

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

Unaudited Preliminary Results for the year ended 31 July 2023

"Transitioning from an R&D first mover to a commercial producer"

Nanoco Group plc (LSE: NANO), a world leader in the development and manufacture of cadmium-free quantum dots and other specific nanomaterials emanating from its technology platform, is pleased to announce its unaudited Preliminary Results for the year ended 31 July 2023.

Overview – strong progress towards commercial production, financially underpinned

- Nanoco is now closer to commercial production than at any time in its 20-year history
- Nanoco is in the strongest financial position since its inception - net \$90m litigation proceeds underpin commercial business and return of capital
- Retained litigation proceeds will be invested to secure a position in global electronics supply chains
- Sensing and display markets are forecast to experience rapid growth
- New NED recruitment at an advanced stage and in the shortlist process

Operational Summary – making ready for commercial production

- Achieved all development, scale up and production readiness milestones
- Two sensing materials in final production validation with customer
- Deeper and longer development contracts under discussion with two long-standing customers
- Increasing customer engagements for CFQD materials including micro-LED displays

Intellectual property – next steps taken to monetise IP following success with Samsung

- Patent Trial and Appeal Board ('PTAB') validated all patents and 47 associated litigation claims
- Nanoco retains 46 of the 47 validated claims with lives extending to 2028
- Nanoco also retains 52 other patents held in reserve for the litigation, lives extending to 2033
- Contact made with potential infringers based on heat map, product analysis, and market attractiveness

Financial Summary – performance in line with Board expectations, financially underpinned

- Revenue more than doubled to £5.6m (FY22: £2.5m)
- Adjusted LBITDA loss reduced by 83% to £0.4m (FY22: £2.3m LBITDA)
- Year-end cash £8.2m, an increase of £2.2m since 31 January 2023
- Payment and use of proceeds from the litigation settlement:
 - First net tranche £59.2m received March 2023, used to pay litigation costs
 - Second net tranche £58.8m due by 3 February 2024, wholly for Nanoco, fully hedged
- Gross fixed cash cost base c.£0.5m per month before revenue and other operating income – an increase of just over £0.1m per month following investment in new staff capacity and inflationary cost increases in H2 FY23

Return of capital – capital reduction effected and process on track

- Intention to return between £33-40 million (or approximately 10-12 pence per share) using the second tranche of the proceeds of the litigation
- Capital reduction effected in July 2023 to facilitate the return of capital
- Retained cash (following the return to shareholders) will be invested in R&D and commercial activities, a proactive IP licensing programme, payment of debt obligations, and to provide working capital through to the self-financing position that is expected during 2025

Current trading – continued strong progress

- Discussing contract terms of our first ever commercial production order, expected to be received before the end of CY23 (for a low volume application in the first instance and as expected)

- Expanding our commercial R&D contracts with a number of customers with the goal of adding a further global electronics supply chain customer in FY24
- Investing retained funds to expand our range of high-performing materials, developing new materials with enhanced performance, as well as expanding our reach
- Self-funding our next steps to monetise our IP whilst actively engaging with other potential infringers of our validated IP
- We expect our order book to rise to deliver similar services and material revenue to that seen in FY23, licence income will reflect a full year of the litigation settlement

Brian Tenner, Nanoco's CEO, commented on the results:

"We have driven Nanoco steadily towards its current inflection point. We have delivered all development and scale up milestones for our sensing customers. We have also significantly enhanced our robustness as an important partner in global electronics supply chains. We are now discussing the contract terms of our first ever commercial production order, expected to be received before the end of CY23.

"In parallel with the transition to production, we are also expanding our commercial R&D contracts with a number of customers with the goal of adding a further global electronics supply chain customer in FY24.

"Our transition from an R&D first mover to a commercial producer is underpinned by the proceeds from the settlement which are enabling us to invest carefully to expand the range and reach of our materials, whilst at the same time self-funding the monetisation of our IP.

"We started the litigation process in February 2020: a long legal road lay ahead, we had limited prospects for commercial production, there were no anchor customers in place, the Formal Sale Process was stalling in the face of Covid-19, and we had a recurring need to raise new funding every year. Fast forward: we exit FY23 with a successful outcome to the litigation, the expectation of a commercial production order before the end of CY23, two active global long-term customers, an expanding range of materials and device capability, a financially underpinned business and the ability to execute on our firm commitment to return significant capital to shareholders in Q1 CY24.

"The whole Nanoco team has worked hard to deliver these outcomes. A lot has been done. Our team will keep working hard as there is still a lot to do to capture the opportunities in front of us. The Board is therefore rightly confident in the strength of the investment proposition and value inherent in the business."

- Ends -

A conference call and webcast combined for analysts **and investors** will be held at 10:00am (UK time) this morning (17 October 2023):

Dial in: +44 (0) 33 0551 0200

PIN: Nanoco Preliminary Results

Link: <https://stream.brrmedia.co.uk/broadcast/6516f5ce01d979c8a2eccfcd>

Questions may be submitted in advance via nanoco@mhpc.com

For further details please contact MHP Communications on 0203 128 8990 or at nanoco@mhpc.com

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

In order to allow investors to digest the Final Results more fully, there will be a further presentation via the Investor Meet Company platform on 24 October at 09:30am. Questions can be submitted in advance via the Investor Meet Company Dashboard before 4:00pm on 23 October, or at any time during the live presentation. Investors can sign up to the Investor Meet Company platform for free and register their interest in events hosted by Nanoco Group Plc via:

<https://www.investormeetcompany.com/nanoco-group-plc/register-investor>

Investors who already follow Nanoco Group Plc on the Investor Meet Company platform will automatically be invited.

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Notes for editors:

About Nanoco Group plc

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

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

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

Chairman's statement

Nanoco's commercial business is now financially underpinned, enabling the Company to pursue exciting mid-term opportunities

Summary

- Settlement in the Samsung litigation delivered a gross \$150 million for the Company, and \$90 million after litigation costs
- Very large "blue ocean" opportunity in sensors, with Nanoco technology in forefront; embedded with European electronics customer, with first production order expected in CY23
- Five sensing development projects with Asian chemical customer completed in full, a sixth in progress
- Validated IP in display presents mid-term potential
- Consolidation of operations in Runcorn, investing to accelerate product development and create device capability
- Firm commitment to return significant capital to shareholders in Q1 CY24

Overview

This has been an incredibly important year for Nanoco. The \$150 million settlement agreement with Samsung (structured as a sale of IP for \$85 million and an ongoing licence arrangement for \$65 million) vindicated our decision to litigate. Our IP in display has now been emphatically validated. The net \$90 million proceeds underpin Nanoco's commercial potential, and allows the business to plan for growth on a more secure financial footing.

We believe there is still value to be unlocked in our IP - though this will take time. We do not believe anyone can make Cadmium-free Quantum Dots at scale without using our IP. We have identified potential infringers and have now engaged with the most likely candidates to pursue monetisation through licensing or litigation.

