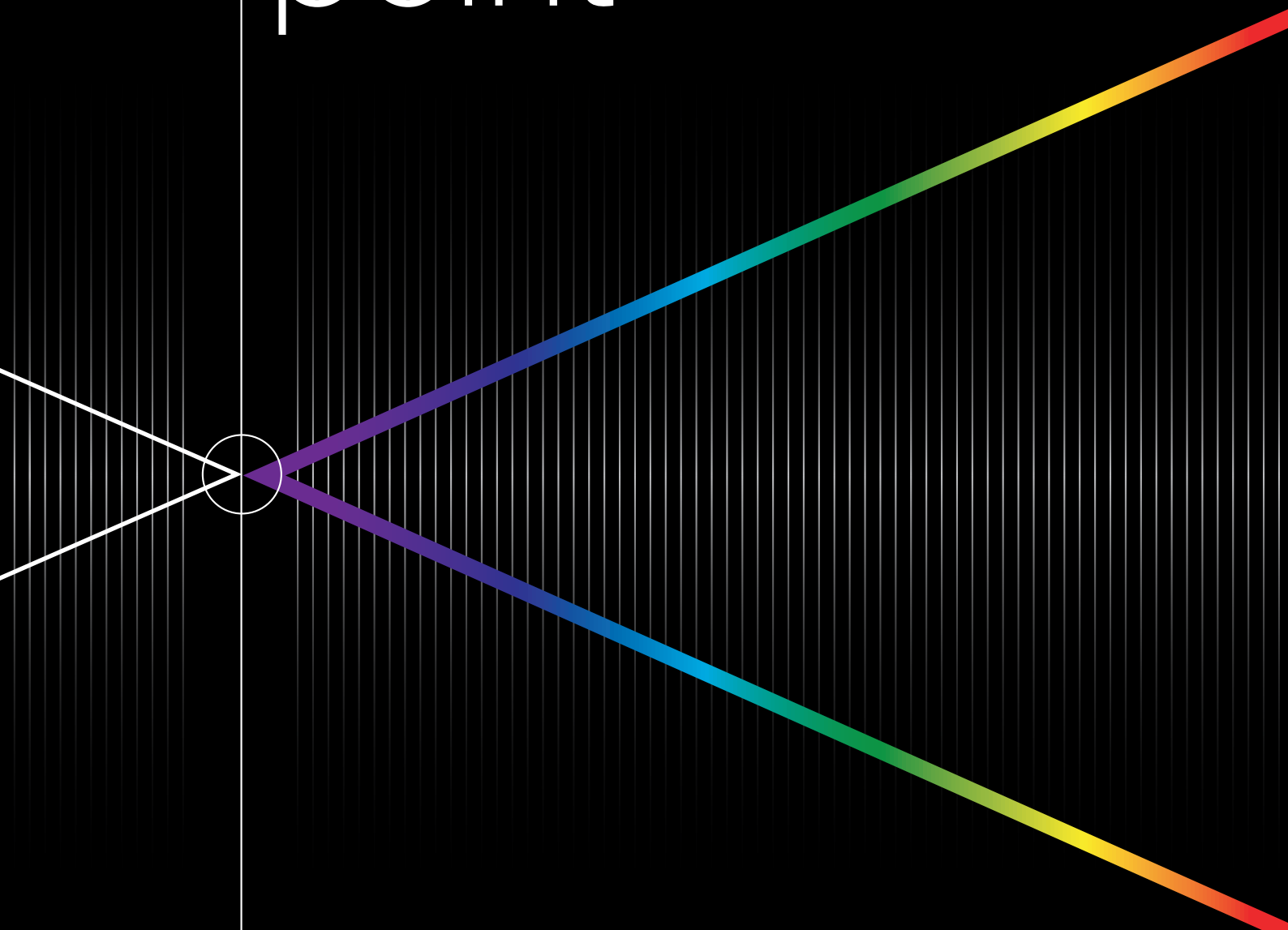




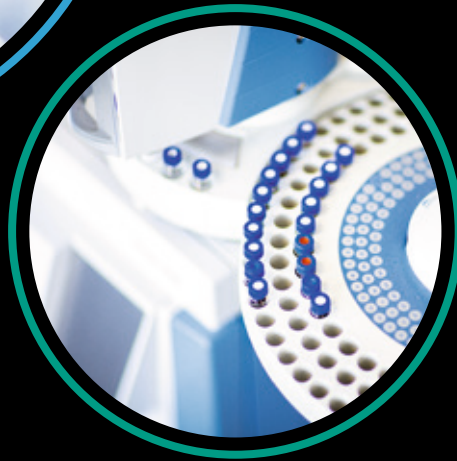
Annual Report
and Accounts 2023

Our inflection point



About us

Nanoco is a market leader in the research, development, licensing and large scale manufacture of novel nanomaterials for use in a wide range of commercial applications



Our platform technology can be used to design and manufacture bespoke materials. This means that they can be custom made for our customers and end use applications.

Our leading edge R&D team exploits both the emissive and absorptive properties of the materials we design. These are critical properties in electronics markets for sensing, imaging and display uses.

Our CFQD[®] quantum dots are free of the toxic cadmium which many of our competitors and display manufacturers still use today despite the expected ban in RoHS legislation.

Our year in brief

2023 was a significant year for Nanoco; the business is now financially underpinned with transition to production status likely in the short term

- Final validation underway for two commercial production materials, with an order anticipated by end of CY23
- Major works package for European electronics customer completed, two materials in final validation
- Five work packages successfully completed for Asian chemical customer, sixth work package ongoing
- Forecast growth in core markets, with increasing end user applications in sensing and increasing QD market share in display
- Licence agreement and sale of IP to Samsung brought about a successful conclusion to the litigation, netting \$90 million after fees
- Litigation validated the group's core IP, with further monetisation initiatives ongoing
- Firm commitment to return capital to shareholders upon receipt of second tranche of litigation proceeds
- Ongoing discussions with major strategic players in the electronics sector for longer and deeper collaborations
- Consolidation of operations in Runcorn, now expanding in anticipation of commercial production
- Capital reduction completed to facilitate the return of capital to shareholders

Revenue

£5.6m
+128%

Adjusted LBITDA¹

(£0.4m)
+83%

¹ See page 31 for reconciliation.

Billings²

£63.0m
+2,233%

² See page 32 for reconciliation.

Cash

£8.2m
+21%

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For more on Nanoco, visit our new website:
www.nanocotechnologies.com



Nanoco at a glance

We design, develop, scale up and manufacture novel nanomaterials for use in a wide range of potential applications

Our core competencies

- We custom design bespoke nanomaterials to exploit emission, absorption and other properties
- Our materials can be used in a wide variety of commercial applications
- Continuous expansion of our portfolio of materials
- Scale up capability to move from laboratory to industrial scale
- ISO certified, low-cost in-house production facilities in Runcorn, UK

World-class talent

- At 31 July 2023, 46 employees, of whom 7 are inventors
- 13 staff with PhDs
- 5 nationalities of staff: British, German, Indian, Italian and Portuguese

Respected globally

- International partnerships with global players from US to Europe to Asia
- R&D, scale up and twin production facilities all located in Runcorn, UK
- Customers operate in \$multi-billion markets with wide range of applications

Why invest in Nanoco?

Platform technology gives access to a wide range of large and rapidly growing end markets with our focus currently on consumer electronics, Internet of Things, automotive and multiple display devices.

Large and defensible IP portfolio

375

patents granted or pending

QD materials market valued at

\$10.5bn¹

by 2030

Significant manufacturing scale

2,000

kgs per annum production capacity

New Licence

World's leading display company has taken a licence over Nanoco IP



Display

\$13.1bn

addressable market by c.2030¹

- CFQD[®] film
- QD on microLED
- Electro-luminescence

SWIR imaging

\$2.9bn

addressable market by c.2030¹

- Consumer electronics
- Automotive applications

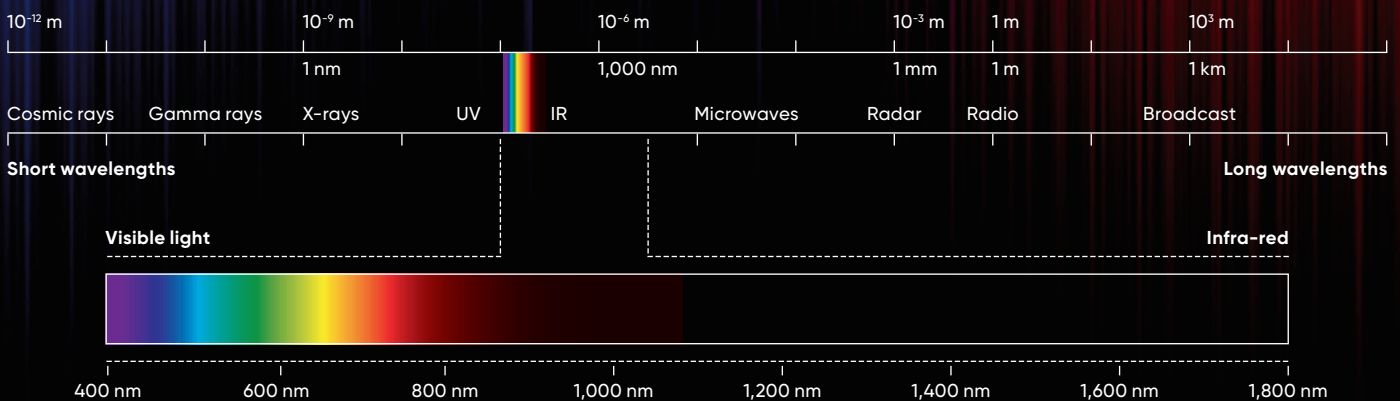
¹ Source – Infinity Business Insights Global Quantum Dot Market, Forecast to 2030.



What are nanomaterials and what is a quantum dot?

Nanomaterials are any material that has a dimension or structure measured at the nanoscale, typically 10,000 to 100,000 times narrower than human hair (1–100 nm). Nanomaterials have unique optical, electrical and mechanical properties often not accessible in the bulk material. This can enhance properties such as light absorption, emission, strength, reactivity and conductivity.

Quantum dots are a subclass of nanomaterials whose optical and electronic properties depend on their size, shape and composition.



Display applications (400 – 800 nm)

In the visible region, the emissive properties of QDs have revolutionised the display industry. The efficiency and nature of quantum dots leads to ultra-pure colour emission. This leads to enhanced display and lighting applications.



NIR (900 – 1200 nm)

Quantum dots can both emit and absorb very pure light, the latter of which can be exploited for sensors. Traditionally, very expensive InGaAs sensors have been used. QDs can be combined with cheap silicon CMOS image sensors to extend the spectral range of silicon. In the NIR, applications include facial recognition and night vision.

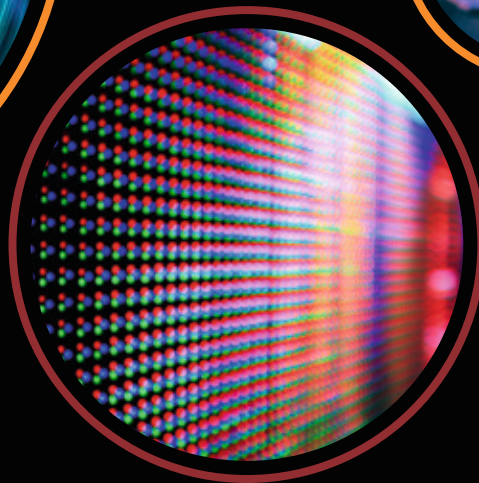
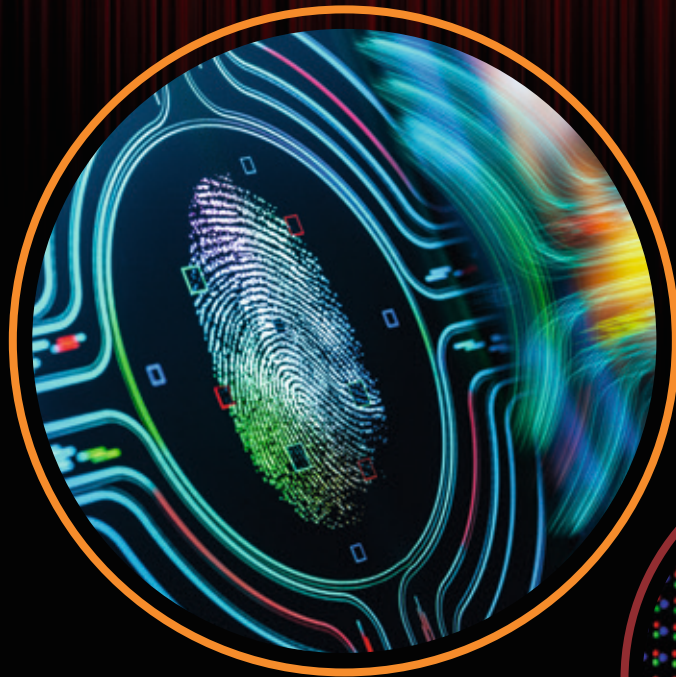


SWIR (1200 – 1800 nm)

Beyond the NIR, by selecting the correct size of quantum dots, the spectral range of CMOS image sensors can be extended into the SWIR, at a much lower cost than InGaAs detectors. Potential applications in this region are wide-ranging, with the ability to see through water vapour and fog enabling LiDAR, while skin penetration in the SWIR is being explored for security applications such as anti-spoofing, as well as the development of novel optical diagnostic techniques.



Our core markets of sensing and display are forecast to experience rapid growth.



Sensing

Yole Intelligence forecast growth in SWIR imaging from \$322 million in 2022 to \$2,899 million in 2030. This is due to emerging markets in consumer electronics and automotive.

The CMOS imaging sensor market is forecast to increase from revenues of \$21.3 billion in 2022 to \$28.8 billion in 2028.

\$2.9bn

SWIR imaging market forecast for 2030

\$28.8bn

CMOS imaging sensor market forecast for 2028

Display

Infinity business insights estimates the Quantum Dot and Quantum Dot display market was valued at \$3.2 billion in 2022 and is projected to reach \$13.1 billion by 2030, at a CAGR of 19.9%.

\$13.1bn

Quantum Dot and Quantum Dot display market forecast for 2030

Chairman's statement



Dr Christopher Richards
Chairman

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 agreement 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 licencing 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

Chairman's statement continued



We are discussing longer term, deeper collaborations with key customers."

Strategy continued

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 as outlined on page 53.

Board and 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.



Our industrial 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."

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

19 October 2023



We are leveraging our experience to generate further value from our IP

Monetisation of IP

During the litigation against Samsung, the Company continued monitoring potential infringement of our IP. Once our IP was validated and the litigation settled, this created a robust platform to engage with those other potential infringers.

- Our team of expert advisers and experienced staff from the Samsung litigation process are driving these efforts forward
- The litigation proceeds have allowed us to change the funding model for this initial work to reduce the level of contingent third party costs and funding

Patents

At year-end, Nanoco had 352 patents granted and 23 patents pending. Four of these patent families, totalling 46 patents worldwide, were part of the litigation against Samsung and have a number of years before they expire (see page 18 for more detail).

Nanoco continues to invest in its IP portfolio to protect the potential commercial advantages which our scientific progress can provide.

In addition to IP, there is a significant level of trade secrets and know-how which is not patented, but is important to the processes.



Chief Executive Officer's statement



Brian Tenner
Chief Executive Officer

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.

Chief Executive Officer's statement continued

Business performance continued

Electronics continued

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 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.

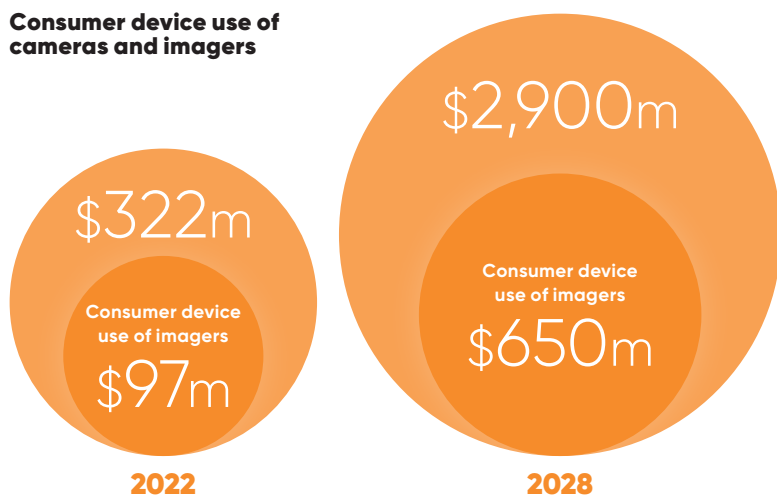
The development cycles tend to be long because the whole supply chain often needs to be re-engineered on top of developing QD material. One of the advantages of the QD enhanced CMOS sensors that Nanoco specialises in is that the material represents an extra layer in a pre-existing material stack. Reaching 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.

As shown in the infographic on page 13, 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. The infographic also shows the advancing position of a number of materials as they move through the steps from development towards final validation – the last step before commercial production orders are placed.

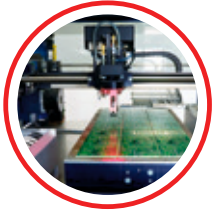
As previously announced, already published customer plans for a product launch in 2024 support our goal of a commercial production order by the end of calendar year 2023, though, as always, the final decision to adopt the technology lies with the customers of our customer and this cannot be taken for granted. Our task is to ensure that our materials consistently perform as required by our customer 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' 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 very large end customers and their technology teams. Conversely, given our small scale, we work proactively to agree commercial solutions of our customers to the issue of supply chain risk.

Consumer device use of cameras and imagers



The graphics below show a sample of the wide range of potential applications for NIR and SWIR technologies in electronics supply chains.



Quality control



Fog/smog



Agriculture



ADAS



Iris recognition



Surveillance

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.

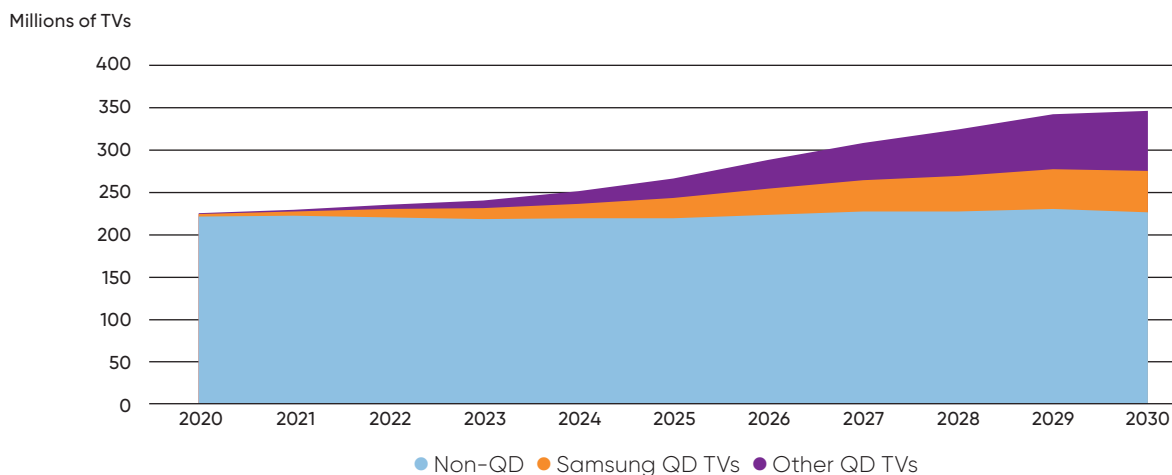
We remain well positioned to take advantage of any broadening in the adoption of non-toxic quantum dots by global display manufacturers when the opportunity arises.



We delivered all of the challenging technical milestones set by our customers for our high performing nanomaterials."

Chief Executive Officer's statement continued

Addressable display market for Nanoco CFQD and IP set to rise from ~6% to ~34% of the total TV market



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 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 £6.4 million which is just over half of the £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.

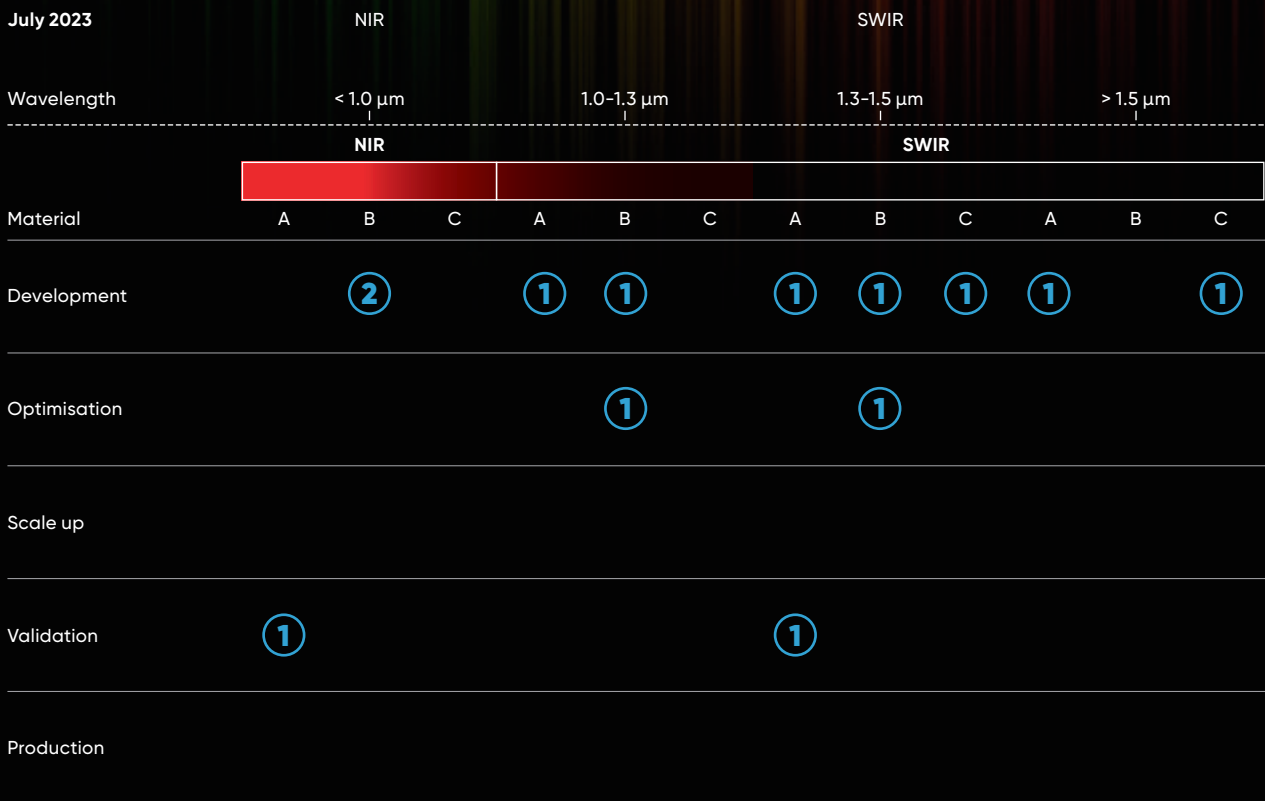
In summary, the sale of the IP is expected to have minimal impact on Nanoco's current or planned commercial activities. In any case, the sale agreement also includes a licence back to Nanoco so that it retains the right to utilise the IP in those same patents if so required. The IP licence granted to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



Investment in new material sets this year has increased our customer reach for new applications leading to new R&D service income

Sensing goals: one material in production, a second validated

Continued development of our sensing portfolio



Chief Executive Officer's statement continued

Leveraging intellectual property continued

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 on pages 18 to 19. 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.



We continue to strengthen our operational capabilities to assure our critical place in complex global supply chains for electronic devices."

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 30th 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, with 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 goal of a high volume mobile phone application.

The significant investment by our customers in Nanoco materials as part of their their production and marketing efforts strongly support 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
19 October 2023



Our markets

Significant potential for revenue generation from multiple commercial markets

Sensing markets

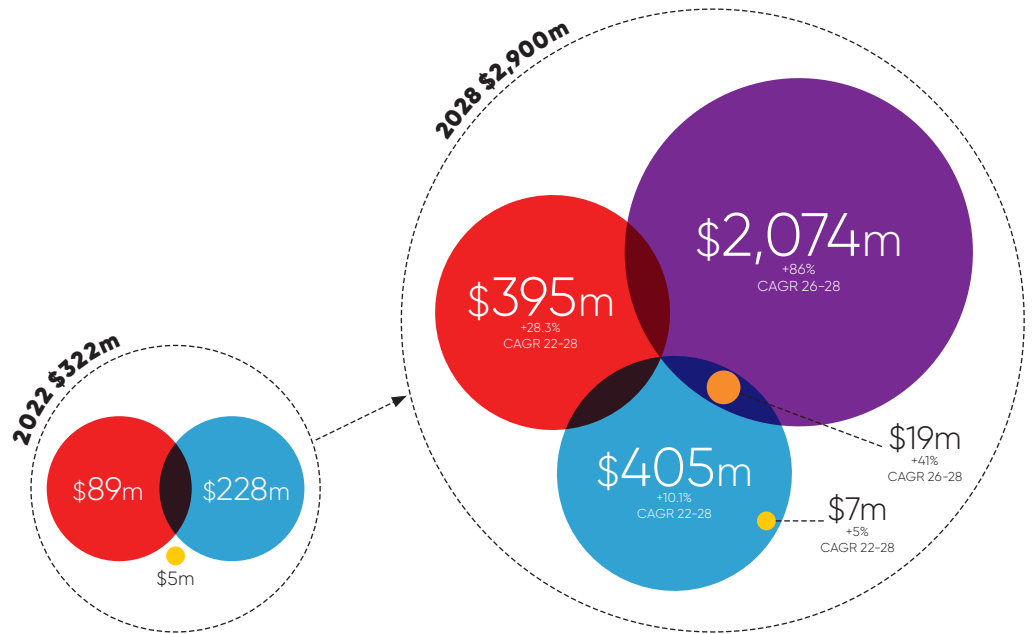
Market forecast

Cameras and modules

Key

- Defence, aerospace and research
- Industry
- Medical
- Consumer
- Automotive

Source: Yole



Applications



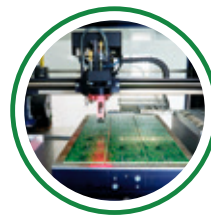
Face / Iris recognition



Agricultural drones



ADAS



Quality control systems



Wearable diagnostics



Security & surveillance

Independent market researchers Yole Group estimate 6.1% compound annual growth rate for CMOS (complementary metal oxide semiconductor) Image Sensors in the six years to 2028 to reach approximately \$30 billion¹. During the same period, they forecast an increasing share of that market for 3D sensors and multi-spectral cameras where the performance of these devices can be significantly enhanced by the integration of quantum dots.

QD enhanced CMOS sensors operating at SWIR ("Short Wave Infra Red") wavelengths are the most viable alternative to extremely expensive Indium Gallium Arsenide ("InGaAs") sensors for use in consumer electronics. According to Yole², "Quantum dots appear to be the most well-positioned technology for potential integration in consumer devices".

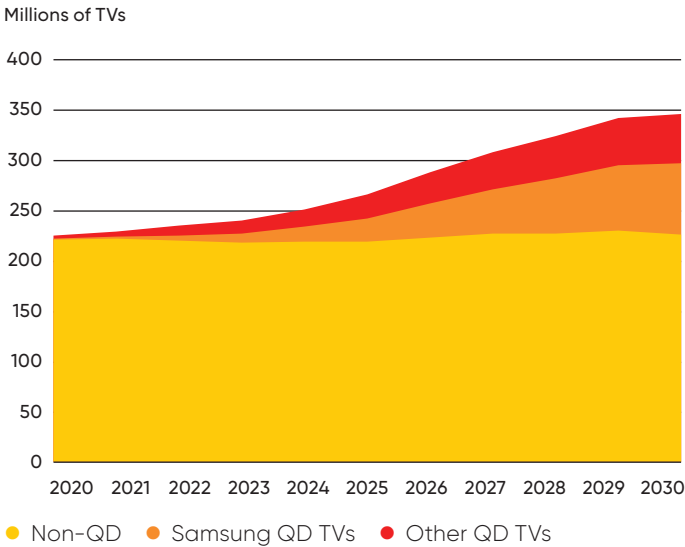
Yole predict the adoption of SWIR technologies in high end mobile phones during 2026 and penetration to higher volume phones in 2028, helped by under-display capability (equivalent to 86% CAGR between 2026 and 2028 to reach \$2.1 billion for 3D sensing modules). This research is consistent with Nanoco's view that initial use cases in 2024 will be for low volume applications outside mobile phones. Nanoco's existing Runcorn production facility has capacity to produce sensing materials for hundreds of millions of CMOS sensors. The Group's position in the supply chain has contractual protection to mitigate the risk of a competitor becoming a major supplier to our European customer.

1 "Yole" – Image Sensors Europe 2023.

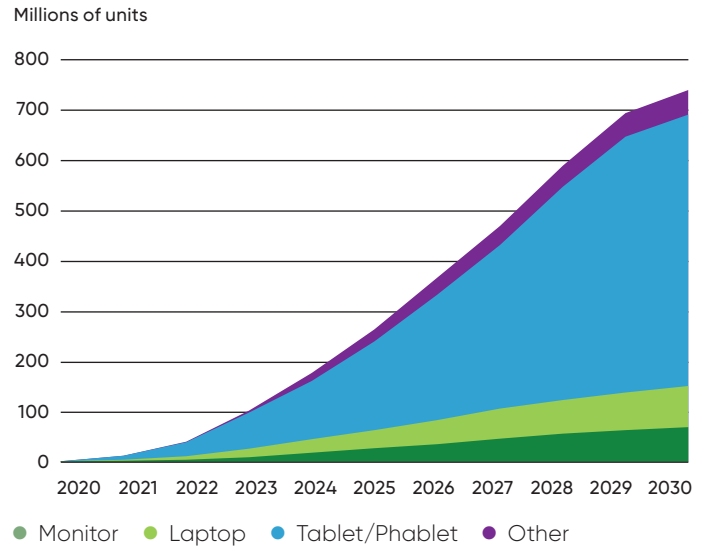
2 "Yole" – SWIR Imaging 2023, Market Technology Report.

