £0.06 million (H1 2017: £0.14 million). Revenues were lower than in the prior period due to the release of all of the deferred revenue during the prior period relating to one of the licence agreements signed in July 2016. The benefits arising from the new commercial agreements signed during the period are expected to make a positive impact on future revenues.

Operating expenses

Operating expenses comprise research and development and administrative expenses. Gross investment in research and development in 2018 was £1.89 million (H1 2017: £2.87 million) to support the ongoing development of CFQD® and other nano-particles. Administrative expenses were £3.14 million (H1 2017: £4.35 million).

Operating expenses decreased compared to the previous year by £2.19 million primarily due to the cost reduction programme implemented in December 2016 and ongoing cost reduction measures during the period. The main savings were achieved in staff costs (£1.19 million) and research and development materials (£0.36 million). Other savings achieved across the business totalled £0.64 million.

Operating loss before tax

Operating loss in H1 2018 was £4.84 million (H1 2017: loss of £6.44 million). Interest income decreased to £nil (H1 2017: £0.04 million) reflecting lower cash balances placed on term deposit. As a result, loss before tax for H1 2018 was £4.84 million (H1 2017: loss of £6.40 million).

Taxation

The Group continues to make research and development tax credit claims on its qualifying expenditure. We also take advantage of the provision whereby such losses so generated may be surrendered for cash. The tax credit for the period is £0.63 million (H1 2017: £0.98 million). The amount receivable at 31 January 2018 was £2.47 million (H1 2017: £2.95 million).

Net result

Loss for H1 2018 after exceptional items and taxation was £4.21 million (H1 2017: loss of £5.43 million).

Earnings per share

For H1 2018, basic loss per share was 1.63 pence per share (H1 2017: loss of 2.28 pence per share). As at 31 January 2018 there were 285,947,149 ordinary shares in issue (31 January 2017: 238,236,828).

Cash position and liquidity

As at 31 January 2018 the Group had short-term deposits, cash and cash equivalents of £8.74 million (31 January 2017: £8.33 million). Both cash and costs continue to be prudently and tightly managed.

During H1 2018, the Group generated a cash outflow from operations of £4.54 million compared with an outflow of £5.89 million in H1 2017.

In the first half, 2018 the Group's total cash outflow in respect of tangible fixed assets was £0.01 million (H1 2017: £0.24 million) reflecting the cost controls in place during the period. In H1 2018 the Group's total cash outflow in respect of intangible fixed assets was £0.38 million (H1 2017: £0.58 million) and related to patent costs. The issue of new shares in November 2017 increased cash by £8.00 million and this gave an overall increase in cash and cash equivalents during H1 2018 of £3.04 million (2017: outflow of £6.18 million).

The Directors continue to adopt the going concern basis of accounting in preparing the financial statements. See note 2 for further details.

Balance sheet

At 31 January 2018, the consolidated balance sheet showed total shareholders' equity of £14.32 million (31 January 2017: £14.12 million).

£0.20 MILLION
REVENUE

£1.89 MILLION
INVESTMENT IN RESEARCH AND DEVELOPMENT

Principal risks

The Directors have considered the principal risks which may have a material impact on the Group's performance in the second half of 2018. The risks remain as disclosed in pages 18 and 19 of the 2017 Annual Report and Accounts although the risk assessment of cash flow has significantly reduced following the Placing and additional operational and strategic risks have been added in relation to the new agreement with our US partner:

Risk description	Potential causes and impact	Mitigation
Strategic		
High dependence on one customer	Revenues with the new US partner could become the major part of our revenues which could lead to over-reliance on that partner	Grow other areas of business – Display, Lighting, 2D and Life Sciences
Operational		
Insufficient resource for all areas of the business	Ramp-up with the new US partner could result in other areas of the business having insufficient resource which could delay revenues	Detailed recruitment plan and close monitoring of all projects to ensure all areas of the business are adequately resourced

Forward-looking statements

The foregoing disclosures contain certain forward-looking statements. Although Nanoco believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will materialise. 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. Nanoco undertakes no obligation to revise or update any forward statement to reflect events or circumstances after the date of this Interim Report.