In sensing, devices are now being trialled which incorporate Nanoco's QDs. The market opportunity is clearly very large, when and if adoption gains traction. During the year, we successfully delivered all milestones on time in our major development agreement for the European electronics customer, sending two first generation sensing products for final validation for potential use in commercial applications. We are now focusing on building our supply chain capabilities in preparation for a commercial production order expected by the end of 2023.

We have also successfully delivered all challenging milestones in a series of short-term development projects for our Asian chemical customer. This work continues and we are now discussing a much longer-term collaboration which will signal a significant investment in the future of this technology.

The Executive team continues to seek further customer engagements in both sensing and display markets.

Strategy

Nanoco has a clear vision for the future. Underpinned by our IP, we intend to be the "go-to" manufacturer of quantum dots for a variety of applications and markets. Our ultimate aim is to advance technology through making the small things matter. By focusing on our core competencies (our "dot only strategy") we play to our key strengths and continue to build on and extend our foundational intellectual property. Our sensing materials can provide significant improvements over existing technologies at a competitive price point while our display materials offer performance and clear environmental benefits over highly toxic, cadmium-based quantum dots.

Our people

Our staff have shown great fortitude in coping with the stresses and challenges of the uncertain working environment at Nanoco over the last four years. A number of staff have also relocated as part of the consolidation of our operations to our Runcorn production facility. Our employees have continued to work hard throughout this period, and deserve special recognition for where we are today. We are now able to increase our investment in our staff, including expanding their training and career development, and thereby providing them with the opportunities to achieve their individual potential.

Sustainability and ESG strategy

The Board is committed to the promotion and achievement of environmental, social and governance objectives within the context of a small, listed company. To that end, we have set ourselves the target of achieving ISO 14001 accreditation (Environmental Management) in the financial year ending 31 July 2024. We are also pursuing accreditation to ISO 45001 (Occupational Health and Safety). Post year end, we have appointed an ESG steering committee with a wide remit to support the Company to achieve its ESG goals. This is represented at Board level by Liam Gray, our CFO.

Governance

We remain committed to the highest standards of corporate governance and we comply with all of the provisions of the UK Corporate Governance Code.

Board and the Extraordinary General Meeting

As the majority of stakeholders will be aware, during the year a small group of activist shareholders called a general meeting in August 2023 with the aim of removing the entire Board and appointing their own six nominees instead. All of the activists' resolutions were emphatically voted down. Voting in favour of the Board ranged from 80.8% to 89.1% of votes cast. I strongly believe that these votes reflect shareholders' confidence in the current Board and its strategy.

We have taken on board the constructive criticism received during the last six months. In particular, we are working to improve our communications and to bolster the Board's current breadth of experience by recruiting an additional Non-Executive Director with a background in commercialising technology in consumer electronics markets. We expect to update the market on an appointment in the short term.

Dividends

No dividend is proposed for the year (2022: none).

Return of Capital

As announced in February 2023 at the time of the litigation settlement, the Board stated that, when considering the allocation of the net proceeds its intention was to balance any investment needs of Nanoco's growing commercial business with delivery of a material return of capital to shareholders. Accordingly, the Board resolved to return between £33-40 million (or approximately 10-12 pence per share) to shareholders, using some of the second tranche of the proceeds of the litigation (net \$71.75 million), which is expected to be received during February 2024.

In July 2023 a capital reduction was effected to create the sufficient distributable reserves to facilitate the return of capital. No decision has yet been taken as to the method of any such return of capital and further announcements will be made in due course.

Outlook

Our near-term goal remains to achieve the transition to commercial production. We expect our technology to gain traction in a number of different electronics applications after an expected initial low volume use case. Ultimately, our medium-term goal is to achieve adoption in high volume use cases such as premium and mass market mobile phones.

The funds that we intend to retain from the settlement of the Samsung litigation will allow us to plan with confidence for the future and to accelerate the development of higher performing second-generation materials. Our industrial production capacity positions us well to benefit from any widespread adoption of quantum dots in commercial applications, whilst our validated IP creates a strong barrier to entry to the industry.

By leveraging our validated IP portfolio and successfully delivering near-term commercial opportunities, we hope to deliver an increase in value for all stakeholders.

Dr Christopher Richards

Chairman

17 October 2023

Chief Executive Officer's statement

We are at an exciting inflection point: the litigation proceeds fully underpin our transition from an R&D first mover to a leading producer of QD materials in the short term

The Nanoco team continues to deliver outstanding service and results for key customers. We have successfully achieved all of the challenging technical milestones set for our high performing nanomaterials. As a result, our customers are now seeking longer and deeper collaborations for the development, scale up and commercial production of nano-materials for use in sensing devices.

In parallel with organic progress, we achieved a successful conclusion to the IP litigation against Samsung. Nanoco is now on a firm financial footing to transition from being an R&D first mover to being a leading producer of QD materials in the short term.

We have also completed a number of critical first steps for further potential monetisation of our IP: these steps include identifying potential infringers and associated devices, analysing those devices, and shortly after year end, engaging with companies who may want or need to take a license over Nanoco IP. This will take time to deliver but as the market grows, so does the opportunity.

We continue to strengthen our operational capabilities to assure our critical place in complex global supply chains for electronics devices. We expect to achieve certification to ISO 14001 (the environmental standard) and ISO 45001 (the health and safety standard) during FY24. We increased our headcount in the second half of the year by one third (11 people) to reflect increasing activity levels across the business and preparations for commercial production.

After the year end, we signed an agreement to hedge the second tranche of proceeds from the Samsung settlement due to be received in February 2024. The hedge means Nanoco will receive £58.8 million in return for selling \$71.75 million, which is the net receipt after deducting withholding tax.

Business performance

Electronics

We continued our on-time delivery of all development milestones for our major European electronics customer. Our processes for two sensing materials have been successfully scaled up to industrial production levels for consumer electronics and additional raw material suppliers have been qualified to secure the supply chain as part of the full year contract that ran until the end of April 2023. Two materials are now in final production validation with our customer and a new second generation material has passed the “proof of concept” stage.

As previously announced, the size of any first production order for the materials in final validation is likely to be modest in scale, potentially a few million devices, with consequently low associated revenue. This is typical of many new technologies’ initial use cases. The critical point is that for the first time in our 20 year history, we will have a product in commercial production with a world leading customer operating in electronics markets. A significant validation of our technology and production capacity. There is then clear scope for growth to other use cases.

We also made progress throughout the year on a number of sequential short term development projects for our major Asian chemical customer. Material performance has exceeded challenging expectations, and we continue discussions around further collaboration.

Both the European and Asian customers operate in large global markets wherein final customer adoption of QD sensing technology could lead to significant revenue growth for Nanoco. Following the validation of our IP in the Samsung litigation process, we have received inbound enquiries not just for display applications but also for sensing applications. This reflects the fact that our scale up IP is equally applicable to a range of sensing materials.

Enquiries have ranged in size from customers of a similar scale to the European and Asian customers to startups. We are working to add further customers and development work to our commercial pipeline.