Display markets

Evolution of the flat panel TV market



Other QD display devices



Applications



TV



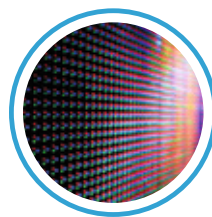
Tablets



Phones



Headsets



Monitors



Smart watch

The current market for flat panel TVs is approximately 250 million units per annum and is forecast to grow to over 300 million units by 2030.

During the same period, the market share for displays containing quantum dots is forecast to grow from over 15 million TVs (6% of the market in 2022) to over 100 million TVs by 2030 (35% of the forecast market). Based on market research, the Company estimates that approximately 90% of the QD TVs sold today are cadmium free, reflecting Samsung's market dominance. Within the QD TV market, the market research

suggests that number of cadmium based units is expected to fall significantly, reflecting toxicity and environmental concerns ("RoHS") in various territories.

Samsung's relative share of the market is also forecast to decline over the same period.

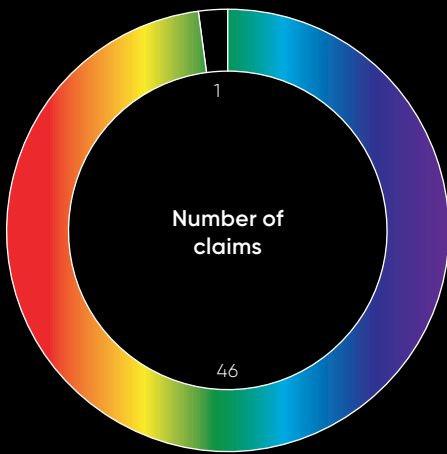
IP monetisation

Delivering value from our IP requires two things:

1. Commanding patent portfolio

PTAB validated four retained patents

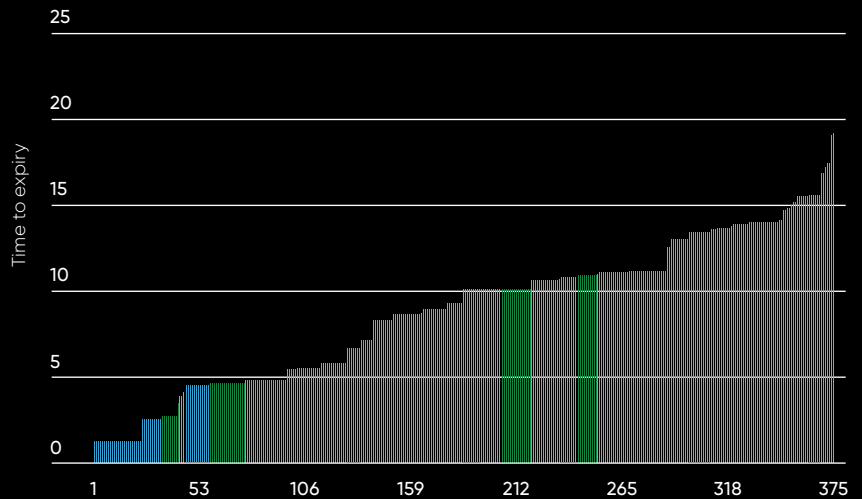
Retained litigation claims



Retained
Sold

Remaining patent lives

Key: ● Lawsuit ● Lawsuit reserve ● Other



Settlement

\$150m

Strong case for enforcement

As a UK-based business specialising in the design, scale up and manufacture of novel nanomaterials, we will continue to take steps to protect our platform technology and our IP portfolio. Following the validation of all 46 claims in the four retained patents by the Patent Trial and Appeal Board and the subsequent licensing of our remaining patent portfolio by Samsung, the group is confident in the applicability of our IP to other participants in the cadmium-free quantum dot display market.

Leveraging Samsung litigation

The experience gained by the Nanoco team during the Samsung litigation, combined with our retained experts, is a strong platform for delivering further value from our IP portfolio and ensuring that income is for the benefit of Nanoco and its shareholders. The \$150 million agreement with Samsung to settle the litigation also sets a precedent for future discussions with potential infringers.

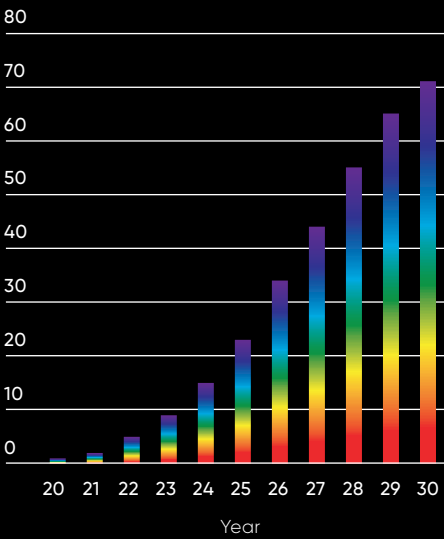
Expert working group

Nanoco continues to monitor the market for potential infringement of our IP. Our expert team is made up of internal staff and external advisers. We have identified a number of potential infringers as shown in the heatmap opposite. We have analysed a range of consumer devices available in the market to focus on devices and manufacturers most likely to be infringing our IP.

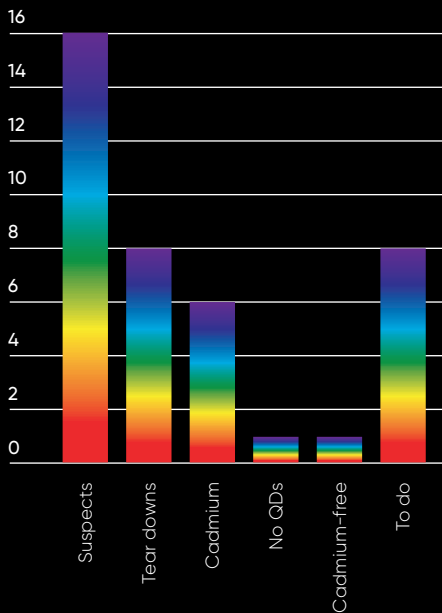
2. Deep and impacted market

Forecast QD TV market

Millions of TVs

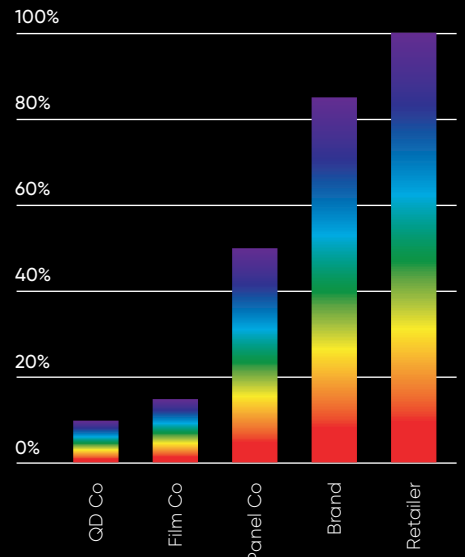


Analysis of potentially infringing products



Value chain analysis

Gross 'value' to each player



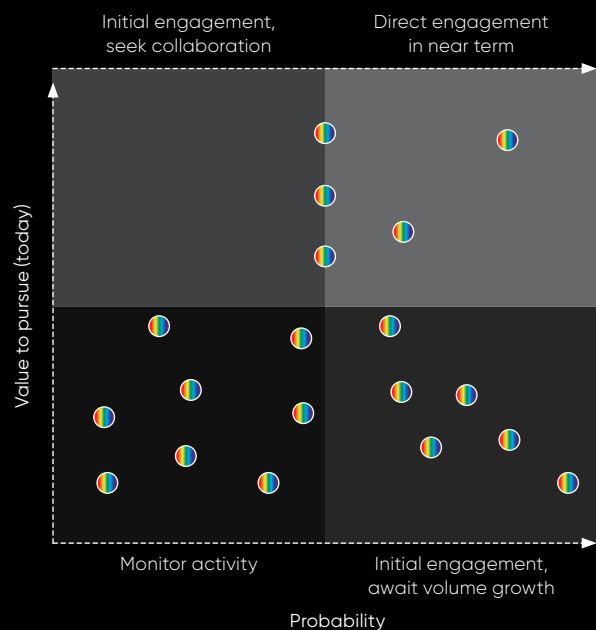
Summary

Nanoco is focused on maximising value from our IP portfolio. Whilst we have already settled with the largest manufacturer of cadmium-free quantum dot televisions, as the market develops there will be more opportunity for licensing or potential litigation.

We will also continue to build our IP portfolio to ensure future technological developments are protected.

As QD TVs capture a larger share of the total flat panel TV market and as more market participants build market presence, we see a significant opportunity to generate income by aggressively enforcing our IP.

Infringement heat map



Revenue streams

All revenue streams can contribute to our growth

Products

Our Runcorn facility has the capacity to make high volumes of CFQD[®] quantum dots and HEATWAVE™ nanomaterials for IR sensing applications. The revenue generation capacity can be easily scaled by adding additional shifts with the overall potential return on the asset base being attractive, and benefiting strongly from operational leverage if extra shifts and volumes are added. Revenue potential: HIGH.

Services

Our highly skilled R&D and scale up teams are able to design, develop and scale new materials for customer-specific applications. We are able to charge customers for professional services when we carry out these sorts of development activities for them with rewards often linked to achieving technical milestones or outcomes. The last two financial years have seen significant revenue generated in this area. Revenue potential: LOW.

Licences

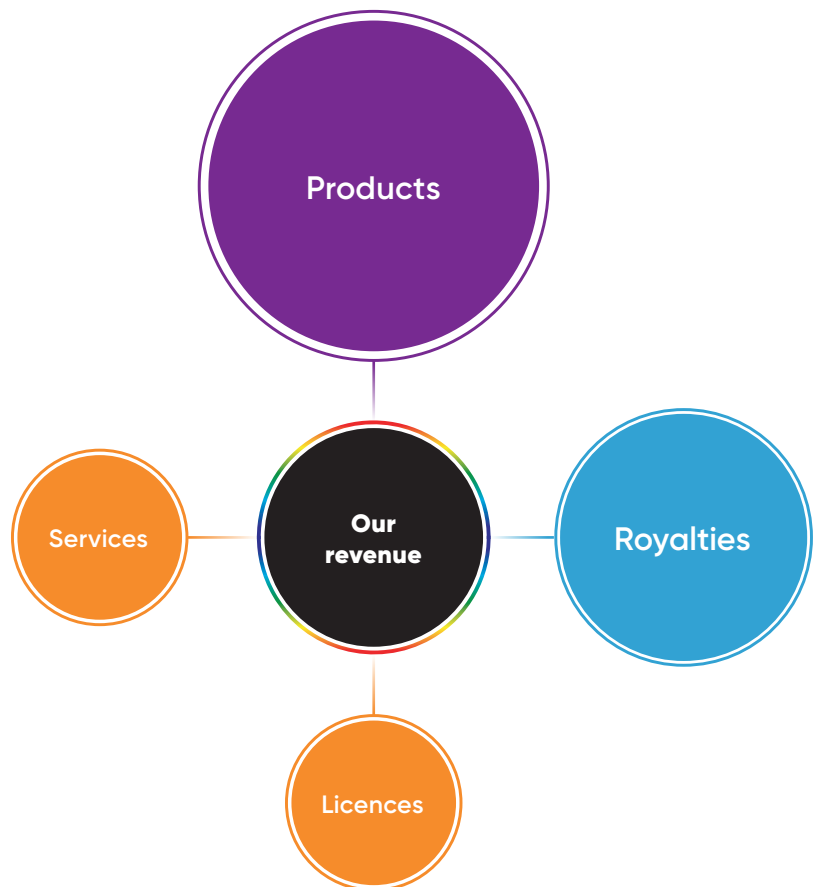
When a channel partner initially acquires a right of access to or use of Nanoco technology and IP, it typically pays a one-off licence fee. These fees reflect the costs already previously incurred by Nanoco in developing our technology and IP and hence represent a return on those historical investments. Success in the Samsung litigation has increased the potential of this income stream. Revenue potential: LOW.

Royalties

As well as the ability to make and sell materials directly to our customers, the agreements with our channel partners allow them to manufacture or distribute our materials themselves and then pay a royalty on the value of their sales to their customers. This revenue stream has the potential for high leverage since it is not constrained by manufacturing scale and also has minimal costs associated with incremental sales via this channel. Success in the Samsung litigation has increased the potential of this income stream. Revenue potential: MEDIUM.

Key

- Low - < £5m per annum
- Medium - < £10m per annum
- High - > £10m per annum



Section 172(1) statement

How we engage with our stakeholders

Section 172(1) report

In line with section 172(1) of the Companies Act 2006, the Directors of the Company must act in a way which they consider, in good faith, would most likely promote the success of the Company for the benefit of its members as a whole, and in doing so must have regard to a number of other key matters.

Likely long-term consequences of decisions (s.172(1)(a))

Given the nature of the business, the Board takes a medium-term approach to its decision making to ensure that the Company is able to deliver its strategy of creating value for all of our stakeholders. Risk management is also key to understanding the likely consequences of actions.

The Board plays a key role in reviewing the Company's approach to risk, including an assessment of its emerging and principal risks. See pages 33 to 35 of the Strategic report for a description of the identified risks and how these are being controlled or mitigated.

Given the group's finances, the Board has been continually reviewing the Company's current and forecast financial position. This year the Directors selected a four-year timeframe over which to assess the viability of the Company. The Viability statement can be found on pages 36 and 37 of the Strategic report.

Maintaining a reputation for high standards of business conduct (s.172(1)(e))

The Company has in place a Code of Conduct which acts as a guide for employees to do the right thing. The Company also has well-embedded policies in place which assist with ensuring high standards of conduct, including with respect to the

following key areas: health, safety and environment; whistleblowing; anti-bribery and corruption; human rights; and modern slavery. The environmental, social and governance ("ESG") disclosures section of the Directors' report, from pages 38 to 45, provides further insight into measures put in place by the Board to assist with maintaining a reputation for high business conduct standards.

Acting fairly between members of the Company (s.172(1)(f))

The Directors also have regard to the need to act fairly between members of the Company, aiming to understand their views and act in their best interests. The ownership of the Company follows a "one share, one vote" structure, which assists with promoting parity in shareholder rights. The Board ensures that there is fair and equal dissemination of information to all shareholders and has a dedicated Investors section on the Company's website which is available to all shareholders.

This provides easy access to RNS announcements and reports and publications. All members are invited to attend the Annual General Meetings of the Company, offering an opportunity for members of any size shareholding to have a conversation with, and ask questions to, each of the Directors. For any Annual General Meetings where in-person attendance is prohibited due to the Government's regulations, all shareholders will be offered the opportunity to submit questions to the Board ahead of the meeting with answers being made available to them.

Having regard to specific stakeholder groups (s.172(1)(b) to s.172(1)(d))

The table which follows on the next page seeks to provide insight into how the Board carries out its duty under this section.

Case study

Samsung settlement

Background

The Company agreed a settlement with Samsung

s.172 factors considered:

- **Long-term consequences:** The cash resources underpin the Company's future commercial prospects
- **Interests of shareholders:** The cash removes uncertainty around the future of the company, with no further equity fundraises required, and provides a return of capital
- **Interests of the Company employees:** The cash resources received and to be received significantly mitigates the risk of further redundancies
- **Impact on customers:** Customers have increased faith in Nanoco as a supplier
- **Impact on suppliers:** Suppliers can offer improved terms to Nanoco

Case study

Move to Runcorn and investment in Runcorn infrastructure

Background

Management decision to consolidate operations in Runcorn

s.172 factors considered:

- **Long-term consequences:** The new facility has been updated to provide better facilities for staff
- **Interests of the Company employees:** Staff were consulted on what they wanted in the facility. The expanded facility preserves R&D, scale up and production capability to generate value
- **Impact on customers:** The improved meeting rooms and offices provide Nanoco with somewhere to facilitate customer visits
- **Impact on community:** Increased jobs in the local area

Section 172(1) statement continued

Having regard to specific stakeholder groups (s.172(1)(b) to s.172(1)(d)) continued

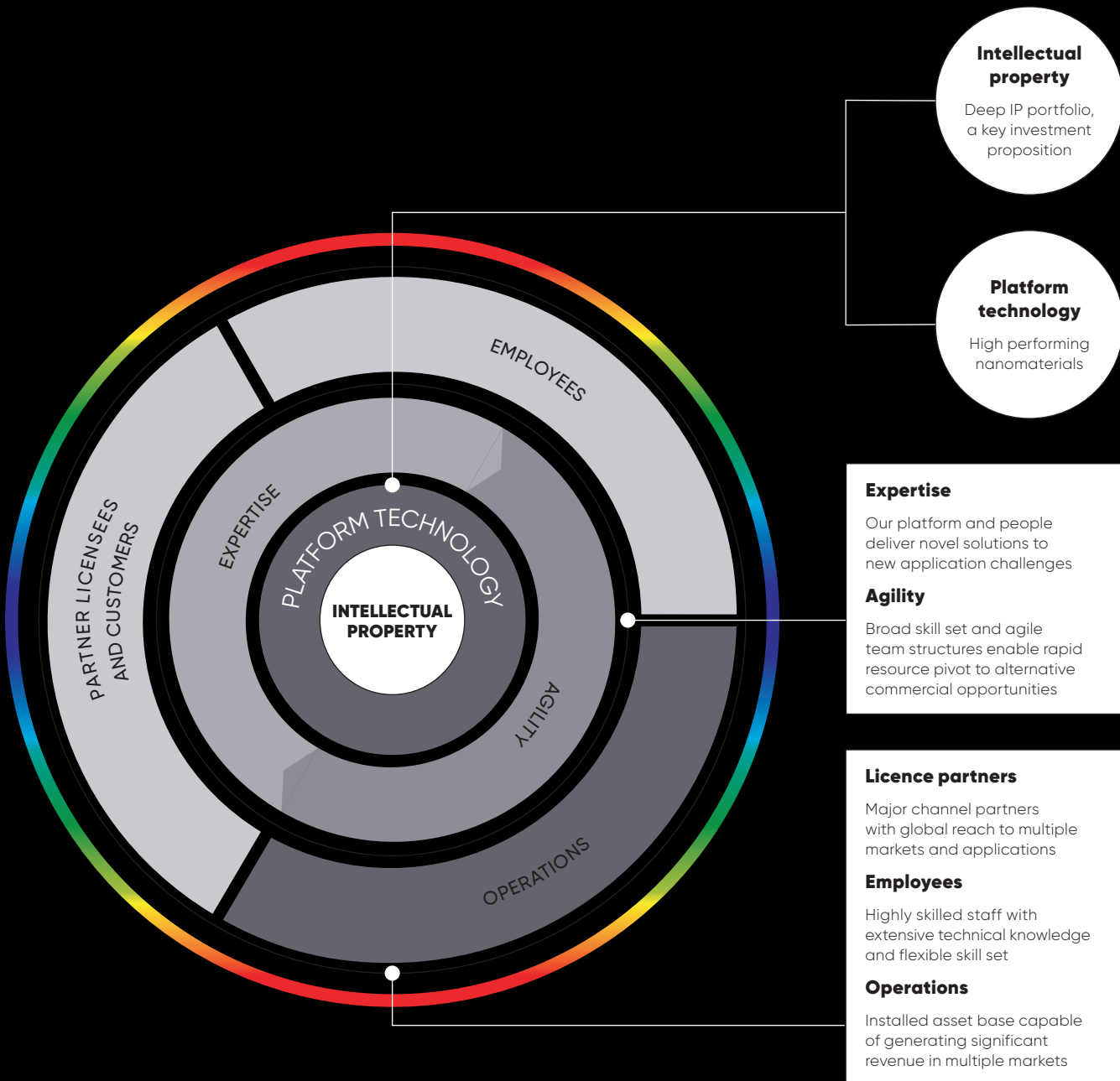
	Why we engage	How we engage and respond
 <p>Shareholders</p>	<ul style="list-style-type: none"> → To enable shareholders to understand Nanoco's strategic aims and results → To help shareholders to understand management's aims, responsibilities and incentive structures → To help shareholders to understand our commitment to our staff, communities and the wider environment 	<ul style="list-style-type: none"> → We build relationships with our investors through our investor relations activities → In our Annual Reports, we update all stakeholders on our strategic progress, and explain any financial implications → We consider investor feedback, and what impact this may have on the business
 <p>Employees</p>	<ul style="list-style-type: none"> → To ensure employees feel valued for their contribution → To empower our employees → To enhance our employees through training and progression 	<ul style="list-style-type: none"> → We communicate key decisions and collaborate through our Employee Voice Committee, which includes a Director → We give them the tools to work effectively → We encourage our employees to provide solutions to problems
 <p>Customers</p>	<ul style="list-style-type: none"> → To ensure we can provide the best service and products possible, to meet the customers' needs → To protect our customers' technology → To ensure we are complying with regulatory requirements 	<ul style="list-style-type: none"> → We ensure open and constant communication with customers, to ensure our products and services are world leading → We welcome feedback from customers, and work collaboratively to achieve our customers' goals
 <p>Suppliers</p>	<ul style="list-style-type: none"> → To develop long-term, collaborative partnerships for key, difficult to source materials → To mitigate the risk of not being able to succeed commercially → To comply with regulatory requirements 	<ul style="list-style-type: none"> → We create close collaborative working relationships with key suppliers, to ensure clear communication, active issue resolution and effective qualification of products → We encourage open engagement, to ensure compliance with the relevant regulatory requirements
 <p>Regulators</p>	<ul style="list-style-type: none"> → To ensure compliance with regulatory requirements → To protect our staff and communities → To ensure best practice 	<ul style="list-style-type: none"> → We review our operations periodically to ensure compliance with regulations → We actively maintain standards through external reviews (e.g. ISO 9001 accreditation)
 <p>Community</p>	<ul style="list-style-type: none"> → To make a meaningful contribution to the community → To create a positive working culture → To attract and retain talent 	<ul style="list-style-type: none"> → Our Employee Voice Committee ("EVC") looks at ways in which we can help the community → We invite both members and non-members to ask questions at our general meetings
 <p>Environment</p>	<ul style="list-style-type: none"> → To improve our ESG credentials → To mitigate environmental damage from business activities 	<ul style="list-style-type: none"> → We have engaged an external party to review our materiality assessment → We are reviewing our ESG strategy → Looking at ways of reducing our environmental footprint → Ensuring we recycle as much waste as possible → Engaging with our landlord to make facilities more environmentally friendly



	Impact of engagement	Engagement during the year
	<ul style="list-style-type: none"> → We aim to create long-term investor value, through growing from an R&D services business to a commercially viable niche production company → The successful conclusion to the Samsung litigation provides a means to return capital to shareholders in the short term 	<ul style="list-style-type: none"> → We engaged openly with shareholders through analyst briefings and subsequent Q&A sessions → We expanded engagement in Investor Meet Company presentations → We ensured an open forum at the general meetings held during the year → Following the requisitioning of a general meeting, we met with a number of shareholders to listen to their concerns and we will look to address these going forward
	<ul style="list-style-type: none"> → Our employees feel empowered to achieve solutions to problems → Our employees feel more valued and aligned to the business → We improve as our employees improve 	<ul style="list-style-type: none"> → We ran our third successive annual engagement survey to solicit employee feedback. We continue to build on this feedback → We held a number of all-Company days to explain our Company strategy to employees → We set our employee targets in line with corporate goals → We consulted on further remuneration proposals through the EVC
	<ul style="list-style-type: none"> → We build strong relationships with customers, who believe in the capabilities of our platform technology and our employee expertise → Our customers trust us to be able to meet their requirements to create world-leading products 	<ul style="list-style-type: none"> → Through the year, we actively engaged in weekly technical updates to aid development and collaboration → We discussed openly any logistical challenges due to import/export regulations, helping customers with their own compliance goals
	<ul style="list-style-type: none"> → This helps us to attain best value from our supply chain, and mitigates the risk of a breakdown in process negatively impacting the business → Through regulatory checks, we ensure our suppliers are complying with regulatory requirements, e.g. payment of minimum wage 	<ul style="list-style-type: none"> → We performed audits on suppliers to ensure their compliance with legislation → We engaged with a number of suppliers on the qualities of our raw materials, and considered their impact on our products for our customers → We maintained dialogue on the availability of raw materials, and took action when there was a risk this could be compromised → Some supply chain issues have been experienced, but the impact of these has been mitigated through close collaboration with suppliers
	<ul style="list-style-type: none"> → Compliance with regulatory requirements enables the business to operate in a safe manner, protecting our employees and the wider communities 	<ul style="list-style-type: none"> → Post year end, we completed our ISO 9001 recertification → We constantly reviewed operating procedures to ensure best practice → We continued engagement with European RoHS regulators to remove exposure to toxic cadmium from EU customers
	<ul style="list-style-type: none"> → Our EVC look at ways in which we can have a positive impact on the local community → Being involved with the local community improves morale across the employees, and improves external perceptions of Nanoco as a company 	<ul style="list-style-type: none"> → We held a number of Company events, organised by the EVC, which benefitted the communities → Provided matched fundraising → Allowed employees to donate blood during work time
	<ul style="list-style-type: none"> → To reduce carbon emissions as a result of business activity → To ensure waste is recycled where possible → To improve our impact on the environment 	<ul style="list-style-type: none"> → We have looked at purchasing raw materials in bulk to reduce emissions from deliveries → We discussed a number of ESG projects with landlords (such as installation of electric car charging points) → We have implemented a process to consolidate waste to reduce emissions from deliveries and excess packaging

Our business model

Our platform technology is the basis for our growth and commercialisation is the ultimate goal for all stakeholders



About our business model

Our business model has a number of key strengths. It also enjoys a diverse range of potential income streams. This was amply demonstrated over the last two years where services income featured strongly compared to previous years. Our over-arching medium-term goal is to maximise our revenue from direct product sales.

Intellectual property ("IP")

IP and process technology know-how are foundational assets for the group and a key strength. Our technology is heavily patented to secure its use for the group. New IP is continually generated through our R&D activities and all potential patents are reviewed by our internal Patent Review Board for commercial value before being filed. We continue to strengthen our IP position by patenting technology we believe will have real commercial value in the future.

It is worth noting that on top of our formal IP portfolio, we also have significant know-how around our methods and processes. We tend to hold this information as commercial secrets rather than as formally registered IP.

Platform technology

Our nanomaterials have a wide range of electronic properties, usually opto-electrical in nature. These include absorption of different forms of energy and its emission and potentially its conversion to a different form of energy (electricity to light, for example) or a different variety of the same energy (blue light to green light, for example).

One specific class of our materials is our CFQD[®] quantum dots that avoid the use of toxic cadmium in display applications. The same absence of toxic chemicals means we can also develop dots that can be applied in life sciences applications for use in the human body, although this is not currently something the Group is working on.

Expertise and agility

We take advantage of our extensive technical expertise and agile workforce to be able to respond to complex and challenging customer requirements. We can also do this much faster than many of our competitors. Whilst development cycles may take a number of years, we believe our expertise in these areas mean we can solve technical challenges quickly to develop and scale up novel new nanomaterials.

Employees

Our staff are highly skilled in a number of specialist areas. There are 13 employees with PhDs and other postgraduate qualifications. In R&D our expertise ranges from chemistry to physics. Staff are also adept at taking lab scale processes and scaling them up to industrial production scale. We also have strong process improvement and yield optimisation skills that improve both production volumes and our input costs. We further invest in our employees through training to ensure they are developing their capabilities further.

Production capacity

Our Runcorn production facility has two distinct production labs. One is focused on CFQD[®] quantum dots for use in display. The other facility is focused on nanomaterials for use in infra-red sensing applications. In combination they create an extensive revenue-generating capacity for the group through direct product sales to our customers. The nature of the facilities means they also deliver strong operational leverage if additional volumes are added with additional shifts, and we continue to identify ways to improve our efficiencies.



Operator assessing the performance of raw materials.

Our strategy

Our “dot only” strategy delivers world-class nanomaterials for our customers

Our IP and staff ensure we continue to be at the forefront of quantum dot advancements

1

Growth

Objective

- To become a full service production company
- To become self-sustaining financially

How

- Own manufacture and direct supply to customers
- Non-exclusive technology licensing
- Professional services
- Royalty income

Future focus

- Converting current opportunities into revenues with a strong emphasis on nanomaterials
- Exploring opportunities with a number of potential customers

KPIs

- Revenue
- EBITDA
- Billings

Risks

- Strategic
- Operational
- Financial

2

Investment

Objective

- To maintain our competitive advantage
- To continue investing for future product pipeline

How

- Continuing to create and patent new IP with clear short to medium-term commercial opportunities
- Continuing to develop in-house manufacturing capabilities

Future focus

- Continuing to invest in R&D in order to remain at the forefront of this technology
- Exploring ways to open up new market opportunities

KPIs

- Year-end cash and cash burn rate
- Investment in R&D
- Portfolio of patents and patents pending

Risks

- Strategic
- Compliance

3

IP monetisation

Objective

- To utilise our core IP to generate future revenue streams

How

- Assisting licensees in maximising their manufacturing opportunities
- Potential litigation against infringers of our IP

Future focus

- Giving partners the best performing dots
- Identifying companies which may be infringing our IP

KPIs

- Investment in R&D
- Portfolio of patents and patents pending

Risks

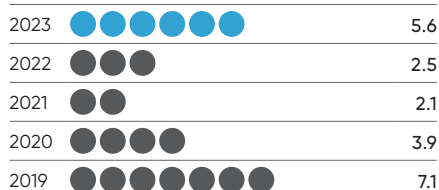
- Strategic

Our key performance indicators

We have made strong progress in safeguarding the future of the Company and delivering value to shareholders in the medium term

Revenue £ million

£5.6m
+128%



Measurement

The value of goods and services recognised as income in accordance with IFRS 15 Revenue Recognition. Grant income is also important and included under other operating income.

Why it is important

Revenue (and its change year on year) shows the speed with which the business is growing or contracting.