David Blain
Chief Financial Officer
10 April 2018

RESPONSIBILITY STATEMENT

The Directors of Nanoco Group plc, as listed on pages 32 and 33 of the 2017 Annual Report and Accounts, confirm to the best of their knowledge:

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

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

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

d) the interim management report includes a fair review of the information required by DTR 4.2.8 – the disclosure of related party transactions occurring during the first six months of the year and any changes in related party transactions disclosed in the 2017 Annual Report and Accounts.

By order of the Board

Dr Michael Edelman
Chief Executive Officer
10 April 2018

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 31 JANUARY 2018

	Notes	Six months to 31 January 2018 (Unaudited) £'000	Six months to 31 January 2017 (Unaudited) £'000	Year to 31 July 2017 (Audited) £'000
Revenue	3	**196**	676	1,326
Cost of sales		**(59)**	(36)	(257)
Gross profit		**137**	640	1,069
Other operating income	4	**59**	142	281
Operating expenses				
Research and development expenses		**(1,888)**	(2,873)	(5,508)
Administrative expenses		**(3,143)**	(4,347)	(6,784)
Operating loss		**(4,835)**	(6,438)	(10,942)
– Before share-based payments		**(4,710)**	(6,198)	(10,700)
– Share-based payments		**(125)**	(240)	(242)
Finance income	5	**–**	35	44
Loss before taxation		**(4,835)**	(6,403)	(10,898)
Taxation	6	**630**	975	1,788
Loss for the period and total comprehensive loss for the period		**(4,205)**	(5,428)	(9,110)
Loss per share:				
Basic and diluted loss for the period	7	**(1.63)p**	(2.28)p	(3.82)p

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 31 JANUARY 2018

	Issued equity capital £'000	Share-based payment reserve £'000	Merger reserve £'000	Revenue reserve £'000	Total £'000
At 1 August 2016 (audited)	58,057	2,715	(1,242)	(40,767)	18,763
Loss for the six months to 31 January 2017	–	–	–	(5,428)	(5,428)
Shares issued on exercise of options	545	–	–	–	545
Share-based payments	–	240	–	–	240
At 31 January 2017 (unaudited)	58,602	2,955	(1,242)	(46,195)	14,120
Loss for the six months to 31 July 2017	–	–	–	(3,682)	(3,682)
Shares issued on exercise of options	7	–	–	–	7
Share-based payments	–	2	–	–	2
At 31 July 2017 (audited)	58,609	2,957	(1,242)	(49,877)	10,447
Loss for the six months to 31 January 2018	–	–	–	(4,205)	(4,205)
Shares issued on placing	8,577	–	–	–	8,577
Less: costs of placing	(621)	–	–	–	(621)
Share-based payments	–	125	–	–	125
At 31 January 2018 (unaudited)	**66,565**	**3,082**	**(1,242)**	**(54,082)**	**14,323**

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 JANUARY 2018

	Notes	31 January 2018 (Unaudited) £'000	31 January 2017 (Unaudited) £'000	31 July 2017 (Audited) £'000
Assets				
Non-current assets				
Property, plant and equipment		**634**	1,106	865
Intangible assets	8	**3,234**	2,820	2,619
		3,868	3,926	3,484
Current assets				
Inventories		**132**	238	188
Trade and other receivables	10	**925**	1,013	669
Income tax asset		**2,467**	2,945	1,837
Short-term investments and cash on deposit		**–**	5,000	–
Cash and cash equivalents		**8,744**	3,328	5,706
		12,268	12,524	8,400
Assets held for sale	9	**–**	–	535
Total assets		**16,136**	16,450	12,419
Liabilities				
Current liabilities				
Trade and other payables		**1,210**	1,526	1,318
Deferred revenue	11	**102**	207	102
		1,312	1,733	1,420
Non-current liabilities				
Deferred revenue	11	**501**	597	552
		501	597	552
Total liabilities		**1,813**	2,329	1,972
Net assets		**14,323**	14,120	10,447
Capital and reserves				
Issued equity capital	12	**66,565**	58,602	58,609
Share-based payment reserve	13	**3,082**	2,955	2,957
Merger reserve		**(1,242)**	(1,242)	(1,242)
Revenue reserve		**(54,082)**	(46,195)	(49,877)
Total equity		**14,323**	14,120	10,447

Approved by the Board and authorised for issue on 10 April 2018.