We started FY24 with a limited short term order book for development work due to the successful completion of the large contract with the European customer in April 2023. Discussions are ongoing with our European customer on the development of a next generation material and on commercial supply terms for production orders. Any production orders will run in parallel with any new development agreement. If the negotiations

are successful with the European customer, in combination with other revenues, we expect our order book to rise to deliver similar services and material revenue to that seen in FY23.

The Board recognises that the adoption of nano-material technology has taken longer than expected for both Nanoco and its competitors, creating commercial challenges. Shareholders will be aware that development cycles for new advanced materials for use in consumer electronics can be very long: For example, Samsung was working with quantum dots for over ten years before commercialising the technology, and QD Vision worked for almost ten years to commercialise a technology that was withdrawn after only one year.

The development cycles tend to be long because the whole supply chain often needs to be re-engineered on top of developing QD material. One of the advantages of the QD enhanced CMOS sensors that Nanoco specialises in is that the material represents an extra layer in a pre-existing material stack. Reaching final product validation testing within six years demonstrates Nanoco's clear ability to develop and scale novel materials to the exacting standards of consumer electronics applications in a relatively short time frame.

Our offering of nanomaterials for use in sensing applications continues to progress from a single customer/single product offering in early 2018 to a position today where we are engaged with multiple customers and are working with many distinct materials and wavelength combinations.

As previously announced, already published customer plans for a product launch in 2024 support our goal of a commercial production order by the end of calendar year 2023, though, as always, the final decision to adopt the technology lies with the customers of our customer and this cannot be taken for granted. Our task is to ensure that our materials consistently perform as required by our customers so that we are scaled up and ready for a potential production order.

Our small scale allows us to be much more agile and responsive to our customers' needs when compared to our competitors. The in-depth nature of our technological insight also means that we do tend to "punch above our weight" in terms of direct engagement with large end customers and their technology teams. Conversely, given our small scale we work proactively to agree commercial solutions for our customers to the issue of supply chain risk.

Display (CFQD® quantum dots)

Display materials remain a key focus for Nanoco. Independent market research supports a growing share of quantum dot technology in the flat panel display market where consumer and environmental concerns mean that cadmium free solutions are much preferred (source: Omdia, TDR). The forecast combination of cadmium free systems taking a larger share of the overall market, together with a fall in Samsung's relative share, is expected to create two opportunities for Nanoco:

- Firstly, as a manufacturer of cadmium free quantum dots (in our own facility which can be readily expanded); and
- Secondly, as the owner of a validated IP portfolio and process know how which is fundamental to the manufacture of cadmium free quantum dots on an industrial scale.

The licence taken by Samsung on our IP clearly demonstrates the broader need to access our IP and technology. This demand will grow over time, in line with the number of cadmium free display products sold in the market. With a firm financial underpin, we now have the option to self-finance the pursuit of those who chose to incorporate our patented IP without entering into either a licence or material supply agreement with us.

As noted above, activity and new inbound enquiries about display materials have continued following our success with our patents at the Patent Trial and Appeal Board ("PTAB") and the final outcome to the litigation.

Applying quantum dots to micro-LEDs for small screen devices, such as smart watches or phones, is becoming an important focus for a number of industry participants. In such applications, the volume of quantum dots, as a ratio to the area covered, is significantly higher than in a film for a television. So, while the end devices may be smaller, this is partly compensated for by the higher concentration required.

While legislative progress around the Restriction of Hazardous Substances ("RoHS") in Europe continues to be frustratingly slow, a number of display makers appear to be pre-empting the legislative enforcement by exploring a move to cadmium free solutions.

We have maintained our focus on our "dot only" strategy where we aim to provide the highest performing CFQD® quantum dots. We retain our core capabilities to deliver display R&D services, scale up and

commercial production of material from our Runcorn facility. We will continue to adopt a dual approach to commercial exploitation of our display materials, whether through licencing or material supply from our own manufacturing capability. We remain well positioned to take advantage of any broadening in the adoption of non-toxic quantum dots by global display manufacturers when the opportunity arises.

Operations

The first half of 2023 saw further consolidation and re-organisation of equipment and processes in our Runcorn production facility, having completed the exit from our Manchester facility at the end of CY22. The display facility in Runcorn was taken out of “mothball” and now hosts the R&D teams as well as our production capability for CFQD® quantum dots. We are seeing the operational benefits of R&D, scale up and production teams all working in the same location. The financial benefits of the Manchester exit have helped offset inflationary increases in salaries and other input costs.

The proceeds from the Samsung litigation have allowed us to expand our team in the second half of FY23. At the end of the year we had 46 staff (FY22: 39). The additional staff are largely involved in customer facing or customer support roles which were added in preparation for a commercial production order. We also added staff in key positions where we had been operating on a lean basis while tightly managing our cash resources over the last three years. Our estimated recurring cash cost base for FY24 is approximately £6.4m, which is just over half of the approximately £11.0 million seen in FY19. This reduction was achieved without losing any of our core “dot only” capabilities.

We expect to deploy some of the retained proceeds from the Samsung litigation to further reinforce and upgrade our production processes and systems. As part of our quality management system we are implementing electronic batch recording and line side systems to match our position in important electronics supply chains. As with our staffing profile, we expect to increase our capital expenditure from the absolute minimum levels of the last three years of extremely tight cash management. This will proceed in parallel with projects to deliver accreditation to ISO 14001 (the environmental standard) and ISO 45001 (the health and safety standard). Both certifications are often expected fundamental requirements of our customers in electronics supply chains.

After the year end we signed a new rolling one year licence to occupy additional space in our Runcorn facility. That space is being used to create a small-scale facility for device fabrication and a dedicated analytical laboratory. Both will significantly increase the speed of new product development as we will be able to generate our own device performance data on our new materials without having to wait on third party feedback. The new device facility will also support business development by allowing us to demonstrate proven ‘in device’ performance to potential customers.

Leveraging intellectual property

We continue to proactively manage our IP portfolio to maximise value and protect our core competencies. We finished the year with 375 patents and patents pending (2022: 503). The Group has retained its most strategic IP, including both of the patents that had been scheduled to go to trial and two others included in earlier stages of the litigation (the “patent families” of these four patents number 46 patents in total covering various territories around the world).

Only one of the five patents involved at the start of the litigation was sold as part of the settlement (representing just one PTAB validated claim from the total of 47). This patent had an unfavourable outcome in the Markman hearing. As a film patent, it was also outside the scope of our “dot only” strategy. The remainder of the patents sold to Samsung (excluding the film family which had 23 patents), made up of 95 individual patents, included patents for applications such as Animal Husbandry, which is not considered a high value market for Nanoco in the medium term.

In summary, the sale of the IP is expected to have minimal impact on Nanoco’s current or planned commercial activities. In any case, the sale agreement also includes a licence back to Nanoco so that it retains the right to utilise the IP in those same patents if so required. The IP licence granted to Samsung is a non-exclusive licence and hence does not impede Nanoco’s current or planned commercial activities.