What it means

In combination with gross margins and overheads it shows whether the group is getting closer to the targeted breakeven position.

Impact of Samsung settlement

The IP licence income during the year, relating to the Samsung litigation, contributed £3.0 million to revenue.

Adjusted LBITDA £ million

(£0.4m)¹
+83%



Measurement

Operating profit excluding exceptional items, share-based payment charges, depreciation and amortisation.

Why it is important

Reducing LBITDA is a critical medium-term goal as it demonstrates progress towards the organic business being self-funding.

What it means

The group's LBITDA is a very good proxy for its organic cash flows and shows how close the group is to being self-financing.

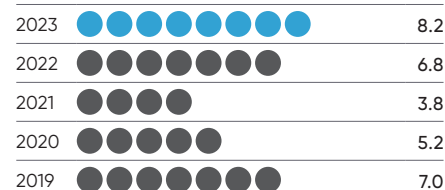
Impact of Samsung settlement

The IP licence income during the year, relating to the Samsung litigation, contributed £3.0 million to EBITDA.

¹ Calculation provided on page 31.

Year-end cash £ million

£8.2m
+21%



Measurement

Cash and cash equivalents.

This reflects current monthly gross cash consumption before revenues and other receipts.

Why it is important

The business operates on a cash consuming basis and this blended KPI indicates the duration of funding visibility.

What it means

In combination with the group's operating plans and budgets, the current balance underpins the Directors' going concern and viability statements.

Impact of Samsung settlement

The Group retained £4.5 million from the first Samsung payment.

Strategy link

1 3

Strategy link

1

Strategy link

1 2 3



- Key**
Strategy link
- 1 Growth
 - 2 Investment
 - 3 IP monetisation

Billings
£ million

£63.0m
+2,233%

2023		63.0
2022		2.7
2021		1.7
2020		2.5
2019		9.6

Measurement

The value of invoices raised during the year for goods and services delivered or to be delivered to customers including those relating to the sale of IP (excluding VAT).

Why it is important

Billings are a useful indicator of both current and future revenue.

What it means

Billings are a leading indicator of future revenues and cash flows. This year, an element of the billings to Samsung will be deferred and the income recognised over future periods.

Impact of Samsung settlement

Billings to Samsung in the year totalled \$75 million (£60.9 million).

Strategy link 1

Investment in R&D
£ million

£1.8m²
2%

2023		1.8
2022		1.8
2021		2.2
2020		3.1
2019		4.4

Measurement

The sum of all costs incurred in research and development activities. This includes salary costs and other direct R&D costs.

Why it is important

Nanoco prides itself on the scale and quality of its R&D efforts – which feed its IP portfolio and also commercial opportunity pipeline as it develops new materials for potential new markets and applications.

What it means

R&D spend is a leading indicator of new product development. It also impacts potential customer pipelines.

Impact of Samsung settlement

No impact.

² Includes £0.5 million in Cost of Sales due to reallocation within Income Statement.

Strategy link 2 3

Portfolio of patents and patents pending
Number of patents

375
(25%)

2023		375
2022		503
2021		559
2020		731
2019		745

Measurement

The group's IP lawyers report monthly on patents granted or filed in the respective patent offices in various countries.

Why it is important

Our IP portfolio is a key strength of Nanoco and a strong reason to invest. It supports our efforts to monetise our investments in R&D.

What it means

The overall quality of our IP portfolio continues to improve. We continue to proactively review the portfolio for relevance and value. As our business focus changes this can lead to a decision to allow no longer relevant IP to lapse.

Impact of Samsung settlement

The Group sold 118 non-core patents to Samsung.

Strategy link 2 3

Financial review



Liam Gray
Chief Financial Officer

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 Samsung.
- 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 45% (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 the European electronics customer. Revenue from the sale of development products was £0.9 million (2022: £0.8 million).

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

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 the 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.

	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 USD 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.

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%

Impact of the Samsung settlement in the year

£3.0m	£68.7m
IP license revenue	Profit on sale of IP
(£49.3m)	£60.9m
Settled litigation costs	Billings

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 non-GAAP measures is shown in the tables opposite and 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	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
Adjusted LBITDA	(0.4)	(2.3)

¹ Includes impairment of intangible assets.

The finance expense in the year of £5.5 million (2022: £0.5 million) included a one-off contingent interest payment of £4.7 million 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 a 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 Company has £30.8 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.

Financial review continued

Billings reconciliation	2023 £ million	2022 £ million
Revenue	5.6	2.5
Movement in deferred income	23.3	0.2
Billings on sale of IP	34.5	–
FX movement between billing and recognition	(0.4)	–
Billings	63.0	2.7

Cash flow and balance sheet continued

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 summarised in note 27 to the financial statements 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 balances are regularly reviewed by the Board and cash forecasts are updated monthly to ensure that there is sufficient cash available for foreseeable requirements.

More details on the group's treasury policies are provided in note 27 to the financial statements.

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 going concern statement on p37.

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
19 October 2023

Principal risks and uncertainties

Managing risk is key to the delivery of the group's strategic objectives

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 shown on the heat map below and are discussed in further detail in the pages following.

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 technology, which is required for the business to be commercially viable in the long term.

Other principal risks

Risks are broadly categorised as strategic, operational, financial or compliance. The table overleaf focuses on those risks that the Directors believe are the most important currently faced by the business. Other risks may be unknown at present and some that are currently rated as low risk could become more material risks in the future. The group's risk management process tracks risks as they evolve and change.

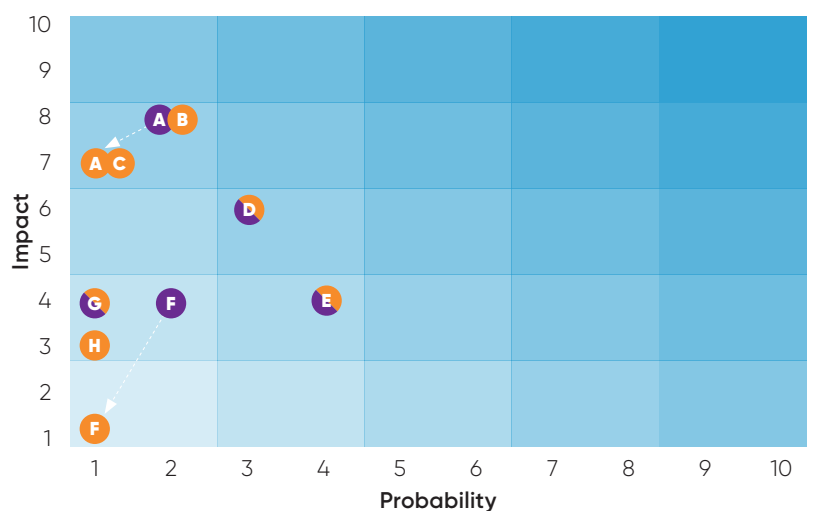
Principal risk identified in FY20 – now expired

In February 2020, the group initiated litigation against Samsung for wilful infringement of its IP. In February 2023, the group signed agreements with Samsung which brought these proceedings to an end. Therefore, this risk no longer exists.

New risks identified in FY23

With the move towards commercialisation, the group now reports a number of extra risks which largely relate to potentially competing technologies in our target markets. These are further detailed in the table on pages 34 and 35.

Likelihood and impact of principal risks



Principal risks and uncertainties continued

Likelihood and impact of principal risks continued

Risk description	Potential causes and impact	Mitigation	Change	Link to strategy
Strategic				
<p>A</p> <p>Lack of market adoption of technology</p> <p>Responsibility: CEO</p>	<p>Market fails to commercially adopt technology incorporating the Group's nanomaterials.</p>	<p>The Group targets a wide range of potential applications in the sensing industry.</p> <p>Working with industry leaders to differentiate products from current offerings.</p> <p>Making products commercially competitive.</p> <p>De-risking Nanoco as a supply chain partner.</p> <p>Maintaining capacity to scale to meet demand from very large customers.</p>	<p>▼</p> <p>Sensing projects moving to commercialisation.</p> <p>Expanded customer portfolio.</p> <p>Expanded range of materials addressing more potential market applications.</p>	<p>1</p>
<p>B</p> <p>Competing technology in sensing applications</p> <p>Responsibility: CEO/CTO</p>	<p>A different competing technology achieves commercialisation in sensors ahead of Nanoco (whether QD or another technology).</p>	<p>The group works with a number of market-leading companies in this area.</p> <p>The R&D leaders in the Company stay abreast of advancements to understand their implications.</p> <p>Group's technology enjoys a very significant cost advantage over competitor products.</p>	<p>NEW</p>	<p>1</p>
<p>C</p> <p>Competing technology in display applications</p> <p>Responsibility: CEO/CTO</p>	<p>A different competing technology (either QD or another) reduces the quantum dot share of TVs in the market.</p>	<p>The group licenses its technology to the market leader in this area, and will be discussing further licensing opportunities.</p> <p>The R&D leaders in the Company stay abreast of advancements to understand their implications.</p> <p>Nanoco's cadmium-free solutions deliver clear environmental benefits.</p>	<p>NEW</p>	<p>1 3</p>
<p>D</p> <p>Customer concentration risk</p> <p>Responsibility: CEO/CTO</p>	<p>Reliance on a small number of key customers exposes the group to risk of delays in the customers' own supply chains over which the group can exert limited influence (one customer was 79% of revenue excluding licences in FY23). These delays can then have a knock-on adverse effect on the group's expected revenue streams.</p>	<p>Commercial strategy in the medium term is to dilute customer concentration risk by selling into various markets, through various channels and to a range of customers.</p> <p>Continuing to work with new customers to develop commercial offerings.</p>	<p>—</p> <p>Same core significant customers as in prior years.</p>	<p>1 3</p>

Key

Risk change

Strategy

-
-
-

Risk description	Potential causes and impact	Mitigation	Change	Link to strategy
Operational				
E Loss of key personnel Responsibility: CFO	While the group maintains a high level of protected documented IP, our staff remain a critical asset with significant levels of technical and sector know-how. Loss of key personnel would have an adverse impact on the group's development and commercialisation.	The group offers rewarding careers that allow staff to develop new skills while pursuing interesting research ideas. The group reviews remuneration to ensure that appropriate reward packages accompany the fulfilling work environment. Post-employment obligations and protected IP expose potential competitors to the threat of litigation.	— All staff now relocated to one site. Increased investment in infrastructure and focus on remuneration and benefits.	1 2
Financial				
F Lack of adequate resources to sustain the group until it becomes self-sustaining Responsibility: CFO	Revenues from own product sales, services rendered and licensee royalties do not materialise as planned. The group is unable to carry out its operations and hence cannot deliver on medium-term or strategic goals.	Cash will continue to be prudently managed. Focus on revenue-generating activities without abandoning worthwhile and focused R&D work. Cost reduction actions identified if necessary. Retention of a portion of the litigation proceeds.	∨ The agreements signed with Samsung in the year, and the corresponding cash receipts give the business a significant cash runway.	1 2
Compliance				
G Major environmental, health and safety ("EHS") issue Responsibility: CEO	Failure to follow existing procedures or a new unforeseen risk could result in injury to staff, equipment, reputation and finances and potential loss of operating licences.	Extensive and ongoing efforts to continuously improve procedures. Renewed leadership focus on the "tone at the top" and cultural change. Continuous training of staff in risks and how to mitigate risks.	— Continued focus on EHS including incentivisation of staff.	1 2
Governance				
H Shareholder relations Responsibility: CEO	Shareholder activism has an impact on a number of stakeholders, including but not limited to customers, suppliers and employees, and also has significant financial and non-financial implications.	Continued engagement with shareholders. Focus on the commercial business being successful. Open and transparent communication with stakeholders.	NEW	1 2

The Executive team manages a greater number of more detailed risks on an ongoing basis, none of which are considered of strategic importance to the group. The Board reviews the detailed risk register annually to ensure that all strategic risks are being appropriately considered at the Board level while business as usual ("BAU") risks are actively managed by the Executives.

Viability statement

The litigation settlement provided Nanoco with sufficient resources to continue to deliver on its strategy for the foreseeable future

In accordance with the provisions in the UK Corporate Governance Code (C.2.2 of the 2018 revision), the Directors have assessed the viability of the group's business model and determined that a four-year period is a suitable period to be utilised. This is an increase on the two-year period used in prior years and reflects both the progress towards full commercialisation and the strong financial underpinning of the group. A four-year period is considered appropriate given the increased stability of the group, however, the evolving nature of the markets for the group's products and the group's stage of commercial development means forecasting time horizons remain relatively short.

The Directors' assessment has been made with reference to the current position of the group and the group's current strategy and principal risks as described in this Strategic report.

Inflationary pressures are mitigated by reviewing suppliers and achieving volume breaks. In addition, given the ongoing cost of living crisis, we continue to review market conditions and assess the impact on all stakeholders.

Changes during the year

In the third quarter of FY23, we announced an agreement had been reached with Samsung to settle the ongoing lawsuit relating to IP infringement for \$150 million. After legal costs, this resulted in a net balance to the group of \$90 million (\$75 million still to be received in Feb 24). Given the group's cost base is circa £6 million per year, and the group is targeting to be cash flow break-even in CY25 due to the

commercialisation of its products, the \$90 million net cash receipt, in addition to the cash which already existed in the business, is more than sufficient to support the group for the foreseeable future.

On a commercial basis, we continue to see progress with our customers in Sensing. Both the European electronics customer and the Asian chemical customer are discussing further R&D collaboration agreements to continue development work in this area, and the ongoing validation of two of our materials in final products is nearing completion. We continue to anticipate commercial production orders in calendar year 2023, although we believe these will be relatively low volumes initially.

We have continued to add other customers in the year in both Sensing and Display, and continue to progress other IP monetisation opportunities.

The viability assessment process

In assessing the viability of the group, the Directors have utilised their forecasts for the period to 31 October 2027 which take into account the group's current and expected business activities and commercial opportunity pipeline, the current cash resources (£8.2 million as at 31 July 2023), the contracted receivables (including the \$75 million second tranche from Samsung), the contracted revenue and prospects for FY24, the return of capital to shareholders, and any liabilities as they fall due. These inputs form the basis of a conservative base case with the main assumptions shown below in the section on going concern.

The assumptions above were then flexed to create a "severe but plausible" downside stress test. This includes the assumption that commercial production is delayed by a year and that a number of current active development engagements end with no further service work or material demand. The group remains viable in this scenario. Modelling of an extreme downside for the going concern assessment still shows the group remains viable even if no further commercial wins are achieved beyond those which are already contracted. Given the cash resources of the group, in all scenarios, all outstanding liabilities are settled.

Conclusion

As a result of the assessment outlined above, the Directors have confirmed that they have a reasonable expectation that the group will remain viable and able to continue in operation and meet liabilities as they fall due over the four-year period of their assessment.

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 are set out on pages 9 to 27;
- the principal risks and uncertainties are shown on pages 33 to 35;
- the group's financial position is described in the Financial review on pages 30 to 32; and
- note 27 to the accounts summarises the group's financial risk management objectives, policies and processes.

For the purposes of their going concern assessment and the basis for the preparation of the 2023 Annual Report, the Directors have reviewed the same trading and cash flow forecasts and sensitivity analyses that were used by the group in the viability assessment as noted above, 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:

- 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 contract with the European electronics customer and the Asian chemical customer;
- no revenue is assumed from other business lines though some small scale commercial deals are currently under discussion;
- other companies pay to access Nanoco's technology in the future;
- small expansion of our self-funded research activities and continued maintenance costs to support our IP portfolio;
- costs associated with being a listed entity 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.

All three cases above produce cash flow statements that demonstrate that the group has sufficient cash throughout the period of the going concern forecast.

Going concern conclusion

Considering the current financial resources and monthly cash costs of the group, and after making appropriate enquiries, the Directors have a reasonable expectation that the group has access to adequate resources to continue in operational existence for the foreseeable future.

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.

TCFD disclosure 2023

Introduction

Nanoco recognises and acknowledges the serious challenges presented by the climate crisis to governments, businesses and communities around the globe. Our direct exposure to climate-related risks is limited, but the group is nonetheless committed to playing its part to mitigate the environmental impacts of our activities and to enhance our resilience to the uncertainties posed by climate change.

As a premium-listed organisation, Nanoco is obliged to make climate-related financial disclosures consistent with the TCFD framework in line with Listing Rule 9.8.6R(8). Despite being a small organisation with only 43 employees at year end (excluding Non-Executive Directors) and turnover of c.£5.6 million, the business has made progress towards meeting its TCFD obligations. Limited resources and our obvious current strategic focus on protecting the group's operational and R&D capabilities mean that the disclosures that follow are therefore not yet fully aligned with the TCFD recommendations at this time. The group is compliant in seven areas out of eleven (as shown in the table overleaf), with a strategy and metrics yet to be fully developed. These are detailed in the table overleaf. Where not yet compliant, the group will incorporate target compliance dates into the ESG strategy, which will be reported on in FY24. The group is taking progressive steps towards building climate knowledge and capacity, as outlined by the 2024 planned actions described in this statement which we will endeavour to complete within the next reporting cycle.

Governance

The Board takes responsibility for the oversight of all strategic risks facing the business. ESG issues, including the risks associated with climate change, currently fall within the remit of the ESG Steering Committee which was established post year end. The ESG Steering Committee is a cross-functional group with representation at Board level from the CFO. The CFO ultimately takes responsibility for reporting any relevant environmental or climate-related risks to the Board and its Committees, and keeps the Board abreast of developments in reporting and performance requirements. ESG matters

are currently discussed ad hoc, but will be included on the Board agenda every six months going forward.

Board's members have relevant capabilities related to climate risks and opportunities, including significant experience navigating energy markets. The Board acknowledges it can improve upon its broader ESG skill set and knowledge base, which will be considered by the Nominations Committee as part of any future appointments. Training is also occurring at Board level on ESG matters to improve the existing skill set. Read more about the Board's roles and responsibilities on pages 39 to 40.

The leadership team is responsible for the day-to-day management of operational risks. To support oversight of operational risks, the leadership team maintains a risk register of identifiable risks to the business. Within this register, the potential impact of climate change is currently highlighted as a macroeconomic risk factor. However, no specific significant risks were identified relating to climate related factors. If any risks are identified in the future, these will be added to the risk register. Read more about our approach to governing and managing risks on page 33.

Improvements to date:

- post year end, established an ESG steering committee with Board representation who meet every two weeks and assess any identified risks;

Strategy

Nanoco acknowledges the need to conduct more comprehensive identification and assessment of climate-related risks and opportunities, as well as the potential impacts of those risks and opportunities on the business model and the organisation's strategic resilience over various timeframes. We outline our initial consideration of climate-related risks within this section, with a focus on transition risks as the area where Nanoco has the most exposure.

Nanoco's products are inputs into consumer goods, and macroeconomic pressures driven by climate-related hazards could impact the future revenues of the business. The group also acknowledges the potential reputational consequences of failing to meet the climate expectations of stakeholders as

the world transitions to a low carbon economy. In effect, the group's climate-related risks are indirect.

In addition to enhancing our understanding of the climate-related risks that could impact our business, the Group actively seeks to mitigate its impacts on the climate. During the financial year, we had a number of LEAN projects ongoing which all carried objectives of reducing waste or inefficiencies. All staff are LEAN trained, and we will continue a focus on this in FY24. The group promotes low carbon working patterns, including car sharing and cycle-to-work schemes, as well as an electric vehicle ("EV") salary sacrifice scheme. Where possible, we use video conferencing instead of face-to-face meetings, reducing travel-related costs and emissions.

During the year, Nanoco have performed an assessment of the risks and opportunities related to climate change, and have not identified any which are significant or could have a significant financial impact on the Company.

In consideration of climate-related opportunities, Nanoco's product portfolio has potential to support the energy transition. The Group's technologies can support the energy efficiency objectives of our customers. Nanoco's products are also notably free of toxic cadmium, which reduces emissions associated with managing the disposal of toxic waste.

Read more about the group's initiatives to promote low carbon practices in its operations on page 41.

2024 planned actions to enhance alignment:

- embed climate-related issues into updates provided on staff days and within employee surveys to enhance engagement across the business on the topic of climate risk;
- the ESG Steering Committee will explore opportunities to further mitigate Nanoco's impact on the climate and conduct a deeper assessment of climate-related risks, including the potential impact of risks on capital expenditure plans, future strategy and financial planning; and
- engage a third party to conduct qualitative climate scenario analysis in FY24.

Risk management

As part of the risk management process, all potential risks are assessed according to the probability of the risk occurring and the potential impact should the risk be realised. These include risks related to current and emerging regulations. In respect to climate change, the group has concluded through initial qualitative assessment and discussion that the business has relatively low exposure to climate-related risks.

However, the group acknowledges that the growing attention on ESG and the widespread consequences of the climate crisis will leave no business untouched. In light of these transformations and following an annual review of the group risk register, Nanoco incorporated potential ESG risks to the register in the financial year, which included a more robust assessment of the group's exposure to climate-related risks. The integration of these risks into the register will lead to a review of the controls and action plans associated with the management process. Read more about the group's approach to risk management on page 33.

Improvements to date:

- incorporated ESG risks into the risk register review process, including potential mitigating actions.

2024 planned actions to enhance alignment:

- continue to monitor and identify new ESG risks with the support and input of the new ESG steering committee;
- embed consideration of potential climate impacts in the controls and action plans related to the management of risk; and
- implement ISO 14001 (Environmental Management).

Metrics and targets

Nanoco monitors and reports environmental performance indicators including waste and energy efficiency metrics. The Group's greenhouse gas emissions, including its scope 3 emissions related to business travel, can be viewed on page 41.

The Group does not currently monitor any additional climate-related metrics, and therefore has not set any climate-

related targets. As the Group continues to assess the materiality of climate-related risks and opportunities, we will consider whether new data should be collected and whether relevant targets should be set.

2024 planned actions to enhance alignment:

- revisit the materiality of scope 3 categories to determine whether additional data is needed to understand the full climate impacts and exposure of the Group;
- evaluate whether meaningful metrics and targets can be introduced to communicate the energy saving potential of our products to customers;
- establish long-term targets for ESG; and
- work with our landlords to devise strategies to reduce our on-site energy consumption.

4 TCFD pillars	11 TCFD recommended disclosures	Description and reference	
Governance	→ Describe the Board's oversight of climate-related risks and opportunities	To be further developed in FY24 Key risks and responsibilities - P38, Corporate Governance - P48	
	→ Describe management's role in assessing and managing climate related risks and opportunities	To be further developed in FY24 Key risks and responsibilities - P38	
Strategy	→ Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term	To be further developed in FY24	Ⓢ
	→ Describe the impact of climate-related risks and opportunities on the organisation's business, strategy, and financial planning	To be further developed in FY24	Ⓢ
	→ Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	To be further developed in FY24	
Risk management	→ Describe the organisation's processes for identifying and assessing climate-related risks	Key risks and responsibilities - P38	Ⓢ
	→ Describe the organisation's processes for managing climate-related risks	Key risks and responsibilities - P38	Ⓢ
	→ Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management	Key risks and responsibilities - P38	Ⓢ
Metrics and targets	→ Disclose the metrics used by the organisation to assess climate related risks and opportunities in line with its strategy and risk management process	To be developed further in FY24 - current metrics disclosed on P41	Ⓢ
	→ Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas ("GHG") emissions and the related risks	To be developed further in FY24 - current metrics disclosed on P41	Ⓢ
	→ Describe the targets used by the organisation to manage climate related risks and opportunities and performance against targets	To be further developed in FY24	

Ⓢ – Compliant with TCFD recommendation

Sustainability

Our focus on the safety, security and health of our people is key to delivering productivity and improved performance

The group recognises that, although its primary responsibility under UK corporate law is to its shareholders, it also has responsibilities towards its employees, customers, suppliers and also, ultimately, those consumers who benefit from its products, the broader public and the environment.

Health and safety

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

There are various improvement and reporting systems in place to monitor the performance of the group's health and safety management system. These initiatives include:

- i) reporting all incidents (including near misses) with appropriate ownership, root cause analysis and action tracking systems;
- ii) communication of relevant topics and incidents via weekly toolbox talks to all departments;
- iii) monthly and quarterly leadership safety and observation audits with the focus on immediate action resolution by the Executive or senior manager leading the audit;

- iv) monthly departmental audits with assigned action tracking processes in place to address issues;
- v) monthly health and safety reports issued across the organisation to communicate performance against annual metrics and progress on key improvement initiatives and projects;
- vi) annual health checks for staff, including tests for chemical exposure where required; and
- vii) annual occupational chemical exposure tests using fixed and personal monitors.

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

- i) the storage, handling and processing of hazardous substances;
- ii) fire safety and emergency evacuation;
- iii) use of mechanical and electrical equipment; and
- iv) other workplace operations involving manual handling and ergonomic risks, working at height and other hazards identified as part of the EHS improvement programme.

All risk assessments are documented and actions assigned and reviewed according to the defined frequency. All research and development functions are actively encouraged to, wherever possible, eliminate or reduce the levels of hazardous substances used in our products and processes. All relevant chemical legislation and regulatory frameworks are used to assess the suitability of a substance prior to use as part of the risk assessment process. Standard operating procedures are documented and regularly reviewed. The group's robust EHS control environment is evidenced by there being only one externally reportable incident in any category in the last six years.

All controlled documents are reviewed and approved via the electronic document management system. A health and safety induction programme is in place for all new staff and visitors/contractors performing work on our premises. Staff are trained in standard operating procedures, hazard awareness, generic workplace health and safety risks and behavioural safety expectations applicable to their role within the group.

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

The group has an excellent safety record and there has only been one reportable incident to the respective UK authorities across all our operations. Nanoco is committed to the continuous improvement of the health and safety management system.

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

Employees

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

Customers

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

Shareholders

Nanoco seeks to increase shareholder value over the long term.

A serious H&S incident could jeopardise our "licence to operate" and threaten shareholder value.

Whole portfolio carbon generation (energy use)

	2023 tCO ₂ e	2022 tCO ₂ e	Change
Scope 2	Electricity	75	276 (73)%
	Heating (gas)	8	220 (96)%
Scope 3	Air travel	46	0 100%
	Total	129	496 (74)%

Intensity (tCO₂e/average number of employees)

	2023	2022	Change
	3	12	(75)%

Energy consumption used to calculate emissions (MWh)

	2023	2022	Change
	398	2,500	(84)%

Data notes

Reporting period	1 August 2022 to 31 July 2023
Boundary	Operational control
Reporting method	The Greenhouse Gas ("GHG") Protocol Corporate Accounting and Reporting Standard
Emissions factor source	Department for Business, Energy & Industrial Strategy, Standard Set 2017
Data changes and restatements	None

Environment

Nanoco is committed to protecting the environment in which its activities are conducted. This commitment is directly expressed in our decision to develop our CFQD[®] quantum dot products to be free of toxic cadmium, which is still widely used by our competitors in their quantum dot products.

Nanoco has participated actively with regulators on the use of cadmium-based quantum dots in displays and LED light products. The European Commission ("EC") has made a ruling on the appeal submitted by three companies that the exemption allowing the use of cadmium-based quantum dots in display films should continue. The EC was also considering an appeal for a five-year exemption to allow cadmium-based QDs to be applied directly onto LED chips for displays and lighting.

The EC has received a recommendation that:

- the exemption to allow cadmium (>100ppm) in QD films for display is no longer justified and should be phased out by 31 October 2021; and
- a new exemption is granted to allow cadmium-based QDs applied directly onto LED chips for displays and high CRI lighting for a period of five years.

Both of the above recommendations remain subject to the EC adopting the delegated act. It should also be noted that for film-based displays there is not an outright ban, which could allow displays with cadmium content below the limits above to continue to be sold.

As at the time of writing, the EC has not yet passed the legislation to implement the decisions as recommended and the legal status of the exemption which was due to expire in October 2021 is unclear.

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

The CEO has responsibility for reporting on relevant environmental matters to the Board. There have been no environmental incidents to report to the authorities across all our operations. Shareholders and other interested parties are encouraged to use the online version of the Annual Report and Accounts rather than requesting hard copies. Interested parties are encouraged to visit the group's website or use the regulatory news services instead of a hard copy. Employees are also encouraged to recycle paper, plastic, glass, cardboard and cans wherever possible – through engagement with our landlord, we understand the vast majority of our waste is recycled.

Greenhouse gas ("GHG") reporting

Under the Companies Act 2006 (Strategic and Directors' Reports) Regulations 2013, the group is required to state the annual quantity of emissions in tonnes of carbon dioxide equivalent from activities for which the business is

responsible, including the combustion of fuel and the operation of its facilities, and resulting from the purchase of electricity, heat, steam or cooling by the business for its own use.

As the group's UK facility is in a multi-occupancy site, we place reliance upon the landlord to provide the data needed to determine emissions. Our laboratories require continuous negative pressure environments and, consequently, it is not possible to set realistic reduction targets in the consumption of electricity.

The completion of the exit from the ground floor of the Manchester site has effectively eliminated it as a source of emissions for Nanoco with only a small increase in Runcorn emissions from the co-location of our activities to one site.

Our gas consumption is used for heating the facility and site costs are shared between tenants on the basis of area of occupancy. In the absence of significant amounts of revenue from the sale of commercial products, the emissions of the business primarily arise from the activities of its research and administration facilities rather than from revenue related production operations.

Our emissions, based on appropriate conversion factors published by the Department for Business, Energy & Industrial Strategy, for the current year are shown in the charts above.

Sustainability continued

Environment continued

Waste

During the year, the group generated 10.8 tonnes of waste (2022: 9.3 tonnes) and recycled 5.0 tonnes of this (2022: 3.8 tonnes). Net unrecycled was 5.8 tonnes (2022: 5.5 tonnes), however it's important to note this unrecycled is incinerated with waste recovery, and therefore doesn't go direct to landfill. The group engages a specialist contractor to incinerate batches of chemicals and dispose of other materials no longer required. All waste contractors are assessed to ensure the waste hierarchy approach is applied to all of our materials handled, and that their operations and systems are compliant with the relevant legislation. Audits are performed every three years in line with our duty of care as a waste producer.