Dr Michael Edelman
Chief Executive Officer

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 31 JANUARY 2018

	Six months to 31 January 2018 (Unaudited) £'000	Six months to 31 January 2017 (Unaudited) £'000	Year to 31 July 2017 (Audited) £'000
Loss before tax	**(4,835)**	(6,403)	(10,898)
Adjustments for:			
Net finance income	**–**	(35)	(44)
Depreciation of tangible fixed assets	**266**	393	741
Amortisation of intangible assets	**268**	186	482
Share-based payments	**125**	240	242
Changes in working capital:			
Decrease/(increase) in inventories	**56**	(30)	20
(Increase)/decrease in trade and other receivables	**(256)**	1,054	1,365
Decrease in trade and other payables	**(108)**	(917)	(1,125)
Decrease in deferred revenue	**(51)**	(375)	(525)
Cash outflow from operating activities	**(4,535)**	(5,887)	(9,742)
Research and development tax credit received	**–**	–	2,000
Overseas corporation tax paid	**–**	–	(79)
Net cash outflow from operating activities	**(4,535)**	(5,887)	(7,821)
Cash flows from investing activities			
Purchases of tangible fixed assets	**(7)**	(239)	(374)
Purchases of intangible fixed assets	**(376)**	(583)	(1,185)
Decrease in cash placed on deposit	**–**	–	5,000
Interest received	**–**	13	55
Net cash (outflow)/inflow from investing activities	**(383)**	(809)	3,496
Cash flows from financing activities			
Proceeds from issues of ordinary share capital	**8,577**	545	552
Less: costs of placing	**(621)**	–	–
Loan repayment	**–**	(32)	(32)
Net cash inflow from financing activities	**7,956**	513	520
Increase/(decrease) in cash and cash equivalents	**3,038**	(6,183)	(3,805)
Cash and cash equivalents at the start of the period	**5,706**	9,511	9,511
Cash and cash equivalents at the end of the period	**8,744**	3,328	5,706
Monies placed on short-term deposit	**–**	5,000	–
Cash, cash equivalents and deposits at the end of the period	**8,744**	8,328	5,706

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 JANUARY 2018

1. Corporate information

The Interim Report and Accounts of the Group for the six months ended 31 January 2018 was authorised for issue in accordance with a resolution of the Directors on 10 April 2018.

Nanoco Group plc (the "Company") has a premium listing on the Main Market of the London Stock Exchange and is incorporated and domiciled in the UK.

These condensed consolidated financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group").

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

2. Accounting policies

Basis of preparation

The accounting policies adopted in these condensed consolidated financial statements are consistent with those followed in the preparation of the Group's Annual Report and Accounts for the year to 31 July 2017. This interim condensed financial report includes audited comparatives for the year to 31 July 2017. The 2017 Annual Report and Accounts, which are prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union, received an unqualified audit opinion and has been filed with the Registrar of Companies. These interim condensed consolidated financial statements have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority, IAS 34 Interim Financial Reporting as adopted by the European Union and using the recognition and measurement principles of IFRSs as adopted by the European Union and have been prepared under the historical cost convention.

Going concern

In assessing whether the going concern basis is an appropriate basis for preparing the financial statements, the Directors have utilised their detailed forecasts for the period to 31 July 2019 which take into account the Company and Group's current and expected business activities including the impact of the new partnership with a large undisclosed US corporation, the cash balance of £8.7 million as shown in the Group consolidated balance sheet at 31 January 2018, the principal risks and uncertainties it faces and other factors impacting its future performance.