We continue to preserve trade secrets and have targeted our financial resources on strategic areas such as infra-red sensing where there is a strong overlap with our core IP. These are also areas with clear future commercial opportunities and benefits to be had from holding high quality patents.

We have created a heat map of potential infringers. That heat map then guided our analysis towards a sample of devices from the more promising opportunities. We have now engaged with a number of potential

infringers to explore options for commercial engagement. Further information is set out in our Annual Report and Accounts on how we are self-funding actions aimed at monetising our IP. If significant and costly litigation is eventually required, the Group will have the option to self-finance any legal action for a higher return or once again use third party financing for a lower return but with lower risk.

Investing retained litigation proceeds

Given the promising opportunities facing the Group, as outlined in the Reduction of Capital Circular issued on 20 June 2023, the Board intends to invest as follows:

- Funding the Group's commercial business activities until they become self-financing (expected in CY25);
- Pursuing a number of promising investments in R&D to accelerate the development of new generation sensing materials;
- Capital investments to improve production efficiency;
- Capital investment to expand our footprint at Runcorn by creating in-house device capability;
- Self-financing the IP licencing programme while retaining ownership and control of the Group's core IP which also includes significant know-how and trade secrets;
- Paying off the Group's entire current borrowings (approximately £5.0 million) to become debt-free; and
- The Group will also maintain a cash buffer for working capital and to mitigate the risk of unforeseen events.

Environment/Restriction of Hazardous Substances ("RoHS")

We previously reported that the European Commission ("EC") received a recommendation that the exemption to allow cadmium (>100 ppm) in QD films for display is no longer justified and should be phased out by 31 October 2021. Progress in implementing legislation to enforce this recommendation has been slow. It therefore seems likely that European consumers will continue to be exposed for some time to the known hazards of cadmium in televisions that exceed the limits shown above.

In December 2022, the EC received further recommendations that:

- a request to allow cadmium (> 100 ppm) in solid-state lighting should be denied; and
- a new exemption should be granted for on-chip QD applications until 30 November 2027.

Ahead of nations passing the required legislation, a number of display manufacturers appear to be anticipating the phasing out of cadmium from QD displays and Nanoco has received inbound enquiries in this field.

People

Our employees continue to provide great service to our customers in delivering high quality materials on time and achieving challenging milestones and deliverables. As noted above, we have increased the number of staff in the second half of FY23 to reinforce our capabilities and to ensure that the workload for staff is manageable. Our Employee Voice Committee ("EVC") has been very active throughout the year to support the group and all staff on matters of stress, mental health and general well-being at a time of significant change and uncertainty.

During the year the majority of staff have been trained on LEAN techniques to improve problem solving and quality control processes. All staff are also actively engaged on health and safety initiatives to improve our working environment and reduce the overall risk environment. We will continue to invest in further training and development for all staff as part of their career development and our staff retention aims. This includes general management training that feeds into succession planning.

Retaining and incentivising our highly skilled team is key to delivering organic value and growth from the business. We have awarded a general cost of living increase for all staff for FY24 of 5% of salary (excluding the Executive Directors who are receiving 3%). We are also in the process of arranging a workplace health programme for all staff that has an equivalent cost of 1% of salary. In combination with the review of comparative salaries against national benchmarks (excluding London) in FY22, we believe that all staff are now paid around median salaries or higher. Upside potential comes from bonuses linked to company-wide

performance objectives covering revenue, health and safety, quality, and LEAN improvement initiatives. All staff are also eligible to participate in the Group's Deferred Bonus Plan and Long Term Incentive Plan.

We will review other benefits options and further potential improvements to pension contributions as our financial situation improves and when the Company becomes self-financing in its organic operations.

Outlook

Over the last five years, Nanoco has grown from a "one customer, one product" position for sensing materials to multiple first and second generation materials for two global electronics supply chain companies, increasing our reach to thousands of their own customers. The focus of R&D activity has been narrowed to near-term commercial opportunities and our fixed cash cost base has been carefully managed. The successful completion of the Samsung litigation will deliver a net \$90 million of proceeds by February 2024.

We are also seeing growing interest in CFQD[®] quantum dots for use in the display industry and are engaging cautiously with market players other than Samsung who already participate in or are seeking to enter the QD display market. This extends to interest in Gen 2 QD displays as well as displays utilising micro-LEDs.

At this time, the Board expects Nanoco's first commercial production order before the end of CY23 and expects the first order to be for a low volume application (measured in millions of sensor units; mid-volume would be tens of millions and high volume would be hundreds of millions). Once the material has been adopted in the technology ecosystem for one application by one end customer, our expectation is that customers and applications will increase towards the ultimate goal of a high volume mobile phone application.

The significant investment by our customers in Nanoco materials as part of their production and marketing efforts strongly supports this view. In any event, Nanoco already has the flexibility, capability and capacity to meet low and high volume demand and everything in between.

The Board is confident that near-term opportunities for commercial production of sensing materials, growing interest in the Group's display materials and the potential for leveraging the Group's IP portfolio will deliver increases in shareholder value in the short to medium term. We remain focused on our goal of becoming a self-financing producer of high performing nano-materials.

Brian Tenner

Chief Executive Officer

17 October 2023

Financial review

Financially underpinned group with growth opportunities

Summary

- Revenue increased by 128% to £5.6 million (2022: £2.5 million), driven by the licence income from the Samsung licencing contract.
- The sale of non-core IP to Samsung in the year generated a one-off profit of £68.7 million.
- Litigation related costs of £49.3 million were recognised in full in the year.
- Adjusted LBITDA has reduced to £0.4 million (2022: £2.3 million) excluding the profit on disposal of IP, reflecting the additional revenue in the period.
- Nanoco retained £4.5 million of the first tranche of cash received from Samsung after paying all litigation related costs.

Revenue increased by £3.1 million to £5.6 million (2022: £2.5 million). The increase is due to the licence agreement signed with Samsung which contributed £3.0 million, with the remaining revenue largely related to the ongoing project with the European electronics customer.

The sale of products and services rendered accounted for 46% (2022: 96%) of revenue, with the balance being licence income (including Samsung income in FY23). Revenue from services has increased from £1.6 million to £1.7 million due to the continued work with our European electronics customer. Revenue from the sale of development products was £0.9 million (2022: £0.8 million).

Billings, including those to Samsung, increased by £60.3 million to £63.0 million (2022: £2.7 million). Excluding the impact of any Samsung related billings, billings were £2.1 million which is lower than revenue due to the invoicing profile of the agreement with our European electronics customer.

Other operating income generated £0.2 million (2022: £0.4 million) and related to two ongoing projects with Innovate UK.

During the year, the group sold non-core IP to Samsung which generated a profit on disposal of £68.7 million (2022: £nil) as part of the settlement of the Samsung litigation. As part of the agreement, Nanoco dismissed its litigation against Samsung, and incurred litigation-related costs of £49.3 million.