Other environmental matters

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

Video conferencing is used where possible instead of physical travel in order to reduce the group's environmental footprint through fewer flights and other means of travel. Lessons learned from continuing operations during the Covid-19 pandemic have continued to be adopted.

The group's display technology removes a dangerous chemical from the supply

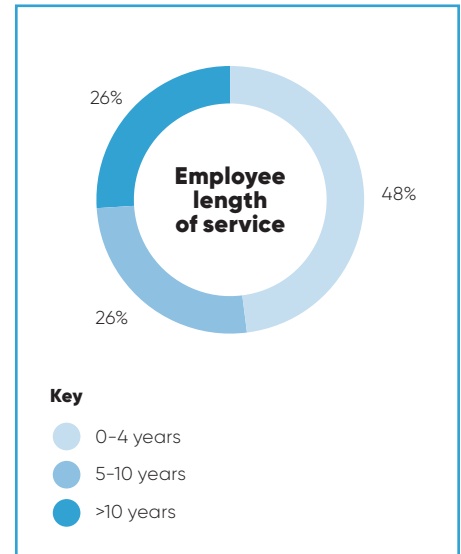
chain for QD televisions, and the HEATWAVE QDs sit in the energy efficiency and low environmental impact arena and, as such, will enable customer companies to increase the uptake of their products while reducing their impact on the environment.

Attraction and retention

Recruiting technical specialists has always been key to Nanoco's success. In a highly competitive market this means that we strive to offer a competitive benefits package and an attractive workplace culture to ensure that we attract and retain the best of the best. The number of long-serving employees demonstrates Nanoco's ability to retain top talent; out of 43 employees at 31 July 2023 (excluding Non-Executive Directors), 26% had over ten years' length of service and a further 26% had between five and ten years' service.

Nanoco operates an employee referral scheme for recruiting new talent. Referrals from existing employees are a valued source of new recruits, typically introducing high quality candidates with a better cultural fit, and resulted in Nanoco hiring a new technician in the year.

Nanoco has a comprehensive onboarding process for new joiners which includes H&S, HR, intellectual property, IT, finance and corporate induction sessions. The aim of this is to get employees engaged from their first day at Nanoco, and fully equipped to work towards Nanoco goals from the very beginning of their Nanoco career.



Employees with disabilities

It is Nanoco's policy that people with disabilities, including job applicants and employees, should be able to participate in all of Nanoco's activities fully on an equal basis with people who are not disabled. Nanoco strives to promote an environment free from discrimination, harassment and victimisation.

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

Covid-19

Whilst essential work carried on at Nanoco through the lockdown period, staffing levels were reduced at various times in line with Government guidance. Because of the EHS training which all managers and staff undergo, EHS standards were maintained and there was no impact on health and safety due to the reduction in numbers during affected periods. Measures were taken by the Company to address the risk of Covid-19 on the Company and employees, including but not limited to:

- risk assessments for both sites;
- PPE policies and protocols for prevention of infection;
- social distancing;

- shielding for vulnerable workers;
- login system for staff, and supervision by management which can be accessed remotely;
- liaising with the Employee Voice Committee to address any concerns; and
- return to work assessments for all employees.

At the point of appointment, Nanoco obtains occupational health advice as to reasonable adjustments. For disabled employees we put together a "Reasonable Adjustment Action Plan" to support employees with disabilities or health conditions by removing or minimising workplace barriers. These plans are reviewed collaboratively between managers and employees to ensure that they remain relevant. Culturally, we believe that it is important to offer adjustments in a proactive manner where appropriate rather than waiting for our employees to request these.

Nanoco currently employs one person with a disability with a series of reasonable adjustments in place to support this important member of staff.

Engagement and wellbeing

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

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

Corporate communication is key to the engagement of our workforce. We have focused on improving the look, feel and content of Company-wide electronic communications in order to make these more engaging to employees.

Aligning the entire Nanoco organisation to ensure that we focus on what is important to achieve our goals is critical to our success. In order to help us navigate the exciting opportunities in front of us it is crucial that as Nanoco employees and managers we make conscious, careful and informed choices about how we allocate our time and energy – as individuals and members of teams.

We believe that building a positive partnership between strategic management and the wider workforce is crucial to Nanoco's success. Our people are our best problem solvers and possess the insight on how we can make Nanoco a top organisation to work for.

To improve our employee engagement, in 2019 we established the Employee Voice Committee, which gives employee representatives a forum to raise concerns and communicate directly with Board members. During the year, the EVC has organised a number of work-based events, and we have had good attendance at a variety of hikes, beekeeping training and crafting, and all staff were given gym passes to use the local facilities.

In addition, we have run employee wellbeing surveys, where staff can give their views on a variety of topics anonymously. The leadership team reviews these comments and acts on them to improve the working environment.

A meaningful employee voice will support us as an organisation undergoing change and responding to industry changes. A direct link with the Board also enables our Board members to better understand the diverse nature of the Company, allowing them to execute their roles more effectively.

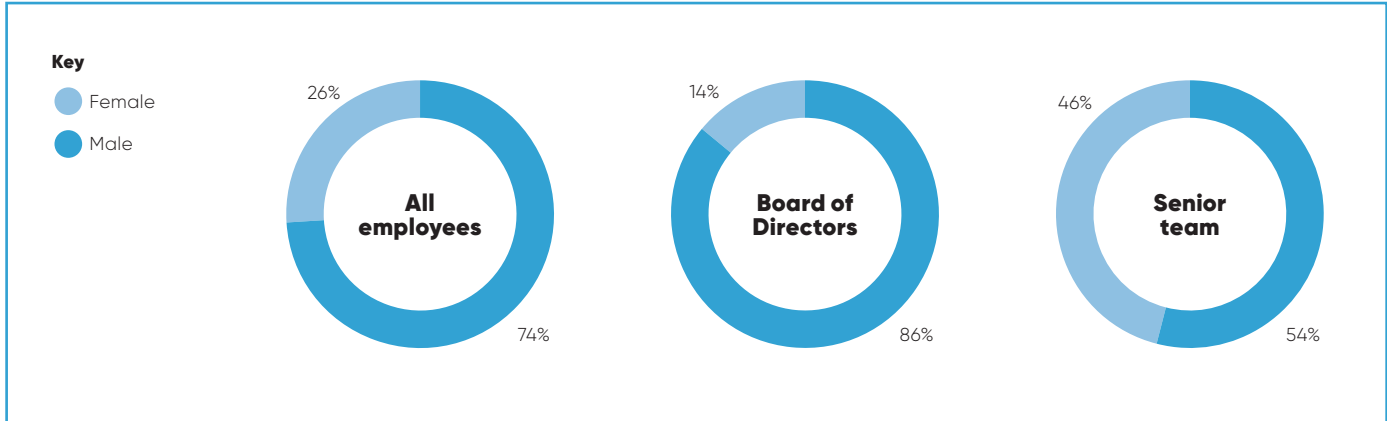


Nanoco acknowledges its responsibilities for the health and safety of its employees, for their training and development and for treating them fairly."



Sustainability continued

Gender diversity at Nanoco (at 31 July 2023)



Recognition

Nanoco recognises that it has a duty to ensure the health, safety and welfare of its employees as far as reasonably practicable. This includes physical, mental and social wellbeing. It is also required to have in place measures to mitigate as far as practicable factors that could harm employees' physical and mental wellbeing, which includes work related stress.

Nanoco, as part of its wellbeing strategy, puts particular focus on mental health. It does so through a variety of means including events such as Mental Health Awareness Week, mindfulness sessions and charity events to raise awareness of the support available to those that suffer from mental health issues. We encourage an open door policy where employees are able to disclose and receive support for any mental health issues they may face. Nanoco also has employees who are trained in mental health first aid.

The employee assistance programme, as part of the wellbeing policy, provides caring and compassionate support to help people cope and build resilience. Both telephone counselling and face-to-face counselling are available to all employees through the programme. This support aims to reduce absence and improve wellbeing by addressing issues head on and reducing their impact.

Post year end, Nanoco are looking to implement a workplace health programme for the benefit of all employees. This was something which was raised through the employee wellbeing survey and Nanoco has acted on.

Equality and diversity

Racial and geographical diversity

The group's employees are from many different backgrounds, including five different nationalities: British, German, Indian, Italian and Portuguese.

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

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

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

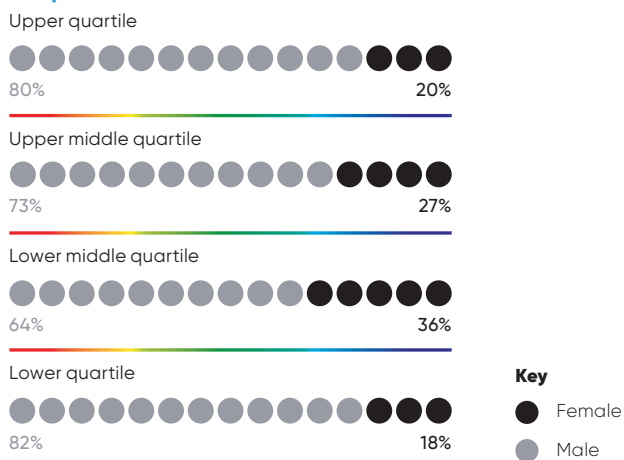
Nationalities represented by our employees

5



Nanoco is committed to a policy of engaging employees in the activities and growth of the group."

Proportion of males and females in each income quartile



Gender pay gap

Mean hourly earnings	Median hourly earnings
£22.86 Total ¹	£19.23 Total ¹
£21.72 Male ¹	£23.30 Male ¹
£25.88 Female ¹	£23.30 Female ¹

¹ Excluding Directors.

Ethics

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

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

All Nanoco employees are required to complete annual training in the areas of cyber security, GDPR and information security to ensure they remain up to date and alert to the signs of fraud and unethical practices.

At the snapshot date of 31 July 2023, Nanoco employed 43 employees (2022: 36) in the UK, of whom 26% were female (2022: 21%). Employees work across a variety of roles in research and production environments.

Overall, female representation across the quartile pay bands corresponds fairly closely to the percentage of female to male employees overall.

The median gender pay gap for all Nanoco employees excluding Directors is (0%) (2022: 12%). This means that for every £1.00 the median man earns at Nanoco, the median woman earns £1.00. The national average pay gap in 2023 for all UK employees is 8.3%¹ in favour of men compared to Nanoco's parity. In research and development, the national average gender pay gap is 16.2%¹ in favour of men, again compared to Nanoco's parity.

On behalf of the Board

Dr Christopher Richards
Chairman

Brian Tenner
Chief Executive Officer
19 October 2023

Gender pay gap

Scientific research is a sector challenged by a lack of gender diversity, but we feel that we have an opportunity to challenge this status quo. Nanoco believes in being an inclusive and diverse organisation where everyone is able to reach their full potential. The challenge in our organisation and across Great Britain is to eliminate any gender pay gap; we therefore voluntarily analysed gender pay gap data as at 31 July 2023. We can use these results to assess the levels of gender equality in our workplace and the balance of male and female employees at different levels.

Strategic report approval

The Strategic report on pages 5 to 44 incorporates:

- Chairman's statement
- Chief Executive Officer's statement
- Our business model
- Our strategy
- Key performance indicators
- Principal risks and uncertainties
- Viability statement
- TCFD disclosure
- Sustainability

Brian Tenner
Chief Executive Officer
19 October 2023

¹ Source – Gender pay gap in the UK: 2022 – Office for National Statistics.

Board of Directors

Our Board has a wide variety of skills and experience to help the business grow at a key point in its evolution



Dr Christopher Richards
Non-Executive Chairman



Brian Tenner
Chief Executive Officer



Dr Nigel Pickett
Chief Technology Officer



Liam Gray
Chief Financial Officer and
Company Secretary



Dr Alison Fielding
Non-Executive Senior
Independent Director



Chris Batterham
Non-Executive
Director



Key

A Audit Committee **N** Nominations Committee **R** Remuneration Committee **○** Chair

Dr Christopher Richards

Non-Executive Chairman

Chris was appointed Chairman of Nanoco Group plc in May 2016, having joined the Board as a Non-Executive Director in November 2015.

Skills and experience

Chris is the former Chief Executive Officer of Arysta LifeScience, a Japan-based agrochemical business which grew rapidly under his leadership, with sales growing above \$1.6 billion. After stepping down as CEO in 2010, he became Arysta LifeScience's Non-Executive Chairman until the sale of the business in 2015 to Platform Specialty Products.

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

Other roles

Chris currently holds a number of non-executive roles at quoted and private businesses. He is the Non-Executive Chairman of Plant Health Care plc (AIM: PHC) and a Non-Executive Director of Origin Enterprises plc (AIM: OGN).

Brian Tenner

Chief Executive Officer

Brian was appointed Chief Executive Officer in September 2020. He originally joined the Board as Chief Operating Officer and Chief Financial Officer in August 2018. He has had a significant impact on the group's performance in his time with Nanoco, particularly in sharpening the commercial focus, providing people leadership in the UK and improving cost control. Brian also previously served as the Company Secretary.

Skills and experience

Prior to joining Nanoco, Brian held a number of senior executive positions with both publicly listed and private multinational companies. His roles have typically encompassed the full range of commercial, operational and financial activities with an emphasis on leading change and transformation programmes. Brian's previous roles include Interim CEO and subsequently CFO of NCC Group plc (LSE: NCC) from 2017 to 2018 (cyber security professional services) and CFO of Renold plc (LSE: RNO) from 2010 to 2016 (engineering manufacturing), Scapa plc (AIM: SCPA) from 2007 to 2010 (speciality chemicals) and British Nuclear Group from 2003 to 2007 (hi-tech chemicals and large-scale decommissioning projects). Brian qualified as a Chartered Accountant with PwC in 1994. He holds a Law degree (LLB Hons) from Edinburgh University.

Other roles

None.

Dr Nigel Pickett

Chief Technology Officer

Nanoco's technology team is led by Nigel, who is a co-founder of Nanoco and inventor of Nanoco's key quantum dot scale up technology. In 2000 he moved to Manchester where he co-founded Nanoco Technologies in 2001.

Skills and experience

Nigel has co-authored over 70 academic papers and is an inventor on 150 patents and pending applications. He has a passion for and experience in taking research work from the academic bench through to full commercialisation. Nigel graduated from Newcastle University in 1991 and chose to remain at Newcastle to pursue a PhD in the field of main group organometallics and is a Fellow of the Royal Society of Chemistry. After graduation in 1994 he undertook a postdoctoral fellowship at St Andrews University, Scotland, in the field of precursor design for metalorganic vapour phase epitaxy ("MOVPE") growth and synthesis of nanoparticles using chemical vapour deposition ("CVD") techniques. In 1996 he won a Japan Society for the Promotion of Science ("JSPS") fellowship and spent the following year working at Tokyo University of Agriculture and Technology, Japan. In 1998 he became a Research Fellow at Georgia Institute of Technology, US, working on the design and evaluation of precursors used in MOVPE.

Other roles

None.

Liam Gray

Chief Financial Officer and Company Secretary

Liam was appointed to the Board in November 2021. He originally joined the Company as Group Financial Controller in March 2019, before becoming Finance Director and then subsequently joining the Board.

Skills and experience

Liam started his career at KPMG LLP, where he qualified as a Chartered Accountant working primarily in audit on both large and medium-sized public and private companies. After six years at KPMG LLP he moved to Renold plc (LSE: RNO), initially as Group Financial Controller before moving into the European division as Commercial Finance Manager. He holds an Accountancy degree from the University of Liverpool.

Other roles

None.

Dr Alison Fielding

Non-Executive Senior Independent Director

Alison was appointed to the Board in April 2017.

Skills and experience

Alison is an experienced entrepreneur and Non-Executive Director, with significant expertise in strategy development and implementation for start-ups, AIM/main market listed and not-for-profit organisations. Her early career included Zeneca plc and McKinsey & Company. She co-founded Techtran Group, which was acquired by IP Group in 2005. Alison spent 13 years with IP Group plc as Chief Technology Officer, Chief Operating Officer and latterly as Director of Strategy and IP Impact.

Alison holds an MBA from Manchester Business School, a PhD in Organic Chemistry and a first-class degree in Chemistry from the University of Glasgow and an MSc in Mindfulness from the University of Aberdeen.

Other roles

Alison is currently a Non-Executive Director of Maven Income and Growth VCT PLC and a Non-Executive Director of Thomas Swan & Co. Limited.

Chris Batterham

Non-Executive Director

Chris was appointed to the Board in April 2019.

Skills and experience

Chris has considerable financial and operational experience and became the Finance Director of Unipalm Group plc, from 1996 to 2001. He then went on to become CFO of Searchspace Group Limited from 2001 until 2005. Chris then went on to hold a number of non-executive roles across a range of companies with a technology focus in many cases.

Chris holds a Natural Sciences degree from Cambridge University. He then qualified as a Chartered Accountant with Arthur Andersen LLP in 1979 where he spent his early career.

Other roles

Chris is currently a Non-Executive Director of NCC Group plc.

Corporate governance statement



Dr Christopher Richards
Chairman

The group strives for best practice to ensure it can be flexible and responsive to business change and additional challenges that arise

I am pleased to present the Corporate governance report for the year ended 31 July 2023. This section of the Annual Report describes our corporate governance structures and processes and their application throughout the year ended 31 July 2023.

The Board's view on corporate governance

The UK Corporate Governance Code embodies core principles of accountability, transparency, probity and a focus on long-term success. The Board firmly believes that a company governed in accordance with these principles is more likely to be successful and that this is all the more important in times of significant uncertainty.

The Board and its Committees play a central role in the group's governance by providing an external and independent perspective on matters material to Nanoco's stakeholders, and by seeking to ensure that effective internal controls and risk management processes are in place.

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

The members of the Board bring a wide range of skills and experience to the group as set out on pages 46 and 47. The diverse skill set allows the Board to appropriately challenge and lead the group's strategy.

Board focus during the year

Agreeing strategic priorities with the Executive Directors

The Board has devoted considerable time to strategic discussion in the current year. The group continues to expand its commercial offering beyond CFQD[®] (cadmium-free quantum dots) into a range of dot-based nanomaterials for sensing. Our customers continue to invest in these areas with Nanoco, and have reported pleasing results, with Nanoco's materials being described as "world class". The group continues to invest in improvements in existing products and expansion into other materials.

Conclusion of the lawsuit against Samsung

The conclusion of the litigation against Samsung allowed the management team to return its focus to the opportunities for the core organic business. The Board formally disbanded the Litigation Sub-Committee which comprised the Board Chairman and the Senior Independent Director, together with the CEO, CTO and Litigation Special Adviser.

Shareholder requisition

It was disappointing to receive notice from a small group of shareholders to requisition a general meeting to propose the termination of the existing Directors and the appointment of their own team. We firmly believe that the existing Directors are best placed to deliver shareholder value, and so it was incredibly encouraging that all the proposals were voted down so emphatically. However, it is important to note that this process was incredibly value destructive, in that

it cost a significant amount of time and resources to ensure the outcome was in the interests of all shareholders and not a select few.

Appointment of new Non-Executive Director

The Board remains committed to continual improvement, and following the conclusion of the Samsung litigation, the decision was taken to look for an additional Non-Executive Director to complement the existing team. This search is ongoing and we look forward to updating all stakeholders in due course.

Strong corporate governance





















The Board is committed to ensuring that a strong governance framework operates throughout the group, recognising that good corporate governance is a vital component to support management in its delivery of our strategic objectives and to operate a sustainable business for the benefit of all stakeholders.

Strategic priorities

The Board reviewed the current strategy with the Leadership team, and considered how certain developments should be prioritised to help the Company achieve its short-term goals.

Monitor performance

The Board reviews performance of the business on a monthly basis through formal communications from the Executive Directors. The Board provides oversight and challenges to the Executive Directors to ensure robust decisions are made.

Attendance	Board	Audit Committee	Nominations Committee	Remuneration Committee
Number of meetings	13	7	2	5
Executive Directors				
Brian Tenner		 ¹	 ¹	 ¹
Dr Nigel Pickett		—	—	—
Liam Gray		 ¹	—	—
Non-Executive Directors				
Dr Christopher Richards				
Dr Alison Fielding				
Chris Batterham				
Henry Turcan	 ²	—	—	—

The Non-Executive Directors met twice during the year without any Executive Directors present.

- 1 Executive Directors attended these meetings by invitation and are not members of these Committees.
- 2 Henry Turcan stepped down from the Board part way through the year.

Learn and improve

The Board is committed to continual development. During the year, updates on corporate governance and legal developments were provided by corporate lawyers. The Board intends to carry out further training on accounting developments and ESG issues.

Overall management of risk and change within the group

The rapidly evolving challenges brought about by Brexit, the Ukraine crisis and the cost of living crisis, against a background of other macroeconomic factors, have required active real-time engagement between all members of the Board.

These focus areas were in addition to the normal ongoing responsibilities for approving the annual operating and capital expenditure budgets and any material changes to them.

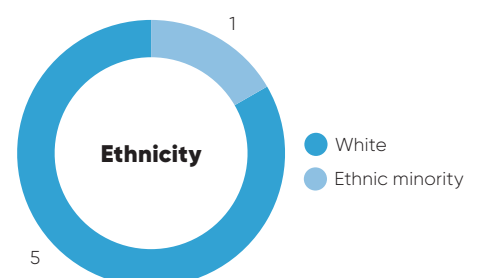
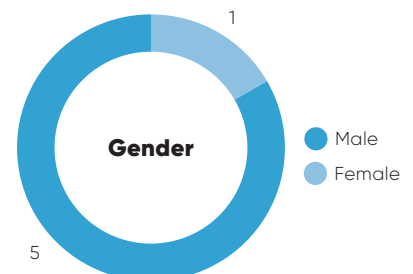
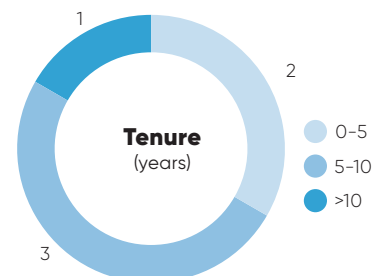
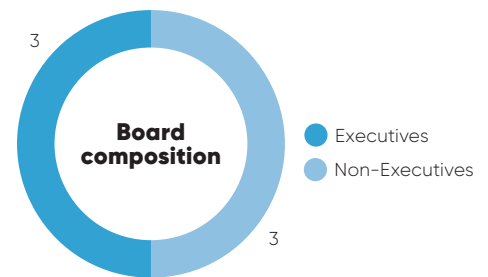
A typical Board agenda

Each full Board meeting is structured around a standard agenda of standing items that then includes a number of additional specific focus items for that month's meeting. These focus items are either recurring items (such as risk management) or are in response to emerging issues in our markets, regulation, or the business itself. An example of an agenda taken from the July 2023 meeting is shown below:

- minutes and matters arising from previous meetings (standing item);
- CEO report on business performance (standing item);
- CEO report on progress and customer deliverables (standing item);
- CFO report on financial performance and rolling forecasts (standing item);
- CTO report on technical and IP matters (standing item);
- Company Secretary report on governance issues and any material litigation (standing item);
- reports from Committee Chairs (Audit, Nominations, Remuneration and EHS) (standing item); and
- any other business (standing item).

Certain key senior management members are invited to give presentations at Board and Committee meetings where appropriate.

Other areas, including the review of the group risk register, the strategic plan, the annual budget, contentious matters and succession planning, etc. are reviewed by the Board during each year at intervals commensurate with their importance.



Corporate governance statement continued

	Number of board members	Percentage of the board	Number of senior positions on the board	Number in executive management	Percentage of executive management
Men	5	83%	4	3	100%
Women	1	17%	1	0	0%

	Number of board members	Percentage of the board	Number of senior positions on the board	Number in executive management	Percentage of executive management
White British	5	83%	4	2	67%
Other ethnic group	1	17%	1	1	33%

My role as Chairman

The structure of the Board, its Committees and their respective responsibilities are summarised on pages 51 and 52. My key focus is to ensure that Nanoco has an effective Board which is collectively responsible for the long-term success of the group. One of my most important jobs is to ensure that the Board and its Committees have the right balance of skills, experience and knowledge suitable for Nanoco's evolving strategy and growth aspirations as we progress through a new phase of our development.

Board and Committee evaluation

Regular and appropriate Board and Committee evaluation is vital to improving Board effectiveness. This year, given the various issues the Board was dealing with, it was again felt that an external performance review would not be as value adding as it would be in future with a more established Board. Therefore, I once again conducted an internal Board evaluation process, which was discussed by the Board. Overall, it was concluded that the Board and Executive team performed well during the year. The quality of information,

focus and discussion had improved and Directors felt fully able to voice their differing opinions. In addition, the review identified areas of potential improvement, such as composition and strategy, to further enhance the Board's performance.

Once again it was felt that the balance of time allocated to strategy, operations and functional areas and governance was broadly correct. The Board displayed great flexibility and nimbleness in responding to rapidly emerging issues. Throughout the year, the Board has maintained good corporate governance and challenged management to continue to improve the processes and systems that underpin the group's normal operating activities.

Each of the Audit Committee, Remuneration Committee and Nominations Committee carried out an internal self-evaluation of its effectiveness during the year. The conclusion from the Committee reviews is that, overall, the Committees are working well.

Shareholder engagement activities

Engagement with shareholders remains an important activity for the Board. The group maintained its more formal calendar of engagement with shareholders and potential investors.

Longer-term Viability statement

The Board utilised the forecast for the next four years to assess the group's long-term viability. This is an increase on the two-year period used in the prior year and reflects both the progress towards full commercialisation and the strong financial underpinning of the group. Further details are provided on pages 36 and 37.

Statement of compliance with the Code

I am pleased to confirm that the Board considers that it has been in compliance with the Code throughout the year ended 31 July 2023 in all material areas.

Dr Christopher Richards
Chairman
19 October 2023

Governance framework

The different parts of the group's governance framework are shown below, with a description of how they operate and the linkages between them.



Corporate governance statement continued

Board composition and division of responsibilities

Role profiles are in place for the Chairman, Chief Executive Officer and other Directors, which clearly set out the duties of each role.

Role	Responsibilities
Chairman of the Board (Dr Christopher Richards)	Is responsible for the running of the Board and promoting a culture of openness and debate. The Chairman, in conjunction with the CEO and other Board members, plans the agendas, which are issued with the supporting Board papers in advance of the Board meetings. These supporting papers provide appropriate information to enable the Board to discharge its duties which include monitoring, assessing and challenging the Executive management of the group.
Chief Executive Officer (Brian Tenner)	Together with the senior management team, is responsible for the day-to-day running of the group and regularly provides performance reports to the Board. The role of CEO is separate from that of the Chairman to ensure that no one individual has unfettered powers of decision making. The CEO works directly through the Leadership team (CTO, CFO and Operations Director).
Chief Financial Officer (Liam Gray)	Works closely with the CEO and CTO to support them in the delivery of their roles. Key objectives are to ensure the smooth running of many of the back office functions. Includes responsibility for all financial matters including costings and plant efficiencies as well as commercial margins.
Chief Technical Officer (Dr Nigel Pickett)	Responsible for all research and development activities of the group. Includes stewardship of the group's IP portfolio, new additions and maintenance. Takes leadership position on critical new research areas.
Senior Independent Director (Dr Alison Fielding)	Provides a sounding board for the Chairman and serves as an intermediary for other Directors, employees and shareholders when necessary. The main responsibility is to be available to the shareholders should they have concerns that they have been unable to resolve through normal channels or when such channels would be inappropriate.
Other Non-Executive Directors (Chris Batterham)	Maintains an ongoing dialogue with the Executive Directors which includes constructive challenge of performance and the group's strategy.
Company Secretary (Liam Gray)	Ensures good information flows within the Board and its Committees and between senior management and Non-Executive Directors. The Company Secretary is responsible for facilitating the induction of new Directors and assisting with their professional development as required. All Directors have access to the advice and services of the Company Secretary to enable them to discharge their duties as Directors. The Company Secretary is responsible for ensuring that Board procedures are complied with and for advising the Board through the Chairman on governance matters. The appointment and removal of the Company Secretary is a matter for the Board as a whole.

Experience of the Board

The members of the Board bring a wide range of skills and experience to the group. This diverse skill set allows the Board to appropriately challenge and lead the group's strategy.

The chart below summarises its key areas of significant experience.

Name	Strategy development	Chemical	Human resources	Corporate governance	Financial management	M&A	ESG
Dr Christopher Richards					–		–
Dr Nigel Pickett			–	–	–	–	–
Brian Tenner		–					
Liam Gray		–				–	
Dr Alison Fielding			–				
Chris Batterham		–	–				–

Dr Christopher Richards

Chairman

19 October 2023

Compliance with the UK Corporate Governance Code 2018

The below provides a guide to the most relevant explanations for how the Company has complied with each Principle.

Board leadership and Company purpose	Page reference
A. An effective and entrepreneurial Board promotes the long-term sustainable success of the Company, generating value for shareholders and contributing to wider society.	P40-52
B. Purpose, values and strategy are set and align with culture, which is promoted by the Board.	P46-52
C. Resources allow the Company to meet its objectives and measure performance. A framework of controls enables assessment and management of risk.	P28-37
D. Engagement with shareholders and stakeholders is effective and encourages their participation.	P21-23
E. Oversight of workforce policies and practices ensures consistency with values and supports long-term sustainable success. The workforce is able to raise matters of concern.	P21-23, P40-52
F. The diversity policy applied to the issuer's administrative, management and supervisory bodies with regard to aspects such as, for instance, age, gender, or educational and professional backgrounds.	P40-52
Division of responsibilities	Page reference
G. The Chair is objective and leads an effective Board with constructive relations.	P46-56
H. The Board comprises an appropriate combination of Non-Executive and Executive Directors, with a clear division of responsibilities.	P46-50
I. Non-Executive Directors commit appropriate time in line with their role.	P46-85
J. The Company Secretary and the correct policies, processes, information, time and resources support Board functioning.	P46-56
Composition, succession and evaluation	Page reference
K. There is a procedure for Board appointments and succession plans for Board and senior management which recognise merit and promote diversity.	P58-60
L. There is a combination of skills, experience and knowledge across the Board and its Committees. Tenure and membership are regularly considered.	P46-50
M. Annual evaluation of the Board and Directors considers overall composition, diversity, effectiveness and contribution.	P50
Audit, risk and internal control	Page reference
N. Policies and procedures ensure the independence and effectiveness of internal and external audit functions. The Board satisfies itself of the integrity of financial and narrative statements.	P61-66
O. A fair, balanced and understandable assessment of the Company's position and prospects is presented.	P5-37
P. Procedures manage and oversee risk, the internal control framework and the extent of principal risks the Company is willing to take to achieve its long-term strategic objectives.	P33-35
Remuneration	Page reference
Q. Remuneration policies and practices are designed to support strategy and promote long-term sustainable success, with Executive remuneration aligned to Company purpose, values and strategic delivery.	P67-85
R. A transparent and formal procedure is used to develop policy and agree Executive and senior management remuneration.	P67-85
S. Independent judgement and discretion is exercised over remuneration outcomes taking account of the relevant wider context.	P67-85

The Code is published by the Financial Reporting Council, a full copy of which can be viewed on its website, www.frc.org.uk.