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

- commercialisation of CFQD® products and other nano-particles through existing contractual arrangements;
- ability to manufacture and supply sufficient CFQD® products and other nano-particles to meet partner demand;
- continued investment in research and development;
- success-based milestone funding provided by the Material Development and Supply Agreement announced in February 2018 and the costs expected to be incurred in meeting those milestones; and
- continued tight control of costs within the business.

2. Accounting policies continued

Going concern continued

Sensitivity analysis has been performed to reflect possible downside scenarios in accordance with the Group's principal risks and uncertainties referred to in the Chief Financial Officer's review. Taking into account only contracted revenues for the forecast period up to 31 July 2019 and other related milestone payments under the new agreement announced in February 2018, the Company and the Group have sufficient resources to continue in operational existence for the foreseeable future.

At the time of approving the financial statements, the Directors have a reasonable expectation that the Company has 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 financial statements.

Accounting policies

Accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 July 2017.

The IASB has published three new accounting standards relevant to the Group that will be mandatory in future periods. These standards have not been early adopted in these condensed consolidated financial statements:

- IFRS 9 Financial Instruments (effective for annual periods beginning on or after 1 January 2018);
- IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018); and
- IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019).

As the Group does not have any complex financial instruments, IFRS 9 is not expected to impact on reported performance.

Detailed reviews of revenue arrangements are underway and will continue into 2017/18 as we finalise our assessment of the impact of IFRS 15. Key matters arising from the assessment relate to the identification of performance obligations and determining when they are satisfied.

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

Upon initial implementation of IFRS 16 the Group expects to recognise certain assets and liabilities in respect of lease arrangements. At 31 January 2018, the future aggregate minimum lease payments under non-cancellable operating leases was £2.4 million.

Basis of consolidation

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

3. Segmental information

Operating segments

The Board has identified that it has one reportable operating segment being the provision of high-performance nano-particles as each of the Group's divisions continues to have similar activities, economic characteristics and future prospects.

All revenues have been generated from continuing operations and are from external customers.

	Six months to 31 January 2018 (Unaudited) £'000	Six months to 31 January 2017 (Unaudited) £'000	Year to 31 July 2017 (Audited) £'000
Analysis of revenue			
Products sold	**130**	196	470
Rendering of services	**1**	101	241
Royalties and licences	**65**	379	615
	196	676	1,326
Analysis of loss before tax			
Loss before tax for the period	**(4,835)**	(6,403)	(10,898)

The timing of the annual submission and subsequent receipt of the R&D tax credit has a material effect on the cash flow of the Group. There are no other factors of a seasonal or cyclical nature affecting the results of the Group.

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

4. Other operating income

	Six months to 31 January 2018 (Unaudited) £'000	Six months to 31 January 2017 (Unaudited) £'000	Year to 31 July 2017 (Audited) £'000
Government grants	**59**	142	213
Other income – insurance proceeds	**–**	–	68
	59	142	281

5. Finance income and expense

	Six months to 31 January 2018 (Unaudited) £'000	Six months to 31 January 2017 (Unaudited) £'000	Year to 31 July 2017 (Audited) £'000
Finance income			
Bank interest receivable	**–**	35	44
	–	35	44

6. Taxation

The tax credit is made up as follows:

	Six months to 31 January 2018 (Unaudited) £'000	Six months to 31 January 2017 (Unaudited) £'000	Year to 31 July 2017 (Audited) £'000
Current income tax			
Research and development income tax credit receivable	**(630)**	(975)	(1,837)
Adjustment in respect of prior years	**–**	–	(30)
Overseas corporation tax	**–**	–	79
Income tax credit	**(630)**	(975)	(1,788)

The Group has accumulated losses available to carry forward against future trading profits of £31.7 million (2017: £26.3 million).

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

	Six months to 31 January 2018 (Unaudited) £'000	Six months to 31 January 2017 (Unaudited) £'000	Year to 31 July 2017 (Audited) £'000
Accelerated capital allowances	**54**	138	83
Share-based payments	**–**	(138)	–
Tax losses	**(54)**	–	(83)
	–	–	–

The Group also has deferred tax assets, measured at a standard rate of 17% (2017: 18%) in respect of share-based payments of £178,000 (2017: £454,000) and tax losses of £5,386,000 (2017: £4,728,000) which have not been recognised as an asset as it is not probable that future taxable profits will be available against which the assets can be utilised.