Highlights	2023 £ million	2022 £ million	% change
Revenue	5.6	2.5	128%
Other operating income	0.2	0.4	(36%)
Adjusted LBITDA	(0.4)	(2.3)	83%
Net profit/(loss)	11.1	(4.7)	236%
Profit/(loss) per share (p)	3.44	(1.52)	226%
Billings	63.0	2.7	2,233%
Cash and cash equivalents	8.2	6.8	21%

There were a number of significant one-off costs in the financial year ended 31 July 2023, shown below:

	2023 £ million	2022 £ million
R&D expense	1.3	1.3
Administrative expenses	57.4	5.4
Total operating expenses	58.7	6.7
Settled litigation costs	(49.3)	-
Foreign exchange on US balance	(1.7)	0.2
Share-based payment charge	(1.0)	(0.6)
Employer's NI on SBP	0.2	(0.3)
Requisitioned general meeting	(0.5)	-
Adjusted operating expenses	6.4	6.0

Total adjusted operating expenses increased on prior year to £6.4 million (2022: £6.0 million). Savings from the completion of the exit from the Manchester premises in November 2022 were offset by an increased headcount, which at year end totalled 46 (2022: 39), and additional inflationary cost increases across the group.

Non-GAAP measures

The non-GAAP measures of adjusted operating loss and adjusted loss before interest, tax, depreciation, amortisation, share-based payment charges and exceptional items ("LBITDA") are provided in order to give a clearer understanding of the underlying loss for the year that more closely reflects the recurring operational cash flow of the business. The calculation of Adjusted LBITDA is shown in the table below:

	2023 £ million	2022 £ million
Operating profit/(loss)	15.0	(4.8)
Settled litigation costs	49.3	-
Profit on sale of IP	(68.7)	-
Requisitioned general meeting	0.5	-
Foreign exchange loss / (gain)	1.7	(0.2)
Share-based payment charge	1.0	0.6
Employer's NI on SBP	(0.2)	0.3

Depreciation	0.6	0.5
Amortisation ¹	0.4	1.3
<u>Adjusted LBITDA</u>	<u>(0.4)</u>	<u>(2.3)</u>

¹ Includes impairment of intangible assets.

The finance expense in the year of £5.5m (2022: £0.5m) included a one-off contingent interest payment of £4.7m against the outstanding loan notes in relation to the successful conclusion of the Samsung litigation.

The profit before tax was £9.6 million (2022: £5.2 million loss), with the improvement driven by the sale of IP during the year, contributing a profit of £68.7 million, offset by the litigation costs of £49.3 million and contingent interest of £4.7 million.

Taxation

The tax credit for the year was £1.5 million (2022: £0.5 million). This comprises of a UK corporation tax charge of £1.0 million (2022: £nil) and an overseas corporation tax charge of £0.3m (2022: £nil), offset by an R&D tax credit of £0.3 million (2022: £0.5 million) and the recognition of a deferred tax asset of £2.5 million (2022: £nil). In addition, the Group incurred withholding tax in Korea of £2.3 million in the year, which has been recognised as an asset as it can be offset against future profits. The Group has £31.6 million of accumulated losses to offset against future profits.

Cash flow and balance sheet

During the year cash, cash equivalents, deposits and short-term investments increased to £8.2 million (2022: £6.8 million). The net cash outflow, excluding the net cash flows related to the Samsung settlement in February 2023 (£4.5 million inflow after fees), was £3.1 million (2022: £2.4 million outflow). The increase in cash outflows reflects increases in the cost base, with an increase in headcount in the second half of the year, inflationary pressures, one off costs including the requisitioned general meeting, and investment in capital expenditure compared to FY22. Tax credits of £0.5 million (2022: £0.7 million) were received during the year.

Expenditure incurred in registering patents totalled £0.1 million (2022: £0.1 million). Capitalised patent spend is amortised over ten years in line with the established group accounting policy. During the year, the group disposed of patents with a net book value of £0.3 million as part of the Samsung settlement.

During the year, an IP impairment charge of £0.1 million was recognised (2022: £0.9 million). This reflects the continued rationalisation of the patent portfolio to ensure the remaining patents are commercially viable in the short to medium term.

Expenditure on tangible fixed assets increased to £0.3 million (2022: £nil) as the Company improved its Runcorn infrastructure.

Foreign exchange management

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

The second tranche of litigation proceeds is expected to be received in February 2024 (gross \$75 million, net \$71.75 million after \$3.25 million withholding tax paid at source). After the year end, the group took out a one-off hedge at a rate of GBP1:USD1.22, which means the net cash receipt of \$71.75 million will be converted to £58.8 million.

There were no open forward contracts as at 31 July 2023 (2022: none). The group's net profit and equity are exposed to movements in the value of Sterling relative to the US Dollar. The indicative impact of movements in the Sterling exchange rate on profits and equity based on the retranslation of the closing balance sheet is disclosed in the Annual Report and Accounts and was based on the year-end position.

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.

Treasury activities and policies

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

More details on the Group's treasury policies are provided in the Annual Report and Accounts.

Going concern

The settlement signed during the year with Samsung will result in a significant cash surplus for the business upon receipt of the second tranche of cash in February 2024. The Company has committed to a return of capital to shareholders, but will retain enough cash for our business needs. Given the remaining cash balance, our low cost base, and the exciting commercial opportunities, the Directors have a reasonable expectation that the Group has access to adequate resources to continue in operational existence for the foreseeable future.

Accordingly, they continue to adopt the going concern basis in preparing the consolidated financial statements and the Board concluded that it is appropriate to utilise the going concern assumption. Further detail is included in the Annual Report and Accounts.

Macroeconomic factors

We continue to see inflationary pressures on raw materials. We attempt to mitigate these by regularly reviewing suppliers where possible, negotiating with new suppliers and trying to achieve volume breaks. We are also cognisant of the impact of the cost of living crisis on our staff and implemented a Company-wide 5% inflationary wage increase from August 2023. We will continue to review market conditions and assess the impact on all stakeholders.

Summary

Nanoco is now financially underpinned, with a stable cost base, IP that has been validated by the US PTAB, and we have commercial opportunities in large and growing markets. As we continue to deliver against our strategic objectives, we aim to achieve a value inflection point in the short to medium term. We look forward to updating shareholders on our progress in due course.

Liam Gray

Chief Financial Officer

17 October 2023

Principal risks and uncertainties

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

Specifically, a number of the Group's products and potential applications are at an early stage in their development, or still being validated by customers and hence it is not possible to be certain that a particular project or product will lead to a commercial application. Other products require further development work to confirm a commercially viable application. The technology, particularly in the Sensing division, is still in its infancy and has yet to see market adoption.

Equally, a number of products are considered commercially viable but have yet to see demand for full scale production. It is also the case that the Group is often only one part of a long and complex supply chain for new product applications.

The Group therefore has little visibility of demand other than from contracts already in place. There are therefore a range of risks that are associated with the different stages of product development as well as for the Group as a whole.