Corporate governance statement continued

This section of the Corporate governance report contains the group's other reporting disclosures on corporate governance required by the Companies Act 2006, the UK Corporate Governance Code 2018 (the "Code") and the UKLA's Disclosure and Transparency Rule 7 including the required statement of compliance. A copy of the Code is publicly available at <https://www.frc.org.uk>.

Disclosure and Transparency Rule 7

This statement complies with sub-sections 2.1, 2.2(i), 2.3(i), 2.5, 2.7 and 2.10 of Rule 7 of the UK Listing Authority Disclosure Rules. The information required to be disclosed by sub-section 2.6 of Rule 7 is shown in the Statement of Directors' responsibilities on page 89 and is incorporated in this section by reference.

The Board

The group is controlled through its Board of Directors. The Board's main responsibilities and those of its various sub-committees are set out on pages 51 and 52.

To enable it to discharge its key responsibilities as set out above, the Board receives appropriate and timely information prior to each meeting. A formal agenda is set by each Chair and Committee papers are distributed several days before meetings take place. Any Director may challenge group proposals, and decisions are taken democratically after discussion. Any Director who feels that any concern remains unresolved after discussion may ask for that concern to be noted in the minutes of the meeting. Specific actions arising from meetings are agreed by the Board and then appropriately followed up.

The terms of reference of the Committees are publicly available at www.nanocotechnologies.com. The same pages of the Annual Report show the key officers and the division of responsibilities and duties between each role holder.

The Directors

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

All Directors are then subject to election by the shareholders at the next general meeting following appointment to the Board. In accordance with best practice, they are then subject to annual re-election thereafter. The contracts of the Non-Executive Directors are available for inspection by shareholders at the AGM.

The Chairman has sufficient time to devote to his duties as Chairman and this has been demonstrated by his active participation in the group's activities.

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

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

The Board composition is partially compliant with Listing Rules LR 9.8.6R(9) and LR 14.3.33R(1), namely that at least one of our senior Board positions is a woman (Dr Alison Fielding is our Senior Independent Director) and at least one member of the Board is from a minority ethnic background.

We are not currently compliant with the requirement to have at least 40% female representation at Board level. This is something which we will consider when looking at new appointments.

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

Donations

During the year the group made no political or charitable donations.

Independence and conflicts of interest

The group has effective procedures in place to deal with potential conflicts of interest. The Board is aware of the other commitments of its Directors and changes to these commitments are reported to the Board. The Companies Act 2006 requires Directors to avoid situations where they have, or could have, a direct or indirect interest that conflicts or potentially conflicts with the interests of the group.

Directors are required to declare in advance of a Board meeting whether any of the business to be discussed in that meeting gives rise to a conflict or potential conflict. That Director will then be excluded from the relevant discussions unless agreed otherwise by the Directors of the group in the limited circumstances specified in the Articles of Association. They will not be counted in the quorum or permitted to vote on any issue in which they have an interest.

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

Professional development

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

operates, corporate social responsibility matters and other changes affecting the group and the industry it operates in as a whole.

The group acknowledges the importance of developing the skills of the Directors to run an effective Board. To assist in this, Directors are given the opportunity to attend relevant courses and seminars to acquire additional skills and experience to enhance their contribution to the ongoing progress of the group. All of the Directors are given briefings on trends and developments in corporate governance.

Performance evaluation

The Board has established a formal process for the annual evaluation of the performance of the Directors. This evaluation is based on a performance evaluation questionnaire completed by each Director. The Chairman's performance is reviewed annually by the Non-Executive Directors and led by the Senior Independent Director, Dr Alison Fielding. The evaluation of the Chief Executive Officer is performed by the Chairman and the evaluation of the other Executive Directors is performed by the Chief Executive Officer.

Directors' dealings in the group's shares

The group has adopted a model code for Directors' dealings in securities of the group which is appropriate for a company quoted on the premium list of the London Stock Exchange. The Directors comply with the rules relating to Directors' dealings and also take all reasonable steps to ensure compliance by the group's "applicable employees" as defined in the rules. The Directors' interests in the ordinary share capital and in options over such shares of the Company are shown in the Directors' remuneration report on pages 70 to 85.

Investor communications

Nanoco recognises the importance of good and timely communication. Its primary communication channel is the

internet. All press releases are published on the Company's website shortly after they are issued via the regulatory news service in the United Kingdom.

In addition, a broad range of other relevant information is available on the group's website.

The group also endeavours to ensure that all published information is capable of being readily understood on a standalone basis without the need for a one-to-one meeting. This is an extension of the "fair, balanced, and understandable" requirement inherent in the Annual Report and Accounts.

Investor engagement

Meetings with analysts and institutional shareholders are held following the interim and final results and on an ad hoc basis. These are usually attended by the Chief Executive Officer and Chief Financial Officer. There are times when other members of the Board, such as the Chairman or CTO, also attend these meetings. Following feedback from shareholders, the Group plans for the CTO to attend more shareholder meetings going forward.

Engagement during the year	Number
One-to-one meetings	10
Conference calls	22
Group meetings	4
Investor conferences	4

The group takes care to ensure that meetings with shareholders or potential investors are structured around information that is already available to all shareholders on an equal footing.

Feedback from these meetings and regular market updates are prepared by the group's broker and are shared with the Board.

The Chairman and other Non-Executive Directors are available to shareholders to discuss strategy and governance issues at a shareholder's request, and attend general meetings to meet shareholders where possible.



The Chairman and other Non-Executive Directors are available to shareholders to discuss strategy and governance issues at a shareholder's request."

Corporate governance statement continued

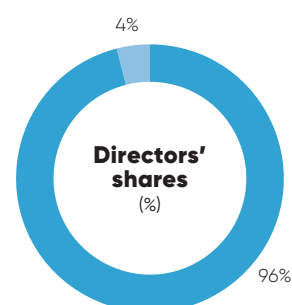
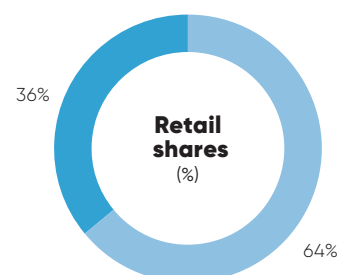
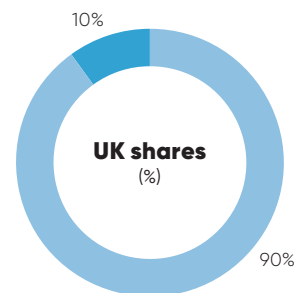
Shareholder analysis

Shareholders at 31 July 2023 are analysed as follows:

Territory	Shares	%
UK	293,046,877	90%
Europe (ex. UK)	8,020,495	3%
North America	18,733,865	6%
Asia	4,455,241	1%
Rest of World	162,250	–
Total	324,418,728	100%

Type of holder	Shares	%
Retail investors	206,541,180	64%
Hedge funds	31,224,746	10%
Pension funds	25,159,390	8%
Trading	22,790,238	7%
Directors	14,293,480	4%
Other	24,409,694	7%
Total	324,418,728	100%

Investment style	Shares	%
Retail	199,731,255	62%
Hybrid	47,262,703	15%
Trading	25,464,811	8%
Directors	14,293,480	4%
Corporate	10,890,000	3%
Value and growth	8,506,976	3%
Other	18,269,503	5%
Total	324,418,728	100%



Annual General Meeting ("AGM")

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

All shareholders are encouraged to attend the AGM and talk to the Directors there. All Directors, including the Chairs of the Audit, Remuneration and Nominations Committees, are available at the meeting to answer questions.

Shareholders not attending the AGM can contact the group via email at info@nanocotechnologies.com.

The table below shows the different resolutions proposed at the 2022 AGM, the proportions of possible votes that were cast and the proportions in favour of and against each resolution (resolutions 1 to 12 were passed as ordinary resolutions and resolutions 13 to 16 were passed as special resolutions).

The Board takes steps to ensure that the views of major shareholders are considered through regular contact.

As appropriate, the Board takes due note of their views insofar as these are relevant to the group's overall approach to corporate governance. This is achieved, as noted previously, through feedback from meetings with significant shareholders and feedback from the group's brokers. Significant shareholders were consulted regarding the changes to the remuneration policy which were proposed at the 2021 AGM and that policy will be effective for three years (until 31 July 2024).

No.	Resolution	Votes for			Votes against			Votes withheld	
		Votes	% of total votes cast	% of total voting rights ²	Votes	% of total votes cast	% of total voting rights ²	Votes	% of total voting rights ²
1	To receive the Annual Report and Accounts	110,794,374	100.0%	34.4%	2,000	0.0%	0.0%	9,000	0.0%
2	To appoint the auditors	110,737,657	100.0%	34.3%	21,800	0.0%	0.0%	45,917	0.0%
3	Authority to agree the auditors' fee	110,736,568	100.0%	34.3%	21,800	0.0%	0.0%	47,006	0.0%
4	To re-elect Dr Christopher Richards	105,336,051	95.1%	32.7%	5,427,908	4.9%	1.7%	41,415	0.0%
5	To re-elect Brian Tenner	110,756,759	100.0%	34.4%	7,200	0.0%	0.0%	41,415	0.0%
6	To re-elect Dr Nigel Pickett	110,756,759	100.0%	34.4%	7,200	0.0%	0.0%	41,415	0.0%
7	To re-elect Dr Alison Fielding	109,629,809	99.0%	34.0%	1,134,150	1.0%	0.4%	41,415	0.0%
8	To re-elect Christopher Batterham	109,622,604	99.0%	34.0%	1,141,895	1.0%	0.4%	41,415	0.0%
9	To re-elect Liam Gray	110,321,260	99.6%	34.2%	435,699	0.4%	0.1%	48,415	0.0%
10	Approval of Directors' remuneration report	106,380,116	96.0%	33.0%	4,378,386	4.0%	1.4%	46,872	0.0%
11	Approval for political donations	110,377,948	99.6%	34.2%	427,326	0.4%	0.1%	100	0.0%
12	Authority to issue and allot new ordinary shares	110,717,185	99.9%	34.3%	65,904	0.1%	0.0%	22,285	0.0%
13 ¹	Disapplication of pre-emption rights	110,661,390	99.9%	34.3%	112,735	0.1%	0.0%	31,252	0.0%
14 ¹	Disapplication of pre-emption rights on acquisition or investment	110,677,215	99.9%	34.3%	62,641	0.1%	0.0%	65,518	0.0%
15 ¹	Authority to purchase its own shares	110,736,500	100.0%	34.3%	52,840	0.0%	0.0%	16,034	0.0%
16 ¹	Reduced notice of general meetings	110,558,701	99.8%	34.3%	231,138	0.2%	0.1%	15,535	0.0%

1 Proposed as special resolutions.

2 Excluding treasury shares.

Nominations Committee report



Dr Christopher Richards
Nominations Committee Chair

We are expanding the mix of skills and experience on the Board as Nanoco aims to evolve to become a supplier of commercial production materials for electronics supply chains

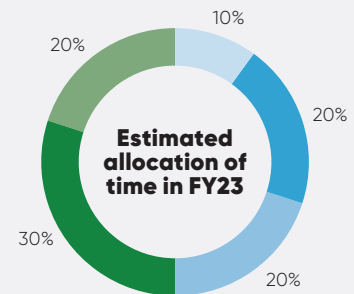
The Board has a wide variety of skills and experience that has served us well in recent years. With a commercial production order expected in the short term, we have commenced a process to add an additional Non-Executive Director with deep experience in consumer electronics supply chains with a focus on commercialisation skills. Where the talent pool permits, we also remain committed to further enhancing diversity and skills.

Roles and responsibilities

The Committee is primarily responsible for assisting the Board in ensuring the appropriate composition of the Board and any Committees of the Board to match Nanoco's stage of evolution. This includes considering new appointments and potential succession plans. The Committee evaluates the balance of skills, knowledge and experience and the size, structure and composition of the Board and Committees of the Board. This extends to reviewing appointments of additional and replacement Directors and Committee members by making appropriate recommendations to the Board on such matters by reference to the parameters set out below:

Members

- Dr Christopher Richards (Chair)
- Dr Alison Fielding
- Chris Batterham



- Performance evaluation
- Succession planning
- Recruitment
- Governance
- Board and Committee composition



Governance

The responsibilities of the Committee were expanded a number of years ago to include a focus on continuous improvement in governance. The Committee's terms of reference therefore include:

- reviewing and considering the Company's procedures and controls for ensuring compliance with:
 - the UK Corporate Governance Code;
 - the FCA Disclosure Guidance and Transparency Rules, the Market Abuse Regulation, and any other applicable rules and regulations that apply to the group; and
 - the timely and accurate disclosure of all information that is required to be disclosed in order to satisfy the Company's legal and regulatory obligations under the Corporate Governance Requirements;
- recommending any proposed changes in the management of corporate governance to the Board;
- reporting on such compliance to the Board;
- reviewing potential conflicts of interest involving Directors and determining whether such Director or Directors may vote on any issue as to which there may be a conflict; and
- reviewing all related party transactions, with appropriate input from advisers, determining whether such transactions are appropriate for the Company to undertake and advising the Board accordingly.

Committee membership

In accordance with the UK Corporate Governance Code the Nominations Committee consists only of Non-Executive Directors. I have chaired the Committee since my appointment as a Non-Executive Director in November 2015 and thereafter having been made Chairman of the Board in May 2016. The Board considers it appropriate for me to chair the Nominations Committee in order to achieve a balance with the Audit and Remuneration Committees, which are each chaired by other Non-Executive Directors.

The Committee's other members are Dr Alison Fielding and Chris Batterham. All members of the Committee are considered to have experience and competence relevant to the duties and responsibilities of the Committee.

Summary biographies of all members of the Committee are detailed on pages 46 and 47.

Meeting frequency and attendance

The terms of reference of the Committee require at least two meetings per year. When specific issues or changes need to be addressed, such as the appointment of a new Board member, the Committee meets on additional occasions. The Committee met two times during the financial year and was attended as shown in the table below:

Committee member	Meetings/attended
Dr Christopher Richards (Chair)	2/2
Chris Batterham	2/2
Dr Alison Fielding	2/2

As well as the members of the Committee, the Chief Executive Officer may be invited to attend, where there are no perceived conflicts of interest. On matters of remuneration of new appointees, the Chair works closely with the Remuneration Committee.

Meetings of the Nominations Committee are either scheduled around existing Board meetings or on an ad hoc basis, for example during a recruitment process. The Committee Chair provides the Board with a full briefing on all relevant matters.

The Chairman would not chair this Committee should it be considering the appointment of a new Chairman. The Senior Independent Director would chair the Committee in this situation.

Board structure and activities during the year

Following the successful conclusion of the Samsung litigation, the Company's financial position has improved significantly. In addition, the Company has made good progress towards achieving its goal of commercial production. As a result of both positive steps, the decision was taken during the year to begin the search for a new Non-Executive Director with deep experience in consumer electronics supply chains with a focus on commercialisation skills. We have engaged a specialist worldwide search company to this end, and hope to make an appointment by the end of calendar year 2023.

Succession planning

The Chairman will have been with the Company for nine years in November 2024. In line with good corporate governance, the Nominations Committee will begin its search for a new Chairman early in calendar year 2024 to ensure appropriate time for an effective search and a smooth transition.

Nominations Committee report continued

Meeting frequency and attendance continued

Employee engagement

The Employee Voice Committee ("EVC") was established in 2020 as an employee representative body which would aim to formally meet with a designated member of the Board at least twice a year. Liam Gray, the CFO, took responsibility for formal engagement with the EVC, and took part in two of its meetings during the year. The EVC gave valuable feedback on employee concerns and issues, which has supported management initiatives to improve morale and employee engagement. Examples included holding "all-Company meetings", giving more attention to mental health awareness, and considering alternative forms of reward and recognition.

Diversity

The group has always aimed to employ the right person for the right job, irrespective of sex, gender, race or disability. When recruiting at Board level, the Nominations Committee requires that any Executive search firms used by the group have signed up to its industry's voluntary code of conduct (prepared in response to the Davies Review of Women on Boards). The group follows a policy of appointing talented people on merit at every level and does not have a specific target for numbers of female Directors or employees. This reflects a market for industry skills that unfortunately still attracts more male candidates than female. The Board will also ensure that its own development in this area is consistent with its strategic objectives and enhances Board effectiveness. Other aspects of diversity in the group are commented on in the Sustainability section on pages 40 to 45.

Review of the Nominations Committee's effectiveness

The Committee has reviewed and considered the effectiveness of its performance during the year. The review included the views of members of the Committee and of regular attendees at the various meetings. I am satisfied that the degree of rigour and challenge applied in performing the Committee's responsibilities is appropriate and effective and continues to improve.

Dr Christopher Richards
Nominations Committee Chair
19 October 2023



The Committee is primarily responsible for assisting the Board in ensuring the appropriate composition of the Board and any Committees of the Board to match Nanoco's stage of evolution."

Audit Committee report



Chris Batterham
Audit Committee Chair

To provide oversight of financial reporting and disclosures and to ensure an appropriate risk management framework is in place as the group develops and grows

Overview

The Audit Committee provides oversight of the group's financial and narrative reporting statements, monitors the effectiveness of systems of internal control and risk management processes, and monitors the integrity of the group's external audit processes.

The Audit Committee monitors internal and external risk factors on behalf of the Board. These are maintained in the group's risk register. The status and assessment of matters in the risk register also informs the drafting of the Viability statement. The Committee does not just respond to external factors but also supports and challenges management to anticipate future risks and opportunities.

Committee membership

The composition of the Committee currently comprises me, Chris Batterham (Chair), and Dr Alison Fielding. In accordance with the provisions of the Code, the Committee is made up of independent Non-Executive Directors. The Board considers that I have recent and relevant financial experience to act as Chair of the Committee, by virtue of being a qualified Chartered Accountant with extensive relevant experience as a former CFO and finance director of a number of private and public companies. All members of the Committee are considered to have experience and competence relevant to the material science sector.

Summary biographies of all members of the Committee are detailed on pages 46 and 47.

Meeting frequency and attendance

The terms of reference of the Committee require at least four meetings per year. The Committee met seven times during the financial year. As well as the members of the Committee, the meetings are usually attended on an invitational basis by the Chairman, the Chief Executive Officer and the Chief Financial Officer. The external auditors attend each meeting unless the business of the meeting does not need them to be present. The Committee also has meetings with the external auditors without the Executive Directors being present. Attendance of each member is set out below:

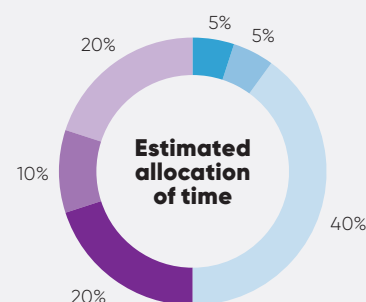
Committee member	Meetings/attended
Chris Batterham (Chair)	7/7
Dr Alison Fielding	7/7

Meetings of the Audit Committee are scheduled to occur in the run-up to key events in the group's reporting calendar. Each meeting precedes a Board meeting to allow the Committee Chair to fully brief the Board on all relevant matters.

The Committee has a pre-determined series of subjects and issues to be reviewed each year. These are then supplemented by additional review of emerging issues or changes in the financial reporting or governance regimes. In this way, the Committee ensures that key recurring themes are regularly reviewed while maintaining the flexibility to adapt to changing circumstances.

Members

- Chris Batterham (Chair)
- Dr Alison Fielding



- Performance evaluation
- Succession planning
- Accounting matters
- Risk management
- Internal controls
- Financial reporting

In addition to the scheduled Committee meetings, the members of the Committee meet and discuss emerging issues for the business with the CEO and CFO to ensure that the work of the Committee remains appropriately focused on the risks and needs of the business.

Continuous improvements in the quality, relevance and timeliness of information being provided to the Committee and the Board as a whole ensure that similar gains are also made in the quality review, challenge and scrutiny by the Committee.

Audit Committee report continued

Audit Committee responsibilities

The key areas of focus for the Audit Committee are set out below. This includes specific duties of the Committee in each area, how it operates and any changes and improvements made over time. The subjects referred to are a mix of annually recurring areas and also specific issues that have arisen or been reviewed during the last year.

Financial reporting

The primary objective is to ensure that internal and external financial information is robust, relevant, reliable, and a firm basis for decision making by management and external stakeholders alike. These activities are typically carried on throughout the year. They lend themselves to a "continuous improvement" mindset that means we are always looking to do better.

Our responsibilities in this area include:

- reviewing and monitoring the integrity of the group's annual and interim financial statements;
- ensuring the appropriateness of accounting policies;
- reviewing and challenging the critical judgements and estimates used in financial reporting. This includes assessing any potential impact of accounting judgements and estimates on Executive remuneration;
- ensuring that the financial information being provided internally to the Board and to management is as robust as that reported externally and evolves to meet the changing needs of the business;

- ensuring the group remains up to date with developments in accounting and reporting requirements; and
- advising the Board on whether or not the financial statements, when taken as a whole, are fair, balanced and understandable. In simple terms, this means that shareholders receive adequate information to assess the group's strategy, business model, risks, and performance.

External audit

The primary objective in this area is to ensure that the group is subject to an appropriately robust, risk-focused external audit from a qualified and independent firm of auditors.

Further responsibilities in this area include:

- advising the Board on the appointment of the external auditors;
- reviewing and monitoring the performance of the external auditors, which includes the planning and effective execution of the external audit process itself;
- setting the audit and non-audit fees of the auditors to avoid any potential conflicts of interest with Executive management (non-audit fees are set out in note 6 to the financial statements); and
- controlling the award of non-audit work to the external auditors to ensure that there is no actual or perceived threat to their independence.

Internal control and risk management

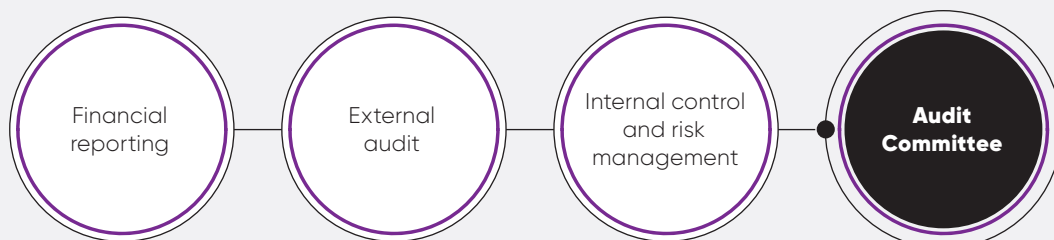
Our internal control and risk management processes are a fundamental part of the overarching framework used to safeguard the assets

of the business and to ensure that investments represent an appropriate balance of risk and return. We work to ensure that these are as good as they can be for our business' scale.

Our responsibilities in this area include:

- continual monitoring of the appropriateness and effectiveness of internal controls (including whether an internal audit function is required);
- review of lessons learnt and management remediation plans for any shortcomings or improvement plans to internal control processes;
- review of progress and commitment to addressing control improvement opportunities identified by the external auditors;
- review and challenge of the models and assumptions underlying the going concern and viability statements;
- continual focus on cash and cash forecasting;
- oversight of whistleblowing and fraud detection and prevention mechanisms; and
- ongoing review of the group's risk management processes and systems, including a substantive review and challenge of management's assessment of key risks.

The Audit Committee also assists the Board in ensuring the overall corporate governance framework is appropriate by giving due consideration to laws and regulations, the provisions of the UK Corporate Governance Code and the requirements of the Listing Rules.



Financial reporting

Our approach to materiality

The financial statements must present a true and fair view of the performance and financial position of the group. They must also present a fair, balanced and understandable view. These are both aimed at ensuring that a user of the accounts can gain an accurate picture of the underlying performance and position of the business. To achieve this, all material matters need to be addressed. Material matters are those that are considered by the Directors to be sufficiently specific and have a large enough real or potential impact that they would be likely to influence the decisions of a reader of the accounts.

The Directors take a range of quantitative and qualitative matters into account in assessing whether or not a matter is deemed to be material. These include the absolute size of a potential adjustment by reference to the overall income statement or the financial position statement and also by reference to an individual component of the financial statements. Qualitative judgements include whether an issue would reverse or materially alter a trend (such as turning a profit into a loss, or growth into a decline).

In this way, the Directors aim to make sure as wide a range of issues as possible are considered without over-burdening the reader of the financial statements with insignificant or immaterial matters.

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

Significant issues considered during the year in respect of the financial statements

The Committee assessed the following matters in respect of financial reporting and in the preparation of the Interim Report and the Annual Report and Accounts:

- continuing appropriateness of the group's accounting policies;
- continuous development in the quality and transparency of the group's external reporting;
- a review of key judgements and estimates made by management (see table below); and
- considering if the financial statements, when taken as a whole, are fair, balanced and understandable.

Significant accounting matters and areas of significant management judgement

The Committee, together with the Board, considered what the significant accounting matters and areas of management judgement in relation to the financial statements were and how these would be addressed.

Each item is considered in further detail below.

Revenue recognition and deferred income (recurring item)

The Committee reviewed the revenue recognition policies and management judgements made in the preparation of the financial statements. Where revenue relates to the sale of products, revenue is recognised on the transfer of risks and rewards of ownership. For services to customers, revenue is recognised on a time and material basis for delivery of services.

During the year, the group entered into a significant settlement transaction with Samsung, which had two linked components:

- Disposal of IP – The proceeds from the settlement were netted off against the remaining net book value. This part of the settlement had no impact on revenue or deferred income and was accounted for as a "profit on disposal of intellectual property" in line with IAS 38.
- Licence revenue – In line with IFRS 15, the licence revenue from the settlement is being recognised in the income statement evenly over the average remaining life of the patent portfolio (being 8.8 years from the signing of the agreement). The unrecognised revenue is recorded as deferred income in the statement of financial position.

A major one-year work package that commenced in May 2022 with the European electronics customer was the most material source of revenue in the year from services and material sales, and was completed at the end of April 2023. Deliverables were all accounted for on the basis noted above regarding sales of materials or service revenue in line with the requirements of IFRS 15.

Other new sources of revenue earned in the year were derived from the sale of goods or the performance of short-term professional services work. A low level of judgement was required in assessing these contracts under IFRS 15.

The Committee concluded that the judgements and estimates made by management in respect of revenue recognition and, if relevant, the treatment of deferred income and contract liabilities were reasonable and appropriately disclosed in the financial statements.

Key item	Judgement or estimate?	Materiality	Uncertainty
Revenue recognition	Judgement	High	Medium
Carrying value of intangible assets	Estimate	Medium	Low
Going concern	Judgement and estimate	Medium	Low
Samsung litigation accounting	Judgement	High	Low
Capital reduction	Judgement	Low	Low

Audit Committee report continued

Significant accounting matters and areas of significant management judgement continued

Carrying value of intangible assets (recurring item)

The group holds a number of intangible assets, primarily relating to IP. At the end of the year, these had a carrying value of £0.9 million (2022: £1.6 million). During the year, the group entered into a number of transactions which support the net book value of the portfolio; the profit on disposal of IP during the year totalled £68.7 million, in addition to the licensing of the remaining portfolio which provided revenue of £3.0 million during the year and a further £49.9 million to be recognised in future years.

Management continued their bi-annual review of the portfolio to identify any one-off patents which may require impairment. The Committee challenged and reviewed the results of the assessment carried out by management. The Committee agreed with management that a £0.1 million impairment of a number of individual assets was required in the current year, with the majority related to technology areas that the group is no longer pursuing or territories where prosecution of IP rights is more difficult.

The gross book value of any assets which have been lapsed are treated as being disposed during the year. This totalled £0.3 million in the current financial year (net book value £0.0 million).

The group continues to recognise IP assets at their external cost of registration (typically, legal fees and amounts payable to patent offices). IAS 38 allows the measurement and recording of intangible assets using either a cost model or a revaluation model. The group uses a cost model approach as patents are specifically excluded from the revaluation approach.

Going concern (recurring item)

The Committee considered the use of the going concern basis for preparing the financial statements. This is currently an annual recurring activity given the ongoing losses incurred by the business in advance of generating full scale production levels of commercial revenues.

The litigation settlement in the financial year provides significant cash resources for the group. Taking into account the proposed return of capital, the remaining cash resources and the group's projected cash cost base, and the assessment by management and the Committee of the material potential risks identified in the group's risk register and any mitigating actions and controls as shown on pages 33 to 35, the Committee concluded that the group has adequate financial resources to adopt the going concern basis for the preparation of the financial statements. Given the nature of the risks that the group faces while its activities are at a pre-commercial stage, the Committee continues to recommend that the Annual Report and Accounts maintains a relatively high level of disclosure of these matters in the financial statements – as set out in the sections on risk, viability and going concern on pages 36 to 37.

Litigation accounting

Management reviewed the various adviser contracts linked to the litigation, and concluded that as a result of these all being payable following the settlement, these should be recognised in full as a one-off cost in the financial year. The Committee agreed with this treatment.