7. Loss per share

	Six months to 31 January 2018 (Unaudited) £'000	Six months to 31 January 2017 (Unaudited) £'000	Year to 31 July 2017 (Audited) £'000
Loss for the period attributable to equity shareholders	**(4,205)**	(5,428)	(9,110)
Share-based payments	**125**	240	242
Adjusted loss for the period	**(4,080)**	(5,188)	(8,868)
Weighted average number of shares	**No.**	No.	No.
Ordinary shares in issue[1]	**258,331,009**	238,120,572	238,180,510
Adjusted loss per share before share-based payments (pence)	**(1.58)**	(2.18)	(3.72)
Basic loss per share (pence)	**(1.63)**	(2.28)	(3.82)

(1) Excludes the 12,222 shares held in Treasury.

7. Loss per share continued

Diluted loss per share has not been presented above as the effect of share options issued is anti-dilutive. The adjusted loss is presented as the Board measures overall performance taking into account IFRS 2 charges and any material one-off costs incurred in a reporting period.

No interim dividend has been recommended.

8. Intangible assets

Cost	**Six months to 31 January 2018 (Unaudited) £'000**	Six months to 31 January 2017 (Unaudited) £'000	Year to 31 July 2017 (Audited) £'000
At the beginning of the period	**4,291**	3,703	3,703
Additions in the period	**376**	583	1,185
Reclassified from/(to) assets held for sale (note 9)	**597**	–	(597)
At the end of the period	**5,264**	4,286	4,291
Amortisation			
At the beginning of the period	**1,672**	1,280	1,280
Provided in the period	**268**	186	405
Impairment charge	**–**	–	77
Reclassified from/(to) assets held for sale (note 9)	**90**	–	(90)
At the end of the period	**2,030**	1,466	1,672
Net book value	**3,234**	2,820	2,619

The expenditure on patents is 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.

To date the Group has not capitalised any of its development costs and all such costs are written off as incurred. Careful judgement by the Directors is applied when deciding whether the 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.

Contingent consideration of $150,000 is payable in respect of a purchase of patents made during the year ended 31 July 2017. The amount is payable if the Group reaches a revenue target in a future reporting period. The addition is recorded above at the Directors' estimate of fair value of the consideration payable.

During the year ended 31 July 2017 an extensive review was undertaken to identify which patents are of no further value to Nanoco and should be allowed to lapse. As a consequence, patents with a value of £77,000 were fully impaired. This charge was recognised within administrative expenses.

9. Assets held for sale

	31 January 2018 (Unaudited) £'000	31 January 2017 (Unaudited) £'000	31 July 2017 (Audited) £'000
Plant and machinery	**–**	–	28
Intellectual property	**–**	–	507
	–	–	535

At 31 July 2017, these assets represented those held for sale following the Board's decision to dispose of the equipment and intellectual property arising from the Group's studies on solar power. However, the Board has recently decided to retain the assets and, accordingly, has reclassified the Solar assets as fixed assets.

All assets are held by the one operating segment.

10. Trade and other receivables

	31 January 2018 (Unaudited) £'000	31 January 2017 (Unaudited) £'000	31 July 2017 (Audited) £'000
Trade receivables	**101**	94	111
Prepayments and accrued income	**492**	650	329
Other receivables	**332**	269	229
	925	1,013	669

11. Deferred revenue

	31 January 2018 (Unaudited) £'000	31 January 2017 (Unaudited) £'000	31 July 2017 (Audited) £'000
Current	**102**	207	102
Non-current	**501**	597	552
	603	804	654

Deferred revenue arises under IFRSs 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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE SIX MONTHS ENDED 31 JANUARY 2018

12. Share capital

	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 2016 (audited)	237,077,578	23,708	112,217	(77,868)	58,057
Shares issued on exercise of options	1,159,250	116	429	–	545
At 31 January 2017 (unaudited)	238,236,828	23,824	112,646	(77,868)	58,602
Shares issued on exercise of options	54,500	5	2	–	7
At 31 July 2017 (audited)	238,291,328	23,829	112,648	(77,868)	58,609
Shares issued on placing	47,655,821	4,765	3,812	–	8,577
Less: costs of placing	–	–	(621)	–	(621)
At 31 January 2018 (unaudited)	**285,947,149**	**28,594**	**115,839**	**(77,868)**	**66,565**

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.