Risk management process

The Group has established a process for carrying out a robust risk assessment that evaluates and manages the principal risks faced by the group. A detailed review of individual risks was undertaken initially by the leadership team, and then reviewed by the Board during the financial year ended 31 July 2023. This year, that review also incorporated climate related risks, as required by TCFD reporting. The Board has also established an acceptable level of risk (risk appetite) that informs the scale and

urgency of actions required. Where risks are deemed to be outside management control, efforts are focused on mitigating any potential impact. Where all practical measures to prevent or mitigate risks have been taken and a residual element of risk still remains, these risks are accepted by the group.

Risks are evaluated with respect to the probability of occurrence and the potential impact if a risk crystallised. Where the group has identified risks, these are monitored with controls and action plans to reduce the probability of a risk crystallising and the impact of each potential event if it did occur. The residual risk score, after mitigating controls, is then plotted on a “risk heat map”. The Group’s principal risks are detailed further in the Annual Report and Accounts.

Principal overarching risk

The historical principal overarching strategic risk faced by the business was that the Group exhausted its available funding before achieving adequate levels of commercial revenues and cash flows to be self-funding. This risk has been largely mitigated by the settlement with Samsung during the financial year ended 31 July 2023. This mitigation has shifted the focus of risk to market adoption of the Group’s technology, which is required for the business to be commercially viable in the long term.

Other principal risks

Other risks are those set out in the prior year’s Annual Report and an update on their status will be included in the Annual Report for the year ended 31 July 2023.

Directors’ responsibility statement

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

1. the unaudited Preliminary Results have been prepared in accordance with IFRS issued by the IASB as adopted by the UK and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and Company and the undertakings included in the consolidation taken as a whole; and
2. the foregoing reviews and statements, include a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties faced by the Group.

By order of the Board

Brian Tenner
Chief Executive Officer
17 October 2023

Liam Gray
Chief Financial Officer
17 October 2023

Unaudited consolidated statement of comprehensive income

for the year ended 31 July 2023

	2023 £'000	2022 Restated ¹ £'000
Revenue	5,618	2,467
Cost of sales	(847)	(932)¹
Gross profit	4,771	1,535
Other operating income		
Government grants	230	361
Profit on sale of IP	68,687	—
Operating expenses		
Research and development expenses	(1,295)	(1,258)¹
Administrative expenses	(57,401)	(5,409)
Operating profit/(loss)	14,992	(4,771)
- Before share-based payments and non-recurring items	(2,915)	(4,152)
- Share-based payments	(953)	(619)
- Profit on sale of IP	68,687	—
- Litigation costs	(49,337)	—
- EGM requisition	(490)	—
Finance income	38	—
Finance expense	(5,457)	(450)
Profit/(loss) before taxation	9,573	(5,221)
Taxation	1,512	524
Profit/(loss) after taxation	11,085	(4,697)
Other comprehensive income/(loss)	—	—
Total comprehensive profit/(loss) for the year	11,085	(4,697)
Profit/(loss) per share		
Basic profit/(loss) for the year	3.44p	(1.52)p
Diluted profit/(loss) for the year	3.32p	(1.52)p

1 The comparative balances for cost of sales and research and development expenses have been restated for the year ended 31 July 2022. Refer to note 2b of the accounting policies for more information. The restatement has no impact on the reported loss or net assets.

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

Unaudited consolidated statement of changes in equity

for the year ended 31 July 2023

Group	Share capital £'000	Share premium £'000	Reverse acquisition reserve £'000	Share-based payment reserve £'000	Merger reserve £'000	Shares held by EBT £'000	Retained earnings/ Accumulated losses £'000	Total £'000
At 1 August 2021	30,570	117,292	(77,868)	4,318	(1,242)	—	(70,018)	3,052
Loss for the year	—	—	—	—	—	—	(4,697)	(4,697)
Other comprehensive income	—	—	—	—	—	—	—	—
Total comprehensive loss	—	—	—	—	—	—	(4,697)	(4,697)
Issue of share capital on placing	1,528	4,127	—	—	—	—	—	5,655
Costs of share placing	—	(274)	—	—	—	—	—	(274)
Issue of share capital on exercise of options	146	—	—	(21)	—	—	—	125
Share-based payments	—	—	—	619	—	—	—	619
At 31 July 2022	32,244	121,145	(77,868)	4,916	(1,242)	—	(74,715)	4,480
Profit for the year	—	—	—	—	—	—	11,085	11,085
Other comprehensive income	—	—	—	—	—	—	—	—
Total comprehensive profit	—	—	—	—	—	—	11,085	11,085
Capital reduction	—	(121,145)	—	—	—	—	121,145	—
Issue of capital to EBT on option exercise	199	—	—	(259)	—	(105)	60	(105)
Share-based payments	—	—	—	953	—	—	—	953
At 31 July 2023	32,443	—	(77,868)	5,610	(1,242)	(105)	57,575	16,413

Unaudited Group and Company statements of financial position

at 31 July 2023

Registered no. 05067291

	31 July 2023 Group £'000	31 July 2023 Company £'000	31 July 2022 Group £'000	31 July 2022 Company £'000
Assets				
Non-current assets				
Tangible fixed assets	304	—	98	—
Right of use assets	2,075	—	56	—
Intangible assets	966	—	1,616	—
Deferred tax asset	2,573	—	—	—
Foreign withholding tax receivable	1,756	—	—	—
Investment in subsidiaries	—	41,700	—	40,747
	7,674	41,700	1,770	40,747
Current assets				
Inventories	308	—	174	—
Trade and other receivables	33,986	52,876	1,664	175
Foreign withholding tax receivable	592	—	—	—
Income tax receivable	—	—	524	—
Cash and cash equivalents	8,207	105	6,762	5,497
	43,093	52,981	9,124	5,672
Total assets	50,767	94,681	10,894	46,419
Liabilities				
Current liabilities				
Trade and other payables	(2,783)	(1,153)	(1,510)	(638)
Financial liabilities	(4,004)	(4,004)	—	—
Lease liabilities	(456)	—	(153)	—
Income tax liability	(770)	—	—	—
Provisions	—	—	(172)	—
Deferred revenue	(6,123)	—	(560)	—
	(14,136)	(5,157)	(2,395)	(638)
Non-current liabilities				
Financial loans	(557)	—	(3,919)	(3,392)
Lease liabilities	(1,415)	—	(16)	—
Provisions	(445)	—	(40)	—
Deferred revenue	(17,801)	—	(44)	—
	(20,218)	—	(4,019)	(3,392)
Total liabilities	(34,354)	(5,157)	(6,414)	(4,030)
Net assets	16,413	89,524	4,480	42,389
Capital and reserves				
Share capital	32,443	32,443	32,244	32,244
Share premium	—	—	121,145	121,145
Reverse acquisition reserve	(77,868)	—	(77,868)	—
Share-based payment reserve	5,610	5,610	4,916	4,916
Merger reserve	(1,242)	—	(1,242)	—
Capital redemption reserve	—	—	—	4,402
Shares held by EBT	(105)	—	—	—
Accumulated losses	57,575	51,471	(74,715)	(120,318)
Total equity	16,413	89,524	4,480	42,389

The Parent Company's result for the year ended 31 July 2023 was a profit of £46,182,000 (2022: loss of £340,000). There was no other comprehensive income in either the current or prior year.