In addition, management reviewed the recognition of revenue relating to the agreements signed with Samsung, namely the sale of IP and the licence agreement. Both agreements are payable in two tranches with 50% being received in the year and 50% due in Feb 24.

The sale of IP is shown as a profit on disposal of IP after netting off the amortised cost of the IP being sold.

The licence income is recognised over time. Management considered the time period to which the licence income should relate, and decided the most relevant period would be the average remaining life of the IP portfolio, which is 8.8 years.

The Committee reviewed in detail the accounting and disclosures for the litigation settlement. This reflects the very significant materiality of the settlement. The CFO produced an extensive accounting and disclosure paper that was submitted to the Committee following additional review by the group's

external auditors. The Committee challenged the assumption that the settlement was one linked transaction and also the identification of the different performance obligations that needed to be accounted for. In respect of the deferred income arising, the Committee reviewed the various options for the calculation of the useful economic life of the IP portfolio and agreed with management's conclusion that using the average remaining life of the portfolio as a whole was the most appropriate basis for revenue recognition in future years.

Capital reduction

The Board has committed to returning capital to shareholders upon receipt of the second tranche of cash from Samsung. In order to facilitate this, the Parent Company is required to have distributable reserves. Historical losses meant a transfer from share premium was required to create distributable reserves. This was a court-approved proposal which also received significant shareholder approval and was completed during the financial year.

Financial reporting on a fair, balanced and understandable ("FBU") basis

The Committee reviewed the Interim and Annual Report and Accounts. As part of that review process, the members of the Committee were provided with a draft of the full Annual Report enabling them to ensure that the performance reported therein was consistent with the Committee's knowledge gained from regular reviews of the monthly management accounts and Board discussions of issues arising and business performance throughout the year.

The Committee also assessed whether the narrative description of the group's activities and performance was consistent with its own understanding obtained through Board and Audit Committee meetings and other interactions it had with management.

The CFO advised the Committee of the findings of independent readers of the draft Annual Report and Accounts. These reviews are carried out by Nanoco senior managers who have not been closely involved in drafting the Annual Report. Their knowledge of the business allows them to form an opinion if the

document conveys a fair, balanced and understandable view of business performance in the current year. The Committee members themselves also perform this function by reference to the matters discussed at the regular Board meetings.

Drawing on this knowledge of the group's activities and its own industry knowledge and experience, supplemented by advice received from external advisers during the drafting process, the Committee determined that the Annual Report and Accounts is fair, balanced and understandable and this finding was confirmed by the Board.

Audit Quality Review ("AQR") by the Financial Reporting Council ("FRC")

The Committee also reviewed and assessed the findings of the AQR carried out by the FRC on the external auditors' audit of the Annual Report and Accounts for FY23 as part of the FRC's rolling programme of quality reviews. While an AQR focuses on the performance of the audit by the external auditors, the Committee noted the two areas of good practice and the two areas where improvements were needed. The Company has agreed to adopt the recommendations highlighted by the AQR for the year ended 31 July 2023, namely recording employee costs in Costs of sales in the Consolidated Statement of Comprehensive Income. The Committee was satisfied that there were no material changes required to the group's reporting and that overall Mazars had performed appropriately in the first year as external auditors.

External audit

External audit plan

The Committee reviewed the proposed audit plan. The Committee was satisfied that the areas of audit risk highlighted by Mazars were appropriate and included all material matters. The Committee subsequently reviewed the actual audit report by Mazars to ensure that it aligned closely with those risks and the planned audit work.

Safeguarding auditors' independence

The independence of the external auditors is essential to the provision of an objective opinion on the true and fair view presented in the financial statements. The Committee reviews the policies and status of the independence of the external auditors consistent with the ethical standards published by the Auditing Practices Board.

Auditors' independence and objectivity are also safeguarded by limiting the nature and value of non-audit services performed by the external auditors (see later section). The group has a policy of not recruiting senior employees of the external auditors who have worked on the audit in the past two years. The group works with the external auditors to achieve the rotation of the lead engagement partner at least every five years.

The current external audit firm and the current lead engagement partner are in their second year of providing external audit services to the group.

The external auditors are also required periodically to assess whether, in their professional opinion, they are independent and those views are shared with the Audit Committee. The Committee has authority to take independent advice as it deems appropriate in order to resolve issues on auditors' independence. No such advice has to date been required.

For the current year, the Committee has concluded that the external auditors remain independent and objective for the purposes of their role.



The Board has overall responsibility for the group's system of internal controls as one critical part of the overall corporate governance framework."

Audit Committee report continued

External audit continued

Non-audit services provided by the external auditors

The Audit Committee will only approve the provision of non-audit services by the external auditors where they are permissible and do not represent a threat (by their nature or scale) to this requirement for independence. The aim is to ensure that no material risk is taken of the auditors both advising on and auditing the same information in the financial statements.

The Audit Committee's approval is required for any fees for non-audit work paid to the auditors in excess of £10,000 in any financial year. However, the group recognises that it can receive particular benefit from certain non-audit services provided by the external auditors due to their technical skills and detailed understanding of the group's business and hence some non-audit work is allowed.

No fees were paid for non-audit services during the year. Separate external firms are engaged for taxation and Directors' remuneration advice.

Internal controls and risk management

The Board has overall responsibility for the group's system of internal controls as one critical part of the overall corporate governance framework. This includes reviewing the effectiveness of these controls and the processes in place for risk management. In accordance with the Internal Control Guidance for Directors issued by the Financial Reporting Council, there is an ongoing process for identifying, evaluating and managing the significant risks faced by the group. This process was introduced during 2015 and is summarised on pages 33 to 35.

The role of the Executive Directors is to implement the Board's policies on risk and control and to provide assurance on compliance with these policies. The processes and procedures in place are designed to manage rather than eliminate risk and operate within the Board's defined risk appetite. They therefore can only provide a reasonable and not absolute assurance against material misstatement or loss.

Executive Directors have a close involvement with all day-to-day operations. They also meet with staff on a regular basis to identify and review business risks, the controls needed to minimise those risks and the effectiveness of controls in place. Business risks are monitored and discussed on a regular basis at meetings of the leadership and senior management teams. The principal risks faced by the group and other aspects of how they are individually assessed and managed are set out below and on pages 33 to 35.

Internal controls

Key features of the internal control system are summarised below:

- (i) annual budgets and rolling forecasts are reviewed and approved by the Board;
- (ii) monthly management accounts are reviewed and challenged by comparison to the budget;
- (iii) written operational, accounting and employment policies are in place;
- (iv) the Board actively identifies and evaluates the risks inherent in the business and ensures that appropriate controls and procedures are in place to manage these risks;
- (v) expenditure approval limits and approval processes are in place to cover all major commitments;
- (vi) quality assurance processes are overseen and audited by the internal quality assurance department, with a particular focus on non-financial processes and procedures which drive financial performance; and
- (vii) compliance with control procedures is monitored by the Audit Committee through its internal reviews and external audit findings and its reviews of exceptions.

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

Whistleblowing and confidential reporting procedures

The group operates a confidential reporting and whistleblowing procedure. The policy aims to support the stewardship of the group's assets and the integrity of the financial statements as

well as protecting staff welfare.

The procedure is reviewed annually by the Committee to ensure that it remains fit for purpose. No reports of whistleblowing were received during the year. Staff are regularly reminded of the whistleblowing process as part of ongoing engagement with staff on compliance issues such as anti-bribery training.

Internal accountability

The Board has overall responsibility for the group's system of risk management and internal control. The Audit Committee reviews the effectiveness of the system at least annually on behalf of the Board and, having carried out this review, the Committee continues to believe that the system is effective in safeguarding shareholders' interests and the group's assets. There are some improvement areas, such as more regular reviews of internal controls, in addition to reviewing policies and procedures, and these will be implemented in FY24. The Board agreed with this conclusion.

Review of the Audit Committee's effectiveness

The Committee has reviewed and considered the effectiveness of its performance during the year. The review included the views of members of the Committee and of regular attendees at the various meetings (including the Executive Directors). I am satisfied that the degree of rigour and challenge applied in performing the Committee's responsibilities is appropriate and effective and continues to improve.

Chris Batterham
Audit Committee Chair
19 October 2023

Remuneration Committee report



Dr Alison Fielding
Remuneration Committee Chair

Our Executive team led the successful litigation and made significant progress on our strategic objectives

Dear shareholder

I am pleased to present our Directors' remuneration report for the year ended 31 July 2023. The Committee's report seeks to deliver an appropriate balance between the required regulatory disclosures, commercial sensitivities and the context for our approach and decisions.

This report is presented in three parts:

- (1) Chair's introduction setting out an overview of FY23 and prospective matters for FY24;
- (2) the Directors' remuneration policy setting out the framework approved by shareholders at the AGM in November 2021; and
- (3) the Annual report on remuneration, which sets out the actual remuneration earned by Directors over the year ended 31 July 2023.

This Directors' remuneration report for the year ended 31 July 2023 complies with the requirements of the Listing Rules of the UK Listing Authority, Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and the provisions of the UK Corporate Governance Code (July 2018). The Regulations require the auditors to report to the Company's members on certain parts of the

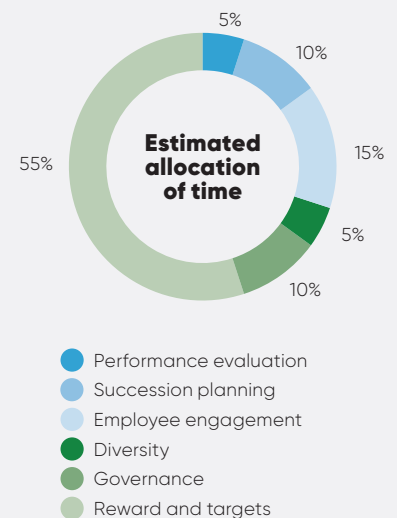
Directors' remuneration report and to state whether, in their opinion, those parts of the report have been properly prepared in accordance with the accounting regulations. Items that are audited throughout this report are clearly marked as audited in the heading of the section.

Introduction

The Executive team led Nanoco effectively to a number of significant successes throughout the year and the Board remains convinced that retaining and incentivising them is key to achieving our strategic priorities. All milestones were achieved for both major commercial customers, with two materials now in final production validation and discussions ongoing with both customers on new longer and deeper collaborations. The successful conclusion to the Samsung litigation after a number of years of intense activity has put the group in a strong self-funded position to deliver further commercial success, in addition enabling the planned major return of capital to shareholders in early 2024. The financial results for the year and delivery of personal objectives for the Executive team were strong.

Members

- Dr Alison Fielding (Chair)
- Chris Batterham
- Dr Christopher Richards



Remuneration Committee report continued

2023 incentive outcomes

Annual bonus

Considering the performance delivered in 2023 and reflecting that 80% of the bonus is based on financial KPIs, the Committee determined that 95%, 95% and 98% of the maximum bonus should be paid to the CEO, CFO and CTO respectively. A detailed description of performance against the targets is set out on page 79. Given the group's stronger financial position, a proportion of the annual bonuses will be paid in cash with the remainder in deferred share options.

Long Term Incentive Plan: 2020 outcome

Regarding longer-term performance, market disappointment in the value of the final Samsung settlement has led to a depressed share price since early in 2023. This has potentially been extended and exacerbated by the distraction of the requisitioned General Meeting that sought to remove the Board. As a result of the depressed share price, the long-term options, granted to the Executive team in 2020 as an incentive linked to the Samsung litigation, lapsed as at 31 July 2023 with nil value.

In assessing whether the outcomes generated by the annual bonus and LTIP scorecards were fair in the context of broader performance, the Committee took into account the transformational litigation success, the underlying financial performance of the group and the wider stakeholder experience (including, but not limited to, the shareholder experience). After due consideration, the Committee felt that the formulaic outcome was an appropriate reflection of performance delivered. It has, therefore, not exercised discretion in relation to incentive outcomes during the year.

Wider workforce

Nanoco's workforce is critical to its success. As a responsible business, our aim is to pay our staff at the median level for comparable national roles, and we performed a benchmarking exercise in the prior year to review this. We are also a living wage employer.

We have recognised the challenges faced by our employees with rising cost of living and have increased base salaries by 5%. In addition, over the past two years, we have increased the employer's direct contribution pension percentage from 5% to 7.5% and this year we will introduce a workplace health programme for all staff that has an equivalent cost of 1% of salary.

All staff participate in the Company bonus scheme, which resulted in payments of up to £4,000 per employee, pro-rated for start of employment and part-time hours.

Remuneration and its strategic context

Our remuneration policy seeks to ensure a clear link between Executive Directors' pay, the delivery of the group's strategy to be a sustainable production company, and enhancement of shareholder value. The Remuneration Committee seeks to ensure that the Directors' remuneration arrangements continue to be aligned to the calibre of individuals, to the strategic direction of the group and to our stakeholder philosophy.

The Committee has always shown leadership in restraint of Executive and Board remuneration, reflecting the stage of development of the business. Nanoco Executives have relatively low base salaries compared to benchmarks and minimal benefits in kind. Short-term incentives reflect challenging annual targets and have typically preserved Nanoco's cash by being paid in Deferred Bonus Plan Options that create further clear alignment with shareholders' interests. Long-term incentives are linked directly to shareholder value in the form of options with stretching share price and revenue targets.

Remuneration commencing 1 August 2023

Remuneration commencing 1 August 2023 is detailed in the table on the opposite page.

“Our remuneration packages aim to reflect the calibre of our Executives, maintain close alignment to shareholder value and support the commitment to our strategic priorities.”

Remuneration at a glance

	Purpose and link to strategy	Key features	Planned for FY24	Actual in FY23
Salary	Basis to recruit and retain talent necessary to deliver the business strategy.	Reviewed annually. Considers the role, responsibility and experience of the individual, corporate and individual performance, and market comparators by size and complexity; and other Nanoco salary increases.	Executive Directors will receive 3% cost of living increase. The rest of the workforce will receive 5%.	CEO appointed September 2020, salary increase completed 1 August 2022. All three Executives had the same cost of living increase as all other Nanoco staff (6.0%).
Benefits and pensions	Provide a market-competitive benefits and pensions package and promote the wellbeing of employees.	Pension contributions equal to those for all staff. Life assurance. Workplace health programme.	Unchanged. Unchanged. Plan to introduce in FY24.	7.5% of salary. Eight times salary for Executives, four times salary for other staff. None.
Annual bonus	Incentivises delivery of annual key financial and strategic goals that support the enhancement of shareholder value.	Target opportunity is 75% of salary and maximum is 125% of salary. Performance measures are a mix of challenging financial and personal strategic targets. Up to 100% of earned bonus can be paid in Deferred Bonus Plan options. Subject to malus and clawback provisions.	Maximum opportunity remains 125% of salary for CEO, CTO and CFO. Financial targets 80% of maximum and personal strategic targets 20% of maximum.	FY23 bonus earned: → CEO 95% of maximum → CTO 98% of maximum → CFO 95% of maximum
LTIP	To reflect stakeholder philosophy, provide a long-term retention mechanism and align with shareholders.	Awards of 150% for each Executive. Up to 250% in exceptional circumstances such as recruitment. Three-year performance period. Performance measures reviewed annually. Subject to malus and clawback provisions.	Performance measures for the three-year period ending 31 July 2026 will be absolute TSR (50%) and revenue (50%). 25% of the award will vest at threshold, increasing on a straight-line basis to 100% for stretch. There is nil vesting below the threshold level.	LTIP awards made in 2020 lapsed with nil value as share price targets were not achieved.
Shareholding requirement	To align Directors to shareholder interests.	Minimum shareholding requirement for all Executives 200% of salary.	Unchanged.	Unchanged.
Post employment	To further align Directors to shareholder interests.	To retain up to 200% of salary in shareholdings for one year post employment Reduces to 100% of salary in second year.	Unchanged.	Unchanged.
Recovery provisions	To ensure recovery of Deferred Bonus Plan awards if required.	Possible in the event of material misstatement, material misconduct or a material corporate failure.	Unchanged.	Unchanged.

Non-Executive Director fees will remain at their previous levels with no cost of living increase. The second increase in the Chairman's underlying fees that was agreed in 2019 to reflect comparative rates of pay will remain on hold.

Further information is set out on page 84.

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

Dr Alison Fielding

Remuneration Committee Chair
19 October 2023

Directors' remuneration report

Directors' remuneration policy

This part of the report sets out the group's forward-looking Directors' remuneration policy that was subject to a binding vote at the AGM on 30 November 2021 with 99% of votes cast in favour. The policy is scheduled to continue in operation for three years including FY24 and will be subject to renewed shareholder approval at the AGM in 2024. The Directors' remuneration policy is not audited.

Element and purpose	Operation	Maximum opportunity	Performance measures
<p>Base salary</p> <p>Core element of fixed remuneration that provides the basis to recruit and retain talent necessary to deliver the business strategy.</p>	<p>Normally reviewed annually and applied from 1 August (can be varied).</p> <p>Consideration is given to the following:</p> <ul style="list-style-type: none"> → the role, responsibility and experience of the individual; → corporate and individual performance; → market comparators by size and complexity; and → other Nanoco salary increases. 	<p>No maximum. Annual increase normally in line with the wider workforce. Potential further increases:</p> <ul style="list-style-type: none"> → on promotion or changes in scope or responsibility; → an individual's performance in a role; → where there has been a change in market practice; or → if there is a change in the size and/or complexity of the business. 	N/A
<p>Benefits</p> <p>Provide a market-competitive benefits package and promote the wellbeing of employees.</p>	<p>The group provides life assurance of eight times salary, for all Executives. In addition, post year end the Group has introduced a workplace health programme for all employees.</p> <p>Directors are reimbursed for out-of-pocket expenses incurred wholly and necessarily on group business.</p> <p>Benefits are reviewed periodically, taking individual circumstances into consideration. Benefits provided may include, for example, medical insurance, relocation expenses, expatriate allowances and travel expenses.</p>	<p>No absolute maximum. The value of benefits is set at a level which the Committee considers to be appropriately positioned, taking into account relevant market factors based on the nature and location of the role, the level of benefits provided to other employees in the group and individual circumstances.</p>	N/A
<p>Retirement benefits</p> <p>Provide market-competitive post-employment benefits to recruit and retain Directors of the calibre required for the business.</p>	<p>The group currently operates a salary sacrifice pension arrangement under which employees may elect to sacrifice salary and the group pays an amount equal to the amount of the salary sacrifice, together with the employer National Insurance saved, into a private pension scheme.</p> <p>Executive Directors are also eligible to participate in the group's defined contribution scheme (or other appropriate pension plan). In circumstances where the lifetime allowance is protected, Executive Directors are permitted to take an equal cash supplement (not counted towards bonus or LTIP opportunity).</p>	<p>Executive pension contributions are set at the same percentage of salary as all other staff (currently 7.5% of salary).</p> <p>The policy sets an overall contribution limit of up to 10% of base salary (in addition to the amount of any salary sacrifice and employer NIC saved).</p>	N/A

Directors' remuneration policy continued

Element and purpose	Operation	Maximum opportunity	Performance measures								
<p>Annual bonus</p> <p>Rewards and incentivises the achievement of annual objectives which are aligned with key financial and strategic goals that support the enhancement of shareholder value.</p>	<p>Performance targets are set annually and pay-out levels are determined after the year end following the Committee's assessment of actual performance against set targets.</p> <p>Up to 100% of any bonus earned can be paid in deferred shares or options under the Deferred Bonus Plan ("DBP") that will vest after two years.</p> <p>Deferred share option awards may incorporate the right to receive (in cash or shares) the value of the dividends that would have been paid on vested shares; this may assume the reinvestment of dividends into shares on such terms as the Committee determines.</p> <p>Personal bonus element is only payable if at least one financial target is achieved.</p>	<p>Maximum annual bonus opportunity is 125% of salary based on performance as shown below:</p> <table border="1"> <tr> <td>Below threshold</td> <td>0%</td> </tr> <tr> <td>Threshold</td> <td>25%</td> </tr> <tr> <td>On-target</td> <td>60%</td> </tr> <tr> <td>Maximum</td> <td>100%</td> </tr> </table> <p>On-target performance pays out at 60% (and not 50%) as the Committee includes an element of stretch when setting targets.</p>	Below threshold	0%	Threshold	25%	On-target	60%	Maximum	100%	<p>Stretching performance targets are set each year, reflecting the group strategy.</p> <p>Ordinarily, at least 80% will be subject to achievement of financial and/or corporate measures and the balance will be based on challenging personal objectives.</p> <p>The Committee retains discretion to apply different weightings in relevant circumstances, and to override formulaic outturns where circumstances require.</p>
Below threshold	0%										
Threshold	25%										
On-target	60%										
Maximum	100%										
<p>Long Term Incentive Plan ("LTIP")</p> <p>To reflect stakeholder philosophy, provide a longer-term retention mechanism and provide alignment with shareholders.</p>	<p>Under the LTIP, awards of conditional shares, restricted stock or nil-cost options (or similar cash equivalent) can be made with vesting, dependent on the achievement of performance conditions, normally over a three-year performance period.</p> <p>There will be no retesting of performance after the end of the performance period.</p> <p>Vested awards are normally subject to a two-year holding period.</p> <p>LTIP awards may incorporate the right to receive (in cash or shares) the value of the dividends that would have been paid on the shares that vest; this may assume the reinvestment of dividends into shares on such terms as the Committee determines.</p>	<p>The maximum value of shares over which an individual can be granted an award in respect of a financial year is normally 150% of base salary, although this limit may be increased to 250% of base salary in exceptional circumstances. The percentage of maximum awards for the different levels of performance would be no greater than:</p> <table border="1"> <tr> <td>Below threshold</td> <td>0%</td> </tr> <tr> <td>Threshold</td> <td>25%</td> </tr> <tr> <td>On-target</td> <td>60%</td> </tr> <tr> <td>Maximum</td> <td>100%</td> </tr> </table> <p>On-target performance pays out at 60% (and not 50%) as the Committee includes an element of stretch when setting targets.</p>	Below threshold	0%	Threshold	25%	On-target	60%	Maximum	100%	<p>Vesting of LTIP awards is subject to meeting performance targets set by the Committee.</p> <p>Performance targets are reviewed regularly to ensure relevance and financial measures which link to creating shareholder value (such as share price, revenue and EPS) and/or the achievement of strategic milestones.</p> <p>The targets and their weightings may vary each year based on group strategic priorities. The Committee retains discretion to override formulaic outturns where circumstances require.</p>
Below threshold	0%										
Threshold	25%										
On-target	60%										
Maximum	100%										
<p>Shareholding requirement</p> <p>To align Directors to shareholder interests.</p>	<p>In service requirement</p> <p>Shareholding of at least 200% of base salary. 50% of vested shares under the DBP or LTIP (post tax) are to be retained until the shareholding requirement has been met.</p>	N/A	N/A								
<p>Post-employment shareholding requirement</p> <p>To further align Directors to shareholder interests.</p>	<p>Executive Directors', upon ceasing employment with the Company, are required to retain their shareholdings, up to 200% of salary, for one year post employment. This reduces to 100% of salary in the second year post employment. Shares will be subject to this requirement only if they are acquired from employee share plan awards granted on or after 1 August 2021.</p>	N/A	N/A								

Directors' remuneration report continued

Directors' remuneration policy continued

Notes to the policy table

Application of clawback and malus to variable remuneration

Under the Deferred Bonus Plan ("DBP"), during the two-year deferral period, the Committee has the right to reduce any deferred bonus awards which have not yet been released in the event of a material misstatement of the group's financial results, material misconduct on the part of the participant, a material corporate failure as determined by the Board, a material failure of risk management by the group, or in the event of serious reputational damage (i.e. a malus provision). For up to two years following the payment of a cash bonus award, the Committee may also require the repayment of some or all of the award in these circumstances (i.e. a clawback provision). The same provisions apply to awards under the 2015 LTIP at any time prior to the end of the holding period for LTIP awards.

Explanation of performance measures chosen

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

Annual bonus

Ordinarily, at least 80% of the potential maximum annual bonus will be subject to achievement of a combination of financial and corporate measures, with the remainder based on challenging personal objectives. The Committee will disclose the metrics and performance against these on a retrospective basis to the extent that these are not commercially sensitive. The personal bonus element is only payable if at least one financial target is achieved.

LTIP

In line with the prior year, the Committee has opted for any potential LTIP award in FY24 to be based on a combination of revenue targets and total shareholder returns ("TSR"). Both metrics are closely aligned to long-term shareholder interests in that revenue growth will lead to a valuable self-financing organic business and TSR is a direct measure of increases in shareholder value. It is the Committee's view that these metrics are the most appropriate performance measure at present for determining LTIP vesting for the awards for the reasons given above. The Committee intends to review each year the performance metrics for future awards taking into account the business priorities and strategy at that time.

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

Operation of the LTIP and DBP

The LTIP and DBP are operated by the Committee in accordance with their respective rules. These include the ability to adjust the number of shares subject to awards in the event of a variation of share capital, demerger, delisting, special dividend, rights issue or other event which may, in the opinion of the Company, affect the current or future value of shares. The "market value" of a share for the purposes of determining the number of shares subject to the LTIP or DBP award will be the average share price over the three dealing days following the announcement of results preceding the grant date. The Committee can determine that an alternative basis should apply but this would still be by reference to market prices such as the average price over the three-day period leading up to an award at a different date. All members of staff are eligible to participate in both schemes.

Early vesting of awards

As described on pages 75 and 76, awards under the DBP and LTIP may vest earlier than anticipated in "good leaver" circumstances.

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

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

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

How the Executive Directors' remuneration policy relates to the group

The remuneration policy summarised previously provides an overview of the structure that operates for the Executive Directors. The same broad structure also operates for the members of the senior management team and all other members of staff with varying levels of participation in the LTIP depending on seniority. Staff other than Executives can choose to take some or all of their annual bonus as a participation in the DBP with a 50% uplift in the number of options on the value deferred.

Directors' remuneration policy continued

Remuneration outcomes in different performance scenarios

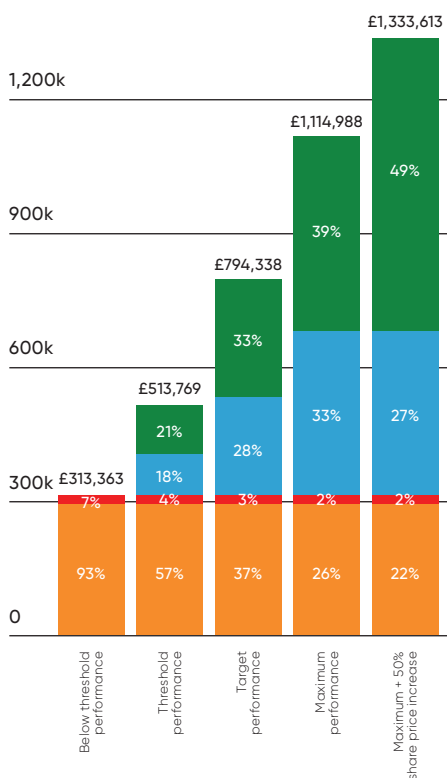
The charts below set out an illustration of the remuneration policy for FY24. The charts provide an illustration of the proportion of total remuneration made up of each component of the remuneration policy and the potential value of each component.

Five scenarios have been illustrated for each Executive Director:

Below threshold performance	Fixed remuneration No annual bonus pay-out No vesting under the LTIP
Threshold performance	Fixed remuneration 25% annual bonus pay-out (31.25% of salary) 25% vesting under the LTIP (37.50% of salary)
Target performance	Fixed remuneration 60% annual bonus pay-out (75% of salary) 60% vesting under the LTIP (90% of salary)
Maximum performance	Fixed remuneration 100% annual bonus pay-out (125% of salary) 100% vesting under the LTIP (150% of salary)
Maximum + 50% share price increase	Fixed remuneration 100% annual bonus pay-out (125% of salary) 100% vesting under the LTIP (150% of salary) plus an assumed 50% increase in share price from grant date

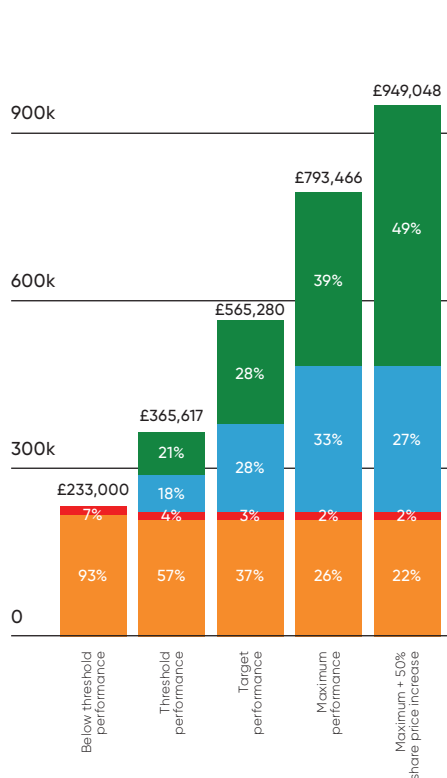
Brian Tenner £

1,500k



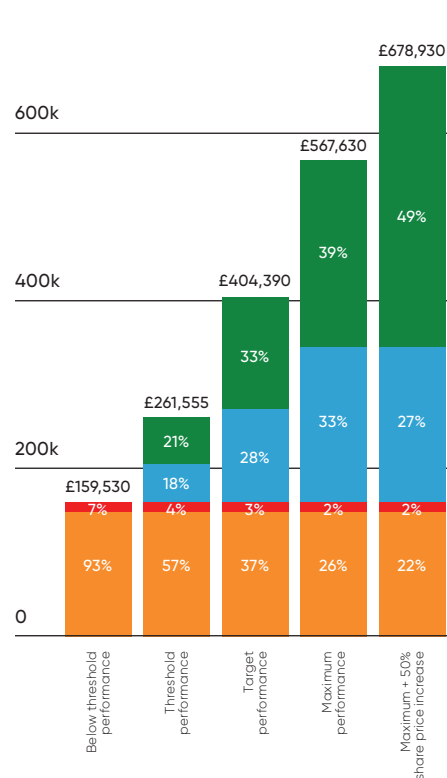
Dr Nigel Pickett £

1,200k



Liam Gray £

800k



Key: ● Fixed pay ● Pension ● Annual bonus ● LTIP

Directors' remuneration report continued

Directors' remuneration policy continued

Remuneration outcomes in different performance scenarios continued

Fixed pay currently comprises the following elements from 1 August 2023:

	Current base salary	Benefits ¹	Pension ²	Total
Chief Executive Officer – Brian Tenner	£300,245	–	£22,518	£322,763
Chief Technical Officer – Dr Nigel Pickett	£213,665	–	£16,025	£229,690
Chief Financial Officer – Liam Gray	£152,852	–	£11,464	£164,316

1 No benefits are currently provided to the Executive Directors other than under the group life assurance scheme, the value of which in the case of the Executive Directors cannot be identified. The Executive Directors will be eligible for the group health wellbeing programme that will be implemented in FY24 but the value will not be known until it is finalised.