Following shareholder approval at a general meeting held on 14 November 2017, 47,655,821 shares were issued on 15 November 2017 as a result of a placing of shares at 18 pence each raising cash of £8.0 million net of expenses.

13. Share-based payment reserve

	Total £'000
At 31 July 2016 (audited)	2,715
Share-based payments	240
At 31 January 2017 (unaudited)	2,955
Share-based payments	2
At 31 July 2017 (audited)	2,957
Share-based payments	125
At 31 January 2018 (unaudited)	**3,082**

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 condensed consolidated statement of changes in equity.

A charge of £125,000 has been recognised in the statement of comprehensive income for the half year (2017: £240,000).

13. Share-based payment reserve continued

Share option schemes

Full details of the Group's share option schemes are detailed in note 21 of the 2017 Annual Report.

Shares held in the Employee Benefit Trust ("EBT")

On 2 August 2016, the remaining holder of jointly owned shares exercised their option to convert the holding to sole beneficiary. As a result, there are no shares held by the EBT.

Fair value benefit

The fair value benefit is independently measured using Binomial or Black-Scholes valuation models where there are non-market performance conditions and Stochastic (Monte Carlo) models for options with market-based performance conditions taking into account the terms and conditions upon which the options were granted.

Grant of options

On 6 December 2017 the Company granted a total of 3,787,608 nil-cost options over ordinary shares in the Company under the Nanoco Group 2015 Long Term Incentive Plan ("LTIP") to the Executive Directors and other eligible employees.

The vesting of the options granted under the LTIP is subject to the achievement of performance conditions based upon share price growth and revenue targets over the three-year performance period commencing with Nanoco's 2017/2018 financial year. Ordinarily, the options will vest (subject to the achievement of the performance conditions) following the announcement of Nanoco's results for its 2019/2020 financial year and be released to the participants following the end of a two-year holding period.

14. Related party transactions

Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated upon consolidation.

The Company has intercompany loans and accounts with its subsidiary undertakings, details of which are set out in the 2017 Annual Report and Accounts.

15. Post-balance sheet events

On 8 February 2018, the Group announced it had signed a Material Development and Supply Agreement with a large, undisclosed US-listed corporation (the "Partner").

Under this agreement, Nanoco will scale up and mass produce novel nano-particles for advanced electronic devices and supply them from its state-of-the-art production facility in Runcorn, UK. In preparation for the quantity of materials needed for these markets, the partner will fund the capital expenditure required to expand Nanoco's Runcorn facility. The commercial terms of the agreement include payments for success-based milestones and commercial supply of materials, both of which will strengthen Nanoco's balance sheet. Based on the current timelines, commercial supply is anticipated to begin early 2019. In March 2018, Nanoco signed a new lease to expand its Runcorn facilities. This lease has a minimum term expiring in December 2020 and increases its future aggregate minimum lease payments by £0.6 million.

INDEPENDENT REVIEW REPORT

TO NANOCO GROUP PLC

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 31 January 2018 which comprises the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity, the condensed consolidated statement of financial position, the condensed consolidated cash flow statement and the related notes 1 to 15. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with IFRS as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting", as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 31 January 2018 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union.

Ernst & Young LLP
Manchester
10 April 2018

INVESTOR INFORMATION

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Dr Michael Edelman	Chief Executive Officer
Dr Nigel Pickett	Chief Technology Officer
Keith Wiggins	Chief Operating Officer
David Blain	Chief Financial Officer
Dr Alison Fielding	Non-executive Director
Brendan Cummins	Senior Independent Non-executive Director

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David Blain

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