The unaudited financial statements were approved by the Board of Directors on 17 October 2023 and signed on its behalf by:

Dr Christopher Richards
Chairman
17 October 2023

Brian Tenner
Director
17 October 2023

Unaudited Group and Company cash flow statements

for the year ended 31 July 2023

	31 July 2023 Group £'000	31 July 2023 Company £'000	31 July 2022 Group £'000	31 July 2022 Company £'000
Loss before tax	9,573	46,182	(5,221)	(340)
Adjustments for:				
Net finance expense	5,419	5,337	450	396
(Profit)/loss on exchange rate translations	1,747	(10)	(211)	19
Depreciation of tangible fixed assets	76	—	105	—
Depreciation of right of use assets	555	—	366	—
Amortisation of intangible assets	279	—	498	—
Profit on disposal of intangible assets	(68,687)	—	—	—
Impairment of intangible assets	92	—	858	—
Reversal of impairment	—	—	—	(76)
Share-based payments	953	—	619	—
(Profit)/loss on disposal of tangible fixed assets	8	—	(36)	—
Changes in working capital:				
(Increase)/decrease in inventories	(134)	—	(64)	—
(Increase)/decrease in trade and other receivables	282	(52,701)	(141)	—
Increase/(decrease) in trade and other payables	1,169	515	(105)	116
(Decrease)/increase in provisions	(176)	—	212	—
Increase/(decrease) in deferred revenue	23,320	—	205	—
Cash outflow from operating activities	(25,524)	(677)	(2,465)	115
Foreign withholding tax paid	(2,641)	—	—	—
Research and development tax credit received	524	—	688	—
Net cash outflow from operating activities	(27,641)	(677)	(1,777)	115
Cash flow from investing activities				
Purchases of tangible fixed assets	(305)	—	(4)	—
Purchases of intangible fixed assets	(76)	—	(114)	—
Proceeds from sale of tangible fixed assets	15	—	36	—
Proceeds from sale of intangible fixed assets	34,509	—	—	—
Interest received	38	—	—	—
Net cash outflow from investing activities	34,181	—	(82)	—
Cash flow from financing activities				
Proceeds from placing of ordinary share capital	—	—	5,655	5,655
Costs of financing/placing	—	—	(274)	(274)
Payment of lease liabilities (capital)	(463)	—	(506)	—
Payment of lease liabilities (interest)	(86)	—	(83)	—
Interest paid	(4,728)	(4,725)	(3)	—
Net cash inflow from financing activities	(5,277)	(4,725)	4,789	5,381
Increase/(decrease) in cash and cash equivalents	1,263	(5,402)	2,930	5,496
Cash and cash equivalents at the start of the year	6,762	5,497	3,813	1
Effects of exchange rate changes	182	10	19	—
Cash and cash equivalents at the end of the year	8,207	105	6,762	5,497

Notes to the financial statements

1. Reporting entity

Nanoco Group plc (the "Company"), a public company limited by shares, is on the premium list of the London Stock Exchange. The Company is incorporated and domiciled in England, UK. The registered number is 05067291 and the address of its registered office is Science Centre, The Heath Business and Technical Park, Runcorn WA7 4QX. The Company is registered in England.

These Group unaudited preliminary results consolidate those of the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") for the year ended 31 July 2023. The unaudited preliminary results of Nanoco Group plc and its subsidiaries for the year ended 31 July 2023 were authorised for issue by the Board of Directors on 17 October 2023 and the statements of financial position were signed on the Board's behalf by Dr Christopher Richards and Brian Tenner.

The unaudited preliminary results do not constitute statutory financial statements within the meaning of section 435 of the Companies Act 2006. A copy of the statutory financial statements for the year ended 31 July 2022 has been delivered to the Registrar of Companies. There were no statements under section 498(2) or section 498(3) of the Companies Act 2006.

The information set out below has been extracted from the Group's draft report and accounts for the year ended 31 July 2023 and has not been audited. The Group expects to publish its audited annual report and accounts on 19 October 2023, which will be sent to Shareholders and available to view on the Company's website at www.nanocotechnologies.com. A further announcement will be made once published. No material amendments to the disclosures contained within this announcement are expected within the audited financial statements.

The statutory financial statements for the year ended 31 July 2023 will be delivered to the registrar of companies as soon as practicable.

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 unaudited financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and UK-adopted IFRSs as issued by the International Accounting Standards Board for the year ended 31 July 2023.

(b) Basis of measurement

The Parent Company and Group unaudited financial statements have been prepared on the historical cost basis, except for the revaluation of financial assets classified as "fair value through other comprehensive income" or "fair value through profit or loss", which are reported in accordance with the accounting policies below.

In order to more fairly represent the cost of sales of the Group, we have reclassified certain costs from administrative expenses to cost of sales for the comparative period. Total impact of the reclassification is an increase to cost of sales of £512,000 with an equal and opposite reduction in administrative expenses. There is no impact on reported loss or net assets of this reclassification.

(c) Going concern

All of the following matters are taken into account by the Directors in forming their assessment of going concern. The Group's business activities and market conditions, the principal risks and uncertainties, the Group's financial position and the Group's financial risk management objectives, policies and processes. The Group funds its day-to-day cash requirements from existing cash reserves.

For the purposes of their going concern assessment and the basis for the preparation of the financial statements, the Directors have reviewed the same trading and cash flow forecasts and sensitivity analyses that were used by the Group in the viability assessment, with the going concern assessment covering the period to November 2024. The same base case and downside sensitivities were also used with the addition of an extreme downside where no uncontracted revenue was included and the group contracted to become an IP shell.

The base case represents the Board's current expectations. Assumptions in the base case are:

- minimal sales of nanomaterials beyond current contracts. Commercial services contracts are based on the existing pipeline of opportunities or agreements already in place;
- modest demand for commercial production materials in CY24 with a subsequent slow ramp-up in demand;
- a further extension to the services and supply contract with the European electronics customer;
- no revenue is assumed from other small scale commercial deals currently under discussion;
- small expansion of our self-funded research activities and continued maintenance costs to support our IP portfolio;
- Board, plc and other costs reflect the current inflationary environment; and
- the installed cost base is capable of supporting significant increases in revenue above those assumed in the base case so there is no immediate requirement for short-term increases or new capital expenditure.

The downside case then flexes those assumptions as follows:

- a full year delay in small scale commercial production revenues (into CY25); and
- no new business from other customers once existing active engagements end.

The extreme downside case then flexes those assumptions further as follows:

- all commercial agreements come to an end;
- no revenues other than those already contracted; and
- the group ceases all operations.

As the IP sold in the year was non-core and unrelated to current and forecast revenue streams, there is no impact on future cash flows other than the inflow from the sale.

All three cases above produce cash flow statements that demonstrate that the Group has sufficient cash throughout the period of the forecast, being a period to November 2024.