2 Based on 7.5% employer pension contribution/cash supplement in lieu of pension which applies for the year ended 31 July 2024 (2023: 7.5%).

With the exception of the final scenario (which assumes a 50% increase in share price from grant date of LTIPs), the values illustrated assume a constant share price from the time of grant of LTIPs and do not take into account share price fluctuation or dividend equivalents that may be received under the share plans. The ultimate amounts received by the Directors may be higher or lower than the amounts illustrated above.

Remuneration policy for Non-Executive Directors

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

Remuneration policy on recruitment

When hiring a new Executive Director, the Committee will seek to align the remuneration package with the above policy. When determining appropriate remuneration arrangements, the Committee may include other elements of pay which it considers are appropriate and necessary in the circumstances. However, this discretion is capped and is subject to the limits referred to below:

- base salary will be set at a level appropriate to the role and the experience of the appointee. We may agree future increases up to a market rate, in line with increased experience and/or responsibilities, subject to good performance;
- benefits and pension contributions will only be provided in line with the above policy;
- the Committee will not offer non-performance related incentive payments (for example a "guaranteed sign-on bonus");
- other elements may be included in the following circumstances:
 - an interim appointment being made to fill an Executive Director role on a short-term basis;
 - if exceptional circumstances require the Chairman or a Non-Executive Director to take on a short-term Executive function;
 - if an Executive Director is recruited at a time in the year when it would be inappropriate to provide a bonus or long-term incentive award for that year as there would not be sufficient time to assess performance. Subject to the limit on variable remuneration set out below, the quantum in respect of the months employed during the year may be transferred to the subsequent year so that reward is provided on a fair and appropriate basis; and
 - if the Director will be required to relocate in order to take up the position, it is the group's policy to allow reasonable relocation, travel and subsistence payments. Any such payments will be at the discretion of the Committee;

Directors' remuneration policy continued

Remuneration policy on recruitment continued

- the Committee may also alter the performance measures, performance period and vesting period of the annual bonus or LTIP, if the Committee determines that the circumstances of the recruitment merit such alteration. The rationale for any such alterations will be clearly explained in the next Directors' remuneration report; and
- the maximum level of variable remuneration which may be granted (excluding "buyout" awards as referred to below) is 375% of salary, in line with the policy set out on pages 70 and 71.

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

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

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

Fees payable to a newly appointed Chairman or Non-Executive Director will be in line with the policy in place at the time of appointment and based on current market rates of pay for equivalent roles.

External appointments

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

Payment for loss of office

The group's policy is that Executive Directors' service contracts should be capable of termination on not more than six months' notice. This policy was implemented during FY21 with notice periods being shortened by agreement with the continuing Executives. The duration of Directors' service contracts is disclosed on page 85. The principles on which the determination of payments for loss of office will be approached are set out below:

Element	Policy
Payment in lieu of notice	The group has discretion to make a payment in lieu of notice which would include base salary and benefits for the unexpired period of notice, up to a maximum of six months' notice.
Annual bonus	At the Committee's discretion, on an individual basis, any annual bonus award will be dependent on a number of factors, such as the circumstances of departure and their contribution to the business during the period. Any bonus will normally be pro-rated for time and will be paid at the usual time (although the Committee retains discretion to pay the annual bonus award earlier in appropriate circumstances). Any such bonus can, at the discretion of the Committee, be paid wholly in cash.
DBP	Determined in accordance with the rules of the DBP. Unvested awards will normally lapse on cessation of employment. However, at the Committee's discretion, if a participant is deemed to be a "good leaver" (such as leaving due to death, ill health, injury, disability, redundancy or the sale of his employer), the Committee shall determine whether any unvested award will vest at cessation or at the normal vesting date. In either case, the extent of vesting will be determined by the Committee, taking into account, unless the Committee determines otherwise, the period of time elapsed from the date of grant to the date of cessation relative to the deferral period. Awards may then be exercised during such period as the Committee determines. Awards (in the form of nil-cost options) which have vested but remain unexercised at the date of cessation may be exercised if a participant is a good leaver at the discretion of the Committee. Awards may then be exercised for such period as the Committee determines.

Directors' remuneration report continued

Directors' remuneration policy continued

Payment for loss of office continued

Element	Policy
LTIP	<p>Determined in accordance with the rules of the shareholder-approved LTIP.</p> <p>Unvested awards will normally lapse on cessation of employment. However, if a participant is deemed to be a good leaver, the Committee shall determine whether the award is released on the normal release date or the date of cessation (or on some other date). The extent of vesting will be determined by the Committee taking into account the extent to which the performance condition is satisfied and, unless the Committee determines otherwise, the period of time elapsed from the date of grant to the date of cessation relative to the performance period. Awards may then be exercised during such period as the Committee determines.</p> <p>If a participant leaves for any reason (other than summary dismissal) after an award has vested but before it has been released (i.e. during the holding period), his award will ordinarily continue to the normal release date when it will be released to the extent it vested. The Committee retains discretion to release awards when the participant leaves. If the participant is summarily dismissed, their award will lapse. Awards (in the form of nil-cost options) which have vested and been released but remain unexercised at the date of cessation may be exercised if a participant is deemed to be a good leaver. Awards may then be exercised for such period as the Committee determines.</p>
Mitigation	<p>The Committee's practice is that if an Executive Director's employment is terminated, any compensation payment will be calculated in accordance with normal legal principles including the application of mitigation to the extent appropriate to the circumstances of the termination.</p>
Other payments	<p>In appropriate circumstances, payments may also be made in respect of accrued holiday, outplacement and legal fees.</p>

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

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

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

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

Consideration of employees' pay

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

Existing contractual arrangements

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

- where the terms of the payment were agreed before the policy came into effect, provided that they are in line with the Directors' remuneration policy approved at the 2021 AGM;
- where the terms of the payment were agreed at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration of the individual becoming a Director of the Company; and
- to satisfy contractual commitments under legacy remuneration arrangements.

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

Consultation with shareholders

The Committee considers shareholder feedback received on remuneration matters, as well as any additional comments received during any other meetings with shareholders. The Committee consulted with major shareholders in respect of the changes to the remuneration policy that was approved at the 2021 AGM.

Annual report on remuneration

This report sets out details of the amounts earned by Directors during FY23 and provides details as to how the Committee intends to implement the policy during FY24. This part of the report will be subject to an advisory shareholder vote at the 2023 AGM. This report contains unaudited information except where stated that it is audited.

Remuneration Committee

The Committee comprises Dr Alison Fielding, who is Chair of the Committee, Chris Batterham and Dr Christopher Richards, each of whom is considered to be independent. The Committee may invite anyone it deems appropriate to attend and advise at meetings, including the Chief Executive Officer, Chief Financial Officer and the Chief Technology Officer, although no Director is present when their own remuneration is being discussed. The Committee is responsible for establishing a formal and transparent procedure for developing policy on Executive remuneration and for setting the remuneration of the Directors and certain senior management, as well as reviewing the performance of the Executive Directors of the Company. The terms of reference of the Remuneration Committee can be found in the Investors section of the group's website.

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

Advisers to the Committee

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

Adviser	Details of appointment	Services provided by the adviser	Fees paid for remuneration advice	Other services in FY23
Deloitte LLP ("Deloitte")	Appointed by the Remuneration Committee in June 2015.	Various advice on Executive remuneration.	The fees for advice provided to the Committee during the financial year were £4,600 (2022: £nil). Charged on a time/cost basis or fixed fee depending on project.	Advice to management in relation to the Directors' remuneration report, in relation to share plan taxation, and in relation to the establishment of an Employee Benefit Trust.

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

Single total figure of remuneration for 2023 – (audited information)

The remuneration of the Directors who served on the Board of Nanoco Group plc during the year to 31 July 2023 is as follows (footnotes for both tables are below the second table):

	Base salary and fees £'000	Benefits in kind £'000	Annual bonus in cash £'000	Annual bonus in shares £'000	Long-term incentives £'000	Pension £'000	Total 2023 £'000	Total fixed remuneration £'000	Total variable remuneration £'000
Executive Directors									
Brian Tenner	292	–	228	118	–	22	660	314	346
Dr Nigel Pickett	207	–	168	87	–	16	478	223	255
Liam Gray	148	–	117	60	–	11	336	159	177
Total Executive Directors	647	–	513	265	–	49	1,474	696	778
Non-Executive Directors									
Dr Christopher Richards	100	–	–	–	–	–	100	100	–
Dr Alison Fielding	46	–	–	–	–	–	46	46	–
Chris Batterham	46	–	–	–	–	–	46	46	–
Henry Turcan	8	–	–	–	–	–	8	8	–
Total Non-Executive Directors	200	–	–	–	–	–	200	200	–
Total	847	–	513	265	–	49	1,674	896	778

Directors' remuneration report continued

Annual report on remuneration continued

Single total figure of remuneration for 2023 – (audited information) continued

The remuneration of the Directors who served on the Board of Nanoco Group plc during the year to 31 July 2022 was as follows:

	Base salary and fees ¹ £'000	Benefits in kind ² £'000	Annual bonus in cash £'000	Annual bonus in shares £'000	Long-term incentives £'000	Pension ³ £'000	Total 2022 £'000	Total fixed remuneration £'000	Total variable remuneration £'000
Executive Directors									
Brian Tenner	250	–	–	238	–	15	503	265	238
Dr Nigel Pickett	196	–	–	184	–	12	392	208	184
Liam Gray ⁴	87	–	–	85	–	5	177	92	85
Total Executive Directors	533	–	–	507	–	32	1,072	565	507
Non-Executive Directors									
Dr Christopher Richards	100	–	–	–	–	–	100	100	–
Dr Alison Fielding	46	–	–	–	–	–	46	46	–
Chris Batterham	46	–	–	–	–	–	46	46	–
Henry Turcan ⁵	40	–	–	–	–	–	40	40	–
Total Non-Executive Directors	232	–	–	–	–	–	232	232	–
Total	765	–	–	507	–	32	1,304	797	507

1 If less than a year was served, salary or fees are from the date of appointment or to the date of retirement. The Executive Directors' salaries are shown before any salary sacrifice pension contributions.

2 The only benefit provided to the Executive Directors is life cover which is contained within a policy covering all employees such that it is not possible to identify the proportion of the premium in respect of either Directors individually or as a whole.

3 The pension figure represents the cash value of Company pension contributions and/or cash in lieu of pension contributions. This does not include the amount of the salary sacrifice paid as a pension but does include the employer National Insurance saved that is paid into a private pension scheme.

4 Liam Gray was appointed to the Board on 8 November 2021 on an annualised salary of £120,000. The figure above in FY22 discloses his salary between the date of his appointment and 31 July 2022.

5 Henry Turcan was a representative of the shareholder Lombard Odier Asset Management, and Nanoco paid £8,000 (2022: £40,000) for these services direct to Lombard Odier Asset Management. Henry Turcan resigned from the Board on 12 September 2022.

Annual report on remuneration continued

Individual elements of remuneration for the year ended 31 July 2023

Base salary

Executive Directors' base salaries for FY23 were set as disclosed in the FY22 Directors' remuneration report taking into account the second, deferred, tranche of the increase for Brian Tenner's salary previously agreed, Liam Gray's strong performance in role since his appointment to the Board, and in the case of each Executive Director the increase for the wider workforce. Accordingly, the salaries were set as: Brian Tenner, £291,500 (FY22: £250,000); Dr Nigel Pickett, £207,442 (FY22: £195,700); and Liam Gray, £148,400 (FY22: £120,000).

Annual bonus

For the year ended 31 July 2023, the maximum bonus for Dr Nigel Pickett, Brian Tenner and Liam Gray was 125% of salary. The annual bonuses comprise two elements: financial corporate objectives (80% of award or 100% of salary) and personal objectives (20% of award or 25% of salary). Bonuses for personal objectives are only payable if at least one financial corporate objective is achieved.

Maximum financial target performance was achieved during the year and hence bonuses were also payable in respect of personal targets. Performance against financial and personal targets is shown in the tables below with the financial and corporate measures and their weighting as a percentage of maximum award for the year ended 31 July 2023:

Measure and weighting as a percentage of maximum award	Threshold performance level	Maximum performance level	Performance achieved	Bonus earned as a percentage of maximum award
Revenue and other operating income (64%)	£2.7m	£3.5m	£5.8m	64.0%
Adjusted LBITDA (16%)	Loss of £2.2m	Loss of £1.7m	Loss of £0.2m	16.0%

The Committee concluded that for the assessment of the financial metrics, the performance achieved should be taken from the statutory accounts.

The personal objectives and amounts payable in respect of Brian Tenner, Dr Nigel Pickett and Liam Gray are set out in the table below. Specific bonus targets have not been disclosed by the Committee where they are considered to be commercially sensitive. The current stage of the group's development means certain retrospective information could still give competitors insight into the strategic plans of the business, which is not in the interest of shareholders.

It is the Board's intention that payment of the bonus will be split between cash (67%) and deferred share options (33%) granted under the DBP, which will vest after a period of two years. DBP awards are not subject to any further performance condition and are subject to the "leaver" provisions in the policy and the DBP rules.

Director	Measure	Weighting (% of maximum bonus opportunity)	Achievement (% of maximum bonus opportunity)
Brian Tenner	Financial and corporate measures	80	80%
	Personal objectives	20	15%
	Confidential commercial objective		None (0%)
	Develop post-trial business strategy		Achieved (2.5%)
	Drive all Samsung litigation activities		Achieved (7.5%)
	Win additional Tier 1 JDA		Partial (5.0%)
Dr Nigel Pickett	Financial and corporate measures	80	80%
	Personal objectives	20	18.125%
	Deliver additional R&D revenue		Achieved (2.5%)
	Focused expansion of IP portfolio		Partial (5.625%)
	Support all Samsung litigation activities		Achieved (7.5%)
	Confidential commercial objective		Achieved (2.5%)
Liam Gray	Financial and corporate measures	80	80%
	Personal objectives	20	15.25%
	Complete transition of CFO responsibilities		Partial (3.75%)
	Development of support services		Partial (3.25%)
	Development of tax strategy		Partial (3.25%)
	Outperform FY23 overhead and cash targets		Achieved (5%)

Directors' remuneration report continued

Annual report on remuneration continued

Individual elements of remuneration for the year ended 31 July 2023 continued

No long-term incentives or DBP's vested during the year ended 31 July 2023. The threshold level of performance for the LTIP awards granted in October 2020 and which vested by reference to performance to the end of FY23 was not achieved, and the awards have lapsed.

LTIP awards granted in FY23

Awards to the Executive Directors made on 25 October 2022 were as follows:

Director	Type of award	Percentage of salary ¹ %	Number of options	Face value at grant date ¹ £'000	Face value at grant less exercise price £'000	Performance period Years
Brian Tenner	Share award	150%	1,192,716	437	437	3
Dr Nigel Pickett	Share award	150%	848,780	311	311	3
Liam Gray	Share award	150%	607,201	223	223	3

LTIP granted 25 October 2022	Threshold target	Maximum target
Share price (average for three months to 31 July 2025)	£0.55	£0.70
Revenue ²	Confidential	Confidential
Vesting ratio	25%	100%

1 The face value of the awards is calculated based on a share price of £0.3667, being the three-day average share price to 25 October 2022 used to determine the number of shares under award.

2 Given the group is entering a new stage in its development, the Directors consider that the revenue targets are commercially sensitive and hence are not being disclosed at this time. However, in order to maintain transparency, the targets will be disclosed at the same time as the actual outcome is assessed following the end of the performance period.

Payments made to former Directors and payments for loss of office during the year (audited information)

No payments for loss of office were made during the year. Michael Edelman, the former CEO, was employed during the year as a special adviser, on an annual salary of \$35,000. His employment ceased on 13 July 2023 and his pay was pro-rated accordingly to 13 July 2023.

Annual report on remuneration continued

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

Directors' interests in share options to acquire ordinary shares of ten pence in the Company, including options held under the Deferred Bonus Plan, were as follows:

Share options	Date granted	Exercise price	At 1 August 2022	Exercised during the year	Lapsed	Granted during the year	At 31 July 2023
Dr Nigel Pickett	22 Oct 2012 ¹	57.00p	750,000	–	(750,000)	–	–
	22 Nov 2016 ³	Nil	66,576	(66,576)	–	–	–
	1 Nov 2019 ³	Nil	437,681	(437,681)	–	–	–
	10 Dec 2019 ³	Nil	437,681	(437,681)	–	–	–
	21 Oct 2020 ²	Nil	1,647,668	–	(1,647,668)	–	–
	9 Nov 2021 ³	Nil	399,929	–	–	–	399,929
	9 Nov 2021 ²	Nil	927,488	–	–	–	927,488
	1 Dec 2021 ²	Nil	463,744	–	–	–	463,744
	27 Oct 2022 ²	Nil	–	–	–	848,780	848,780
	27 Oct 2022 ³	Nil	–	–	–	501,421	501,421
Brian Tenner	1 Nov 2019 ³	Nil	521,634	(521,634)	–	–	–
	10 Dec 2019 ³	Nil	521,634	(521,634)	–	–	–
	21 Oct 2020 ²	Nil	2,485,956	–	(2,485,956)	–	–
	9 Nov 2021 ³	Nil	452,555	–	–	–	452,555
	9 Nov 2021 ²	Nil	1,184,834	–	–	–	1,184,834
	1 Dec 2021 ²	Nil	592,417	–	–	–	592,417
	27 Oct 2022 ²	Nil	–	–	–	1,192,716	1,192,716
27 Oct 2022 ³	Nil	–	–	–	649,072	649,072	
Liam Gray	21 Oct 2020 ²	Nil	543,891	–	(543,891)	–	–
	9 Nov 2021 ³	Nil	35,157	–	–	–	35,157
	9 Nov 2021 ²	Nil	533,175	–	–	–	533,175
	1 Dec 2021 ²	Nil	266,588	–	–	–	266,588
	27 Oct 2022 ²	Nil	–	–	–	607,201	607,201
27 Oct 2022 ³	Nil	–	–	–	253,161	253,161	

1 Vested but unexercised share options.

2 Unvested share options still subject to performance conditions.

3 Deferred Bonus Plan awards.

Director shareholdings

In order to align the interests of Executive Directors with those of shareholders and to demonstrate the Executive Directors' ongoing personal financial commitment to the business, Executive Directors are expected to build up a shareholding equivalent to 200% of annual salary for all Executive Directors. Executive Directors are required to retain at least 50% of any post-tax shares that vest under any share incentive plans until this shareholding is reached.

Dr Nigel Pickett holds shares substantially in excess of the shareholding guideline (c. 1,038% of salary using the three-month average closing share price to the end of July 2023). Brian Tenner, having joined the Company in August 2018, is building up a holding which currently stands at 68% of salary (or 130% assuming 50% of Deferred Bonus Plan awards are retained until the minimum shareholding is achieved). Liam Gray, having joined the Board in November 2021, is building up a holding which currently stands at 6% of salary (24% assuming 50% of all Deferred Bonus Plan awards are retained until the minimum shareholding is achieved). Non-Executive Directors are not subject to the shareholding requirement.

Directors' remuneration report continued

Annual report on remuneration continued

Director shareholdings continued

Directors' interests in the shares of the Company, including family and beneficial interests, at 31 July 2023 were:

	Ordinary shares of 10p each			
	31 July 2023 Number	31 July 2023 %	31 July 2022 Number	31 July 2022 %
Current Directors				
Dr Christopher Richards	841,996	0.26	769,270	0.24
Dr Nigel Pickett	11,770,911	3.63	11,272,575	3.50
Brian Tenner	1,157,834	0.36	605,888	0.19
Liam Gray	48,931	0.02	48,931	0.02
Dr Alison Fielding	279,697	0.09	279,697	0.09
Chris Batterham	194,111	0.06	194,111	0.06
Henry Turcan ¹	—	—	—	—
Total for current Directors	14,293,480	4.42	13,170,472	4.10

1 Henry Turcan resigned from the Board on 12 September 2022, having previously been a representative of LOAM. He held no shares directly at the point he left the Board.

None of the Directors in office as at 31 July 2023 had any interests at that date in shares of any other group company.

In July 2023, Dr Nigel Pickett received 498,336 shares and Brian Tenner received 551,946 shares as a result of options exercised in July 2023. There were no other changes in Directors' shareholdings between 31 July 2023 and the publishing date of these accounts.

The market price for Nanoco shares as at 31 July 2023 was 18.3 pence per share; the highest and lowest prices during the year were 55.8 pence and 17.0 pence respectively.

Details of share options are set out in note 24 to the financial statements.

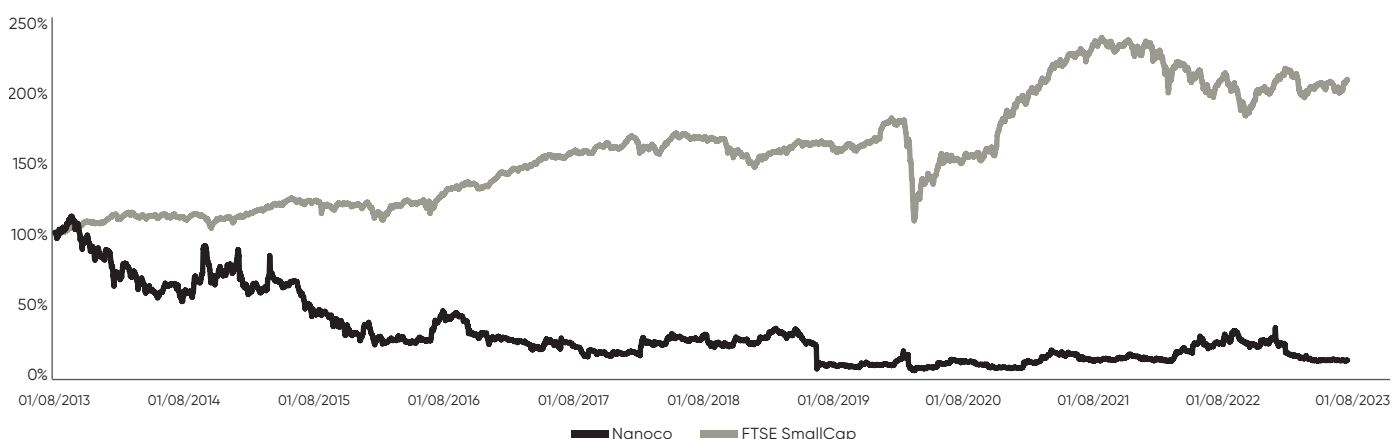
Unaudited information

Historical comparative TSR performance graph

The performance graph below shows the Company's total shareholder return ("TSR") against the FTSE SmallCap over the period from 1 August 2013 to 31 July 2023. In the opinion of the Board, the FTSE SmallCap is the most appropriate index against which the TSR of the Company should be measured because it represents a broad equity market index.

Total shareholder return

The graph shows the percentage return of an investment in the Company's shares on 1 August 2013 compared with the percentage return of an investment notionally invested in the FTSE SmallCap index.



Annual report on remuneration continued

Unaudited information continued

Ten-year view of CEO remuneration

CEO remuneration	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total remuneration (£'000) ¹	293	635	406	327	312	505	323	298 ²	503	660
Annual bonus (% of max vesting)	56	56	40	–	–	52	–	43	75	95
LTIP (% of max vesting)	–	100	–	–	–	–	–	–	–	–

1 The previous CEO's (Dr Michael Edelman) remuneration was paid in US Dollars but reported in Sterling in this table for the years 2013 to 2020. The exchange rate used for this purpose varied during the year.

2 Brian Tenner was appointed CEO on 1 September 2020, having previously been CFO and COO. There was no change in Brian Tenner's remuneration at that time to reflect the change in position with the proposed increase being made in two deferred tranches on 1 August 2021 and 1 August 2022. Having regard to the proportion of 2021 for which Brian Tenner was CEO, his remuneration as a Director for the full year is included for that year, and the remuneration of Dr Michael Edelman for the part of the year when he was CEO is not included.

Percentage change in the remuneration of the Board

The table below shows the percentage change in each Director's salary, benefits and annual bonus between the current and previous financial year, and the average percentage change in the same remuneration over the same period in respect of the employees of the Company on a full-time equivalent basis. The average employee change has been calculated by reference to the mean of employee pay, excluding new starters in the year. Henry Turcan was appointed during the year ended 31 July 2022 and resigned during the year ended 31 July 2023 and, accordingly, has been excluded from the table below.

	Average employee	Brian Tenner	Dr Nigel Pickett	Liam Gray ²	Dr Christopher Richards	Dr Alison Fielding	Christopher Batterham
Salary/fees ¹	FY23	9%	17%	6%	70%	0%	0%
	FY22	4%	31%	16%	N/A	30%	30%
	FY21	7%	(8%)	(9%)	N/A	(13%)	(13%)
	FY20	1%	1%	(2%)	N/A	(2%)	(1%)
Taxable benefits	FY23	N/A	N/A	N/A	N/A	N/A	N/A
	FY22	N/A	N/A	N/A	N/A	N/A	N/A
	FY21	N/A	N/A	N/A	N/A	N/A	N/A
	FY20	N/A	N/A	N/A	N/A	N/A	N/A
Annual bonus	FY23	27%	48%	38%	108%	N/A	N/A
	FY22	0%	100%	100%	N/A	N/A	N/A
	FY21	100%	0%	0%	N/A	N/A	N/A
	FY20	0%	(100%)	(100%)	N/A	N/A	N/A

1 The Non-Executive Directors' fees were reduced by 35% between 1 April 2020 and 31 March 2021, and deferred by 35% with effect from 1 April 2021. This deferral was repaid in July 2022.

2 The increases in salary and bonus for Liam Gray for FY23 are calculated by reference to the increase between the values included in the single total figure of remuneration for FY22 and FY23. Therefore, those increases reflect that for FY22 the relevant values related to a part-year only.

The data above is distorted by a number of factors including joining dates, changes in roles and salary and by pay cuts taken by Directors as part of Company actions to manage the Covid-19 pandemic. From April 2020, some but not all staff had 20% pay cuts for six months. Executive Directors and other members of the Leadership Team had 20% pay cuts for a full twelve months. The increases in Executive pay in FY22 are therefore primarily or wholly the result of the end of the temporary Covid-19 pandemic pay cut.

Directors' remuneration report continued

Annual report on remuneration continued

Unaudited information continued

Relative importance of spend on pay

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

	Year ended 31 July 2023 £'000	Year ended 31 July 2022 £'000	% change
Dividends	–	–	0%
Overall expenditure on pay	3,225	2,827	14%
Average headcount	42	42	0%

Implementation of policy for the year commencing 1 August 2023

Base salary

Base salaries are reviewed annually with effect from 1 August. For the year commencing 1 August 2023, the workforce had an increase of 5%. The Executive Directors had an increase of 3%.

	2023	2022	% change
Chief Executive Officer – Brian Tenner	£300,245	£291,500	3%
Chief Technical Officer – Dr Nigel Pickett	£213,665	£207,442	3%
Chief Financial Officer – Liam Gray	£152,852	£148,400	3%

Changes to Non-Executive Directors' fees

There is no increase to the Non-Executive Directors' fees.

	2023	2022
Chairman fee	£100,000	£100,000
NED base fee	£41,000	£41,000
Chair of Committee fee	£5,000	£5,000

Pension

The Company operates a salary sacrifice pension arrangement. For the year commencing 1 August 2023, employer pension contributions above the amount of any salary sacrifice (and the associated employer National Insurance contribution savings) have remained at 7.5% of salary for the whole workforce, including the Executive Directors.

Annual bonus

For FY24, the maximum annual bonus potential will remain at 125% of base salary for Executive Directors. Up to the full amount of any such bonus earned can be paid as deferred shares under the DBP vesting after two years with any balance paid in cash. This reflects our stakeholder philosophy, provides a longer-term retention mechanism and provides alignment with shareholders.

Consistent with the FY23 annual bonus, performance will be assessed on the basis of a balanced scorecard approach in respect of performance measures. The balance between corporate financial objectives (80%) and personal objectives (20%) will be unchanged. The corporate financial measures for FY24 will include annual revenue and Adjusted EBITDA weighted 60%:20% respectively. Any personal bonus is only payable if at least one of the financial targets is achieved. The Committee will disclose the metrics and performance against these on a retrospective basis to the extent that these are not commercially sensitive.

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

LTIP

The Committee intends to make awards of approximately 150% of salary to the CEO, CTO and CFO after the announcement of the group's full-year results for the year ended 31 July 2023 (subject to market conditions at the time of award). The Committee will agree targets if and when any LTIP awards are made during FY24. All awards will continue to be in line with the approved remuneration policy. This will include a two-year post-vesting holding period.

Annual report on remuneration continued

Unaudited information continued

Statement of voting

The group is committed to ongoing dialogue with its shareholders and takes an active interest in trying to ensure that as many shareholders as possible submit their votes in time for any shareholder meetings. The following table sets out the actual voting in respect of the resolutions to approve the Directors' remuneration policy at the Company's Annual General Meeting held on 30 November 2021 and to approve the Directors' remuneration report at the Company's Annual General Meeting held on 20 December 2022.

Resolution	Votes for	% for	Votes against	% against	Votes withheld
To approve the Directors' remuneration policy	138,307,164	99.0%	1,451,931	1.0%	178,488

Resolution	Votes for	% for	Votes against	% against	Votes withheld
To approve the Directors' remuneration report	106,380,116	96.0%	4,378,386	4.0%	46,872

Directors' contracts

It is the group's policy that Executive Directors should have contracts with an indefinite term, providing for six months' notice.

	Date of contract	Date of appointment	Notice from the Company	Notice from Director
Brian Tenner	20 August 2018	20 August 2018	6 months	6 months
Dr Nigel Pickett	27 June 2006	27 June 2006	6 months	6 months
Liam Gray	8 November 2021	8 November 2021	6 months	6 months

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

	Date of letter of appointment	Date of appointment	Unexpired term of contract on 31 July 2023
Dr Christopher Richards (Chairman)	28 October 2015	11 November 2015	~ 4 months
Dr Alison Fielding	20 March 2017	20 April 2017	~ 9 months
Chris Batterham	12 March 2019	1 April 2019	~ 8 months

Non-Executive Directors

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

On behalf of the Board

Dr Alison Fielding

Remuneration Committee Chair
19 October 2023

Directors' report

The Directors present their report and the audited financial statements for the group and Parent Company for the year ended 31 July 2023.

Financial instruments

Details of the group's financial risk management objectives and policies are disclosed in note 3 and 27 to the financial statements.

Research and development

The principal activity of the group is research and development with the goal to transition to a commercial production company, a review of which is included in the Chairman's and Chief Executive Officer's statements on pages 5 to 7 and 9 to 17 respectively.

Total research and development spend was £1.8 million (2022: £1.8 million). No development expenditure was capitalised in the year (2022: £nil) for the reasons provided in note 3(h) to the accounts.

Dividends

The Directors do not recommend payment of an ordinary dividend (2022: £nil).

Disclosures reported elsewhere in the Annual Report

The strategic review of the business of the Company and its subsidiaries is given on pages 6 to 40. Certain information required for disclosure in this report is provided in other appropriate sections of this Annual Report. These are set out in the table below:

Disclosure requirement	Pages
Financial results and dividends	30 to 32
Board and Committee meetings and Directors' attendance	49
Directors' biographical details and date of appointment	47
Corporate governance	48 to 50
Approach to risk management and principal risks	33 to 35
Research and development activities	29
Directors' remuneration	70 to 85
Greenhouse gas emissions, employee engagement, disability, gender and human rights	40 to 45
Statement on disclosure to the external auditors	87
Statement of Directors' responsibilities	89
Future developments	7 and 17
Going concern statement	37
Disclosures on financial instruments (note 27 to the consolidated financial statements)	122 to 125

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

Requirements of the Listing Rules

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

Listing Rule requirement	Location
Information required in relation to the publication of unaudited financial information	Not applicable
Details of any long-term incentive schemes	Remuneration report
Directors who held office during the year and their interests in shares and share options in the group	Remuneration report
Arrangements where a Director has waived historical or future emoluments from the Company	Remuneration report on Chairman's fees
Details of business relationships with suppliers, customers and others	Strategic report
Details of any non-pre-emptive issues of equity for cash	Not applicable
Details of any non-pre-emptive issues of equity for cash by any unlisted major subsidiary	No such share allotments
Details of UK Parent participation in a placing by a listed subsidiary	No such share participations
Details of any contract of significance in which a Director is or was materially interested	No such contracts
Details of rules regarding the appointment and replacement of Directors	Remuneration report
Contracts of significance between the Company (or a subsidiary) and a controlling shareholder	No such contracts
Details of a waiver of dividends by a shareholder	No such waivers
Board statement in respect of relationship agreement with the controlling shareholder	No such agreements

Acquisition of the Company's own shares

The Company made no purchases of its own shares in the year under review. As at 31 July 2023, the authority given by the shareholders at the 2021 Annual General Meeting is for the Company to make market purchases of up to £3,224,335 of the nominal value of its ordinary shares at a price per share of not less than 10 pence, and not more than 5% above the average of the middle market quotations for ordinary shares of the Company for the five business days immediately preceding the day of purchase. This authority is being proposed for renewal at the 2023 Annual General Meeting.

Share capital and funding

As at 31 July 2023, share capital comprised 324.4 million ordinary shares of 10 pence each (2022: 322.4 million). There is only one class of share and all shares are fully paid. Full details of the group's and Company's share capital movements during the year are given in note 22 to the financial statements.

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

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

Details of shares under option are provided in note 24 to the financial statements.

Directors and their interests

The Directors who held office throughout the year and their interests are shown in the Remuneration report. As at 31 July 2023, none of the Directors had any interests in shares of any other group company.

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

Directors are formally subject to re-election at intervals of not more than three years but voluntarily submit themselves for re-election each year.

In the case of each Director in office at the date the Directors' report is approved:

- so far as the Director is aware, there is no relevant audit information of which the group and Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the group and Company's auditors are aware of that information.

Directors' indemnity insurance

The group has maintained insurance in the form of a qualifying third party indemnity provision throughout the year for its Directors and Officers against the consequences of actions brought against them in relation to their duties for the group. This provision was in force through the financial year and remains in force as at the date of approval of the financial statements.

Substantial shareholders

The Company is aware that the following had an interest in 3% or more of the issued ordinary share capital of the Company at 31 July 2023:

Substantial shareholders	Number of ordinary shares at 31 July 2023	% of issued share capital
Hargreaves Lansdown Asset Management	53,149,546	16.38
Lombard Odier Asset Management	47,262,703	14.57
Interactive Investor	29,363,356	9.05
Tariq Hamoodi	13,084,542	4.05
Dr Nigel Pickett	11,770,911	3.63
HSDL, stockbrokers	11,463,620	3.53
Barclays Smart Investor	10,866,886	3.35
Oryx International Growth Fund Limited	9,834,000	3.03

There were no notified significant changes in the holdings between 31 July 2023 and the date the Annual Report and Accounts was signed.

Donations

No political donations were made in the year (2022: £nil). Charitable donations of £nil were made in the year (2022: £nil).

Compliance with the UK Corporate Governance Code

The statements of compliance with the principles of the UK Corporate Governance Code published by the FRC in 2018 are set out on page 53.

Foreign branches

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

Directors' report continued

Additional information for shareholders

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the UK Corporate Governance Code 2018, the Companies Act 2006 and related legislation.

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

The Articles also provide that at every Annual General Meeting at least one-third of the Directors retire by rotation and set out the circumstances in which and how they may be re-elected. The Company's members may remove a Director by passing an ordinary resolution of which special notice has been given. The office of a Director shall be vacated in any of the following events: (a) if (but in the case of a Director holding any executive office subject to the terms of any contract of service between him and the Company) notification in writing, signed by the Director or otherwise authenticated in such manner as the other Directors may accept, is received by the Company from the Director that he is resigning or retiring from office as a Director, and such resignation or retirement has taken effect in accordance with its terms, or if he shall in writing offer to resign or retire and the Directors shall resolve to accept such offer; (b) if he becomes bankrupt or has a receiving order made against him or makes any arrangement or composition with his creditors generally in satisfaction of his debts or shall apply to the court for an interim order under section 253 of the Insolvency Act 1986; (c) if a registered medical practitioner who is treating the Director gives a written opinion to the Company stating that he has become physically or mentally incapable of acting as a Director and may remain so for more than three months; (d) if he is absent from meetings of the Directors for

six successive months without leave, and his alternate Director (if any) shall not during such period have attended in his stead, and the Directors resolve that his office be vacated; (e) if he shall be removed from office by notice in writing served upon him signed by all his co-Directors, but so that if he holds an appointment to an executive office which automatically determines, as a result, such removal shall be deemed an act of the Company and shall have effect without prejudice to any claim for damages for breach of any contract of service between him and the Company; or (f) if he ceases to be a Director by virtue of any provision of the Companies Act or becomes prohibited by law from being a Director.

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

Employment policies

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

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

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

Independent auditors

Mazars LLP were appointed during the prior year following an external tender process. Mazars LLP have indicated their willingness to continue in office.

Ordinary resolutions to re-appoint Mazars LLP as auditors and to authorise the Directors to agree their audit fee will be proposed at the forthcoming Annual General Meeting.

Annual General Meeting notice

The Annual General Meeting of the Company will be held on 7th December 2023, at the Company's headquarters at The Conference Centre, The Heath Business and Technical Park, Runcorn WA7 4QX. Shareholders will have the option to attend in person or through teleconference, with the teleconference details to be provided. The notice convening the AGM, together with an explanation of the resolutions to be proposed at the meeting, will be sent to shareholders separately from this document.

Post-balance sheet events

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 £48.8 million in return for selling \$71.75 million, which is the net receipt after deducting withholding tax.

On behalf of the Board

Brian Tenner
Chief Executive Officer
19 October 2023

Statement of Directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and Accounts 2023 and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and the company financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. Additionally, the Financial Conduct Authority's Disclosure Guidance and Transparency Rules require the directors to prepare the group financial statements in accordance with UK adopted international financial reporting standards.

The company has also prepared financial statements in accordance with UK adopted international financial reporting standard's

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

- select suitable accounting policies and then apply them consistently;
- state whether applicable international accounting standards in conformity with the requirements of the Companies Act 2006 and UK adopted international financial reporting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The directors are responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the group's and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006.

Directors' confirmations

The directors consider that the Annual Report and Accounts 2023 and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's and company's position and performance, business model and strategy.

Each of the directors, whose names and functions are listed in the Corporate Governance Report confirm that, to the best of their knowledge:

- the group and company financial statements, which have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and UK adopted international financial reporting standards, give a true and fair view of the assets, liabilities and financial position of the group and company, and of the profit of the group; and
- the Directors' report includes a fair review of the development and performance of the business and the position of the group and company, together with a description of the principal risks and uncertainties that it faces.

By order of the Board

Brian Tenner
Chief Executive Officer
19 October 2023

Independent auditors' report to the members of Nanoco Group plc

Opinion

- We have audited the financial statements of Nanoco Group Plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 July 2023 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Company Statement of Changes in Equity, the Group and Company Statements of Financial Position, the Group and Company Cash Flow Statements, and notes to the financial statements, including a summary of significant accounting policies.
- The financial reporting framework that has been applied in their preparation is applicable law and UK-adopted international accounting standards and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion, the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 July 2023 and of the group's profit for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities and public interest entities and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit

evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our audit procedures to evaluate the directors' assessment of the group's and the parent company's ability to continue to adopt the going concern basis of accounting included but were not limited to:

- Undertaking an initial assessment at the planning stage of the audit to identify events or conditions that may cast significant doubt on the group's and the parent company's ability to continue as a going concern;
- Obtaining an understanding of the relevant controls relating to the directors' going concern assessment;
- Making enquiries of the directors to understand the period of assessment considered by them, the assumptions they considered and the implication of those when assessing the group's and the parent company's future financial performance;
- Challenging the appropriateness of the directors' key assumptions in their cash flow forecasts, as described in note 2c, by reviewing supporting and contradictory evidence in relation to these key assumptions and assessing the directors' consideration of severe but plausible scenarios. This included assessing the viability of mitigating actions within the directors' control;
- Testing the accuracy and functionality of the model used to prepare the directors' forecasts;
- Assessing the historical accuracy of forecasts prepared by the directors;
- Considering the consistency of the directors' forecasts with other areas of the financial statements and our audit;
- Reviewing contracts and confirming contractual cashflows included within the directors assessment;
- Evaluating the availability of sufficient liquidity and compliance with loan covenants; and

- Evaluating the appropriateness of the directors' disclosures in the financial statements on going concern and viability.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

In relation to Nanoco Group Plc's reporting on how it has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the director's considered it appropriate to adopt the going concern basis of accounting.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We summarise below the key audit matters in forming our opinion above, together with an overview of the principal audit procedures performed to address each matter and our key observations arising from those procedures.

These matters, together with our findings, were communicated to those charged with governance through our Audit Completion Report.

Key audit matters continued

Key Audit Matter

How our scope addressed this matter

Accounting for Samsung contracts

As explained in Note 6 to the financial statements, the Group settled its ongoing litigation with Samsung on a no-fault basis through the agreement to sell certain intellectual property and license the remaining Intellectual property portfolio.

In addition to having highly material and pervasive impacts on the Group's financial statements for both the current and subsequent accounting periods, the contracts required significant judgement and estimation by management in the application of the relevant accounting standards, specifically IFRS 15 Revenue from contracts with customers and IAS 12 Income taxes and therefore we deemed the accounting for the Samsung contract to be a key audit matter

Refer to Note 2 on page 100 for further information on the key judgements applied by management in their assessment of the terms and accounting implications associated with the contracts. Refer to Note 6 on page 109 for the disclosure of the impact of the transactions on both the current and future accounting periods.

Our audit procedures included, but were not limited to:

- Reviewing the signed contracts and management's paper, discussing with management and those charged with governance to obtain sufficient understanding of the contracts and the proposed accounting and tax implications;
- Agreeing the cash flows to contractual terms and conditions;
- Challenging management's proposed accounting treatment including relevant judgments based on the legal and commercial substance of the contracts, ensuring they are in line with the requirements of relevant accounting standards and our knowledge of the industry;
- Using the assistance of internal tax specialists to review the tax considerations made regarding this transaction to ensure that they complied with the relevant tax legislation;
- Agreeing the amounts presented in the financial statements to the underlying accounting records and relevant third-party evidence;
- Challenging management's assessment in relation to the recognition of revenue for both the current and subsequent periods and assessing the performance obligations associated with the license revenue.
- Assessing the classification of the related balances in the financial statements for appropriateness in line with IAS 1 Presentation of financial statements; and
- Evaluating the adequacy and clarity of the related financial statements disclosures including the impact of these contracts on the Group's going concern and viability assessments.

Our observations

Based on our audit procedures, we consider judgements made by management in determining the accounting treatment and the associated note disclosures in relation to both the licensing and sale of certain Intellectual Property to be appropriate.

Valuation of Share Based Payments

During the year to 31 July 2023, the group recognised a charge of £953k relating to the Long Term Incentive and Deferred Bonus plans for employees of the group. As at year end, share-based payment reserve was £5,610k (2022: £4,916k).

The valuation of share-based payments is complex and is subject to significant management estimates and judgement and we therefore deem this to be a key audit matter.

Therefore, there is a risk that the share-based payment schemes are not correctly recognised in accordance with IFRS 2 Share-based payment and that the vesting conditions are not accurately reflected.

Refer to the accounting policies included within note 3(r) to the financial statements and the disclosures included within note 24.

Our audit procedures, but were not limited to:

- Reviewing management's valuation of the share options expected to vest in the future and challenged the logic behind this valuation accordingly;
- Challenging the valuation methodology adopted and its consistency with the requirements of IFRS 2;
- Engaging our internal valuation expert to evaluate the reasonableness of the key assumptions such as expected volatility and dividend yield used in the fair valuation of the share options; and
- Testing the mathematical accuracy of the calculation provided by management.
- Assessing the appropriateness of share-based payment disclosures in the financial statements.

Our observations

Based on our audit procedures, we consider the methodologies and assumptions made by management in the share-based payment valuation under IFRS 2 to be reasonable.

Independent auditors' report to the members of Nanoco Group plc continued

Our application of materiality and an overview of the scope of our audit

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole. Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group materiality	Parent company materiality
Overall materiality	£360,000	£205,000
How we determined it	We determined overall materiality for the group using a benchmark of approximately 0.71% of total assets.	This was determined at 0.5% of total assets capped at component materiality.
Rationale for benchmark applied	We have considered total assets to be the key metric for determining materiality given the group's focus on continued growth through its intangible asset portfolio for the group and investment in subsidiaries for the parent company. Therefore, this is considered most relevant measure of the underlying position of both the group.	We have considered the value of total assets to be the critical component for determining materiality given the parent company's focus on continued growth of the group through its investment in subsidiaries, therefore this is considered most relevant measure of the underlying position of the group.
Performance materiality	Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole. We set performance materiality at £180,000, which represents 50% of overall materiality.	Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole. On the basis of our risk assessments, together with our assessment of the company's overall control environment, we set performance materiality at approximately 50% of our overall materiality, being £102,500.
Reporting threshold	We agreed with the directors that we would report to them misstatements identified during our audit above £10,800 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.	We agreed with the directors that we would report to them misstatements identified during our audit above £6,150 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

As part of designing our audit, we assessed the risk of material misstatement in the financial statements, whether due to fraud or error, and then designed and performed audit procedures responsive to those risks. In particular, we looked at where the directors made subjective judgements, such as assumptions on significant accounting estimates.

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole. We used the outputs of our risk assessment, our understanding of the group and the parent company, their environment, controls, and critical business processes, to consider qualitative factors to ensure that we obtained sufficient coverage across all financial statement line items.

Our group audit scope included an audit of the group and the parent company financial statements. Based on our risk assessment, Nanoco Group Plc, Nanoco Technologies Limited and Nanoco Limited were subject to a full scope audit performed by the group audit team. Nanoco Employee Trust was subject to audit procedures over account balances and/or disclosures as the component was not deemed individually financially significant enough to require a full scope audit for group reporting purposes. The remaining two components, Nanoco Tech Limited and Nanoco Life Services limited and were subject to analytical procedures and review of financial information at group level. The audit of the component financial information was performed by the same group engagement team under the group engagement partner's direct supervision.

The group audit team also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information.

Other information

The other information comprises the information included in the annual report and accounts other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Other information continued

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements and those reports have been prepared in accordance with applicable legal requirements;
- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Guidance and Transparency Rules sourcebook made by the Financial Conduct Authority (the FCA Rules), is consistent with the financial statements and has been prepared in accordance with applicable legal requirements; and
- information about the parent company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the FCA Rules.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the:

- strategic report or the directors' report; or
- information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 of the FCA Rules.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a corporate governance statement has not been prepared by the parent company.

Corporate governance statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to Nanoco Group Plc's compliance with the provisions of the UK Corporate Governance Statement specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- Directors' statement with regards the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified, set out on page 37;
- Directors' explanation as to its assessment of the entity's prospects, the period this assessment covers and why they period is appropriate, set out on page 37;
- Directors' statement on fair, balanced and understandable;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks, set out on page 33;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems; and, set out on page 33;
- The section describing the work of the audit committee, set out on page 61.

Responsibilities of Directors

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements set out on page 89, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Independent auditors' report to the members of Nanoco Group plc continued

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

Based on our understanding of the group and the parent company and their industry, we considered that non-compliance with the following laws and regulations might have a material effect on the financial statements: employment regulations, health and safety regulations, anti-money laundering regulations, compliance with the Data Protection Act, Patent regulations and compliance with London Stock Exchange rules for premium listed companies.

To help us identify instances of non-compliance with these laws and regulations, and in identifying and assessing the risks of material misstatement in respect to non-compliance, our procedures included, but were not limited to:

- Gaining an understanding of the legal and regulatory framework applicable to the group and the parent company, the industry in which they operate, and the structure of the group, and considering the risk of acts by the group and the parent company which were contrary to the applicable laws and regulations, including fraud;
- Inquiring of the directors, management and, where appropriate, those charged with governance, as to whether the group and the parent

company is in compliance with laws and regulations, and discussing their policies and procedures regarding compliance with laws and regulations;

- Inspecting correspondence with relevant licensing or regulatory authorities including Patent regulations within countries in which the group operates;
- Reviewing minutes of directors' meetings in the year; and
- Discussing amongst the engagement team and internal experts the laws and regulations listed above, and remaining alert to any indications of non-compliance.

We also considered those laws and regulations that have a direct effect on the preparation of the financial statements, such as tax legislation, pension legislation, the Companies Act 2006 and listing rules.

In addition, we evaluated the directors' and management's incentives and opportunities for fraudulent manipulation of the financial statements, including the risk of management override of controls, and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, and revenue recognition which we pinpointed to the occurrence of service and license revenue.

Our procedures in relation to fraud included but were not limited to:

- Making enquiries of the directors and management on whether they had knowledge of any actual, suspected or alleged fraud;
- Gaining an understanding of the internal controls established to mitigate risks related to fraud;
- Discussing amongst the engagement team the risks of fraud;
- Addressing the risks of fraud through management override of controls by performing journal entry testing; and
- Agreeing a sample of revenue transactions to relevant support.

The primary responsibility for the prevention and detection of irregularities, including fraud, rests with both those charged with governance and management. As with any audit, there remained a risk of non-detection of irregularities, as these may involve

collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

The risks of material misstatement that had the greatest effect on our audit are discussed in the "Key audit matters" section of this report.

A further description of our responsibilities is available on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters which we are required to address

Following the recommendation of the audit committee, we were appointed by the board of directors on 21 June 2022 to audit the financial statements for the year ending 31 July 2022 and subsequent financial periods. The period of total uninterrupted engagement is 2 years, covering the years ending 31 July 2022 to 31 July 2023.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting our audit.

Our audit opinion is consistent with our additional report to the audit committee.

Use of the audit report

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

Valerie Levi (Senior Statutory Auditor) for and on behalf of Mazars LLP

Chartered Accountants and Statutory Auditor
One St Peter's Square
Manchester
M2 3DE
19 October 2023

Consolidated statement of comprehensive income

for the year ended 31 July 2023

	Notes	2023 £'000	2022 (restated) £'000
Revenue	4	5,618	2,467
Cost of sales ¹		(847)	(932)
Gross profit		4,771	1,535
Other operating income			
Government grants	5	230	361
Profit on sale of IP	6	68,687	–
Operating expenses			
Research and development expenses ¹	6	(1,295)	(1,258)
Administrative expenses		(57,401)	(5,409)
Operating profit/(loss)	6	14,992	(4,771)
– Before share-based payments and non-recurring items		(2,915)	(4,152)
– Share-based payments	24	(953)	(619)
– Profit on sale of IP	6	68,687	–
– Litigation costs	6	(49,337)	–
– EGM requisition	6	(490)	–
Finance income	8	38	–
Finance expense	8	(5,457)	(450)
Profit/(loss) before taxation		9,573	(5,221)
Taxation	9	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	10	3.44p	(1.52p)
Diluted profit/(loss) for the year	10	3.32p	(1.52p)

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 year and loss for the prior year arises from the group's continuing operations and is attributable to the equity holders of the Parent.

The notes on pages 99 to 126 form an integral part of these financial statements.

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

Company statement of changes in equity

for the year ended 31 July 2023

Company	Share capital £'000	Share premium £'000	Share-based payment reserve £'000	Capital redemption reserve £'000	Retained earnings/ accumulated losses) £'000	Total £'000
At 1 August 2021	30,570	117,292	4,318	4,402	(119,978)	36,604
Loss for the year and total comprehensive loss for the year	–	–	–	–	(340)	(340)
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	4,916	4,402	(120,318)	42,389
Profit for the year and total comprehensive profit for the year	–	–	–	–	46,182	46,182
Capital reduction	–	(121,145)	–	(4,402)	125,547	–
Issue of capital to EBT on option exercise	199	–	(259)	–	60	–
Share-based payments	–	–	953	–	–	953
At 31 July 2023	32,443	–	5,610	–	51,471	89,524

Group and Company statements of financial position

at 31 July 2023

Registered no. 05067291

	Notes	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	11	304	–	98	–
Right of use assets	12	2,075	–	56	–
Intangible assets	13	966	–	1,616	–
Deferred tax asset	9	2,573	–	–	–
Foreign withholding tax receivable	9	1,756	–	–	–
Investment in subsidiaries	14	–	41,700	–	40,747
		7,674	41,700	1,770	40,747
Current assets					
Inventories	15	308	–	174	–
Trade and other receivables	16	33,986	52,876	1,664	175
Foreign withholding tax receivable	9	592	–	–	–
Income tax receivable	9	–	–	524	–
Cash and cash equivalents	17	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	18	(2,783)	(1,153)	(1,510)	(638)
Loans	19	(4,004)	(4,004)	–	–
Lease liabilities	21	(456)	–	(153)	–
Income tax liability	9	(770)	–	–	–
Provisions	23	–	–	(172)	–
Deferred revenue	20	(6,123)	–	(560)	–
		(14,136)	(5,157)	(2,395)	(638)
Non-current liabilities					
Loans	19	(557)	–	(3,919)	(3,392)
Lease liabilities	21	(1,415)	–	(16)	–
Provisions	23	(445)	–	(40)	–
Deferred revenue	20	(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	22	32,443	32,443	32,244	32,244
Share premium	22	–	–	121,145	121,145
Reverse acquisition reserve	22	(77,868)	–	(77,868)	–
Share-based payment reserve	24	5,610	5,610	4,916	4,916
Merger reserve	25	(1,242)	–	(1,242)	–
Capital redemption reserve	25	–	–	–	4,402
Shares held by EBT	26	(105)	–	–	–
Retained earnings/(accumulated losses)	26	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 notes on pages 99 to 126 form an integral part of these financial statements. The financial statements on pages 95 to 126 were approved by the Board of Directors on 17 October 2023 and signed on its behalf by:

Dr Christopher Richards
Chairman
19 October 2023

Brian Tenner
Chief Executive Officer
19 October 2023

Group and Company cash flow statements

for the year ended 31 July 2023

	Notes	31 July 2023 Group £'000	31 July 2023 Company £'000	31 July 2022 Group £'000	31 July 2022 Company £'000
Profit/(loss) before tax		9,573	46,182	(5,221)	(340)
Adjustments for:					
Net finance expense	8	5,419	5,337	450	396
(Profit)/loss on exchange rate translations		1,747	(10)	(211)	19
Depreciation of tangible fixed assets	11	76	–	105	–
Depreciation of right of use assets	12	555	–	366	–
Amortisation of intangible assets	13	279	–	498	–
Profit on disposal of intangible assets	6	(68,687)	–	–	–
Impairment of intangible assets	13	92	–	858	–
Reversal of impairment		–	–	–	(76)
Share-based payments	24	953	–	619	–
(Profit)/loss on disposal of tangible fixed assets	11	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		970	316	(105)	116
(Decrease)/increase in provisions		(176)	–	212	–
Increase/(decrease) in deferred revenue		23,320	–	205	–
Cash (outflow)/inflow from operating activities		(25,723)	(876)	(2,465)	115
Foreign withholding tax paid		(2,641)	–	–	–
Research and development tax credit received		524	–	688	–
Net cash (outflow)/inflow from operating activities		(27,840)	(876)	(1,777)	115
Cash flow from investing activities					
Purchases of tangible fixed assets	11	(305)	–	(4)	–
Purchases of intangible fixed assets	13	(76)	–	(114)	–
Proceeds from sale of tangible fixed assets		15	–	36	–
Proceeds from sale of intangible fixed assets		34,509	–	–	–
Interest received	8	38	–	–	–
Net cash inflow/(outflow) from investing activities		34,181	–	(82)	–
Cash flow from financing activities					
Proceeds from placing of ordinary share capital		199	199	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 (outflow)/inflow from financing activities		(5,078)	(4,526)	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	17	8,207	105	6,762	5,497

The notes on pages 99 to 126 form an integral part of these financial statements.

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 financial statements consolidate those of the Company and its subsidiaries (together referred to as the "group" and individually as "group entities") for the year ended 31 July 2023.

The financial statements of the Group for the year ended 31 July 2023 were authorised for issue by the Board of Directors on 19 October 2023 and the statements of financial position were signed on the Board's behalf by Dr Christopher Richards and Brian Tenner.

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

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

2. Basis of preparation

(a) Statement of compliance

The group's and Parent Company's financial statements have been prepared in accordance with 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 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 employee 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 are set out on pages 9 to 27. The principal risks and uncertainties are shown on pages 33 to 35 while the group's financial position is described in the Financial review on pages 30 to 32. Furthermore, note 27 summarises 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 2023 Annual Report, the Directors have reviewed the same trading and cash flow forecasts and sensitivity analyses that were used by the group in the viability assessment described on p36, 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 business lines though some small scale commercial deals are 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.

Notes to the financial statements continued**2. Basis of preparation** continued**(c) Going concern** continued

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. This is a significant estimate and sensitivity analysis is included in note 6.

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. Further information is included in note 24.

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. Additional information is included in note 9.

Judgements**Recoverability 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.

2. Basis of preparation continued

(e) Use of estimates and judgements continued

Judgements continued

Recoverability of investment and inter-company receivable continued

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. Further information is included in note 3(d).

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. 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. Further information is included in note 3(h).

3. Significant accounting policies

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

(a) Basis of consolidation

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

Subsidiaries are all entities over which the group has the power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee), exposure, or rights, to variable returns from its involvement with the investee and ability to use its power over the investee to affect its returns. All 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.

Notes to the financial statements continued**3. Significant accounting policies** continued**(a) Basis of consolidation** continued

The difference between the cost of acquisition of shares in subsidiaries and the fair value of the identifiable net assets acquired is capitalised as goodwill and reviewed annually for impairment. Any deficiency in the cost of acquisition below the fair value of identifiable net assets acquired (i.e. discount on acquisition) is recognised directly in the consolidated statement of comprehensive income.

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

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

(b) Foreign currency transactions

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

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

(c) Segmental reporting

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

(d) Revenue recognition

Revenue comprises the fair value of the sale of products and services to external customers, net of value added tax or other sales taxes or duties, rebates, discounts and returns. Revenue is recognised according to the five-step model set out in IFRS 15 as follows:

1. identify the contract(s) with a customer;
2. identify the performance obligations in the contract;
3. determine the transaction price;
4. allocate the transaction price to the performance obligations in the contract; and
5. recognise revenue when (or as) the entity satisfied a performance obligation.

Products sold

Revenue from the sale of products is recognised at the point of transfer of control, which is generally on shipment or delivery of the product. This is dependent on the delivery terms agreed with the customer. At this stage the group has completed its performance obligations. The supply and delivery of products are not deemed to be separable performance obligations as the customer is obliged to make use of the group's delivery arrangements in most cases.

Rendering of services

Revenues from development programmes are recognised over time on a cost to cost method whereby cost is used to measure progress and costs are incurred evenly throughout the period.

Licences

Licences grant customers access to the group's technology over a set length of time. Therefore, revenue related to the granting of a licence is recognised over the same period of time. The length of time to which the licence, and therefore the