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

(d) Functional and presentational currency

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

(e) Use of estimates and judgements

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

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

Estimates

Samsung licence of IP

Judgement is required in reviewing the terms of the licence agreement with Samsung as to whether the associated revenue should be recognised at a point in time or over time, and if over time, over what period. The Directors reviewed the contract in detail and analysed the terms against the specific requirements of IFRS 15 in relation to licences. They concluded that the company had an ongoing performance obligation in regards to the licence and therefore the revenue should be recognised over time. It was determined that the appropriate period for revenue recognition was the average remaining life of the relevant IP of 8.8 years.

Equity-settled share-based payments

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

Deferred tax

The Company recognises deferred tax assets only to the extent that it is probable that future taxable profits, feasible tax planning strategies and deferred tax liabilities will be available against which the tax losses can be utilised. Estimation of the level of future taxable profits is therefore required in order to determine the appropriate carrying value of the deferred tax asset. The Company has recognised £2.2 million of deferred tax assets in the year (2022: £nil) which represents the proportion of accumulated losses that are expected to be utilised in the medium term.

Judgements

Impairment of investment and inter-company receivable

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

Indicators of potential impairment noted in IAS 36 (paragraph 12) include, but are not limited to, situations where the carrying amount of the net assets of the entity is more than its market value and where significant changes with an adverse effect on the entity have taken place during the year.

The Directors consider there are no indicators of impairment in the year. Given the main trading entity is Nanoco Technologies Limited (owned by Nanoco Tech Limited), this holds the majority of the value.

The recoverable amount of intercompany receivables is measured under IFRS 9 at the lower of original value and recoverable amount. The value of the required provision is set such that the recoverable amount is the amount that is intended to be repaid.

Revenue recognition

Judgement is required in reviewing the terms of development agreements to identify separate components of revenue, if any, that are consistent with the economic substance of the agreement and in turn the period over which development revenue should be recognised. Judgements are required to assess the stage of completion including,

as appropriate, whether and when contractual milestones have been achieved. Management judgements are similarly required to determine whether services or rights under licence agreements have been delivered so as to enable licence revenue to be recognised. This matter is further complicated where a contract may have different elements which may result in separate recognition treatments under IFRS 15.

Impairment of intellectual property

As the group generates IP as part of early stage research projects, the carrying value of these assets may need to be impaired. Impairment exists where the carrying value of an asset exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its potential value in use. The value in use calculation uses market assumptions and the potential share the Nanoco technology could unlock. The Directors also use available information to assess whether the fair value less costs of disposal of the group's non-current assets, including intellectual property, is less than their carrying amount. A regular review is undertaken to identify which patents are uncertain to be of value to Nanoco and should be allowed to lapse. As a consequence, patents with a value of £0.1 million (2022: £0.9 million) have been fully impaired in these financial statements. Judgements are based on the information available at each reporting date, which includes the progress with testing and certification and progress on, for example, establishment of commercial arrangements with third parties. The group does not believe that any of its patents in isolation are material to the business. Management has adopted the prudent approach of amortising patent registration costs over a ten-year period, which is shorter than the life of the patent to reflect obsolescence risk in rapidly changing technology markets. 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.

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.

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

Subsidiaries are all entities over which the group has the power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee), exposure, or rights, to variable returns from its involvement with the investee and ability to use its power over the investee to affect its returns. All of Nanoco Group plc's subsidiaries are 100% owned. Subsidiaries are fully consolidated from the date control passes. During the year, the group established an Employee Benefit Trust ("EBT") for the purpose of awarding shares to employees on exercise of options under the share-based compensation schemes. Although the EBT is an independent legal entity and not owned by the group, it is reliant on funding from the group and acts at its request; as such, it is deemed to be controlled by the group and is consolidated into the group accounts.

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

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

(b) New accounting standards and interpretations

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

IFRS standards effective from 1 January 2023 (EU endorsed and UK adopted)

- IFRS 17 Insurance Contracts
- IAS 1 Amendment: Disclosure of Accounting Policies
- IAS 8 Amendment: Definition of Accounting Estimates

- IAS 1 Amendment: Classification of Liabilities as Current or Non-current
- IAS 12 Amendment: Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction

IFRS standards effective from 1 January 2023 (EU endorsed, not UK adopted)

- IFRS 17 Amendment: Initial Application of IFRS 17 and IFRS 9 – Comparative Information

IFRS standards effective from 1 January 2023 (not yet EU endorsed)

- IAS 12 Amendment: International Tax Reform - Pillar Two Model Rules

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

4. Segmental information

Operating segments

At 31 July 2023 and 2022 the Group operated as one segment, being the research, development and manufacture of products and services based on high performance nanoparticles. This is the level at which operating results are reviewed by the chief operating decision maker (i.e. the Board) to make decisions about resources, and for which financial information is available. All revenues have been generated from continuing operations and are from external customers.

	31 July 2023 £'000	31 July 2022 £'000
Analysis of revenue		
Products sold	867	782
Rendering of services	1,685	1,582
Royalties and licences	3,066	103
	5,618	2,467

There was one material customer who generated revenue of £2,014,000 (2021: one material customer amounting to £2,089,000). £2,963,000 of the licence income related to the Samsung licence (2022: nil).

Revenue from the provision of services delivered over time totalled £4,751,000 (2022: £1,685,000). Revenue from the sale of goods transferred at a point in time amounted to £867,000 (2022: £782,000).

The Group operates in a number of countries across the world, although all are managed in the UK. The Group's revenue per country based on the customer's location is as follows:

	31 July 2023 £'000	31 July 2022 £'000
Revenue		
Holland	1,423	1,474
Taiwan	323	351
France	385	348
Japan	447	244
USA	59	27
Canada	9	19
Singapore	-	3
UK	1	1
Poland	8	-
South Korea	2,963	-
	5,618	2,467

All of the Group's assets are held in the UK and all of its capital expenditure arises in the UK. The profit before taxation and attributable to the single segment was £9,573,000 (2022: loss of £5,221,000).

5. Earnings per share

	31 July 2023 £'000	31 July 2022 £'000
Group		
Profit/(loss) for the financial year attributable to equity shareholders	11,085	(4,697)
Share-based payments	953	619
Loss for the financial year before share-based payments	12,038	(4,078)
Weighted average number of shares		
Ordinary shares in issue	322,472,939	308,610,928
Options exercisable at the reporting date	195,000	-
Options not yet exercisable at the reporting date	11,720,600	-
Diluted weighted average number of shares	334,388,539	-
Adjusted loss per share before share-based payments (pence)	3.73	(1.32)
Basic profit/(loss) per share (pence)	3.44	(1.52)
Diluted adjusted profit/(loss) per share before share-based payments (pence)	3.60	-

<u>Diluted profit/(loss) per share (pence)</u>	<u>3.32</u>	<u>-</u>
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Diluted loss per share has not been presented for 2022 above as the effect of share options issued is anti-dilutive.

== Ends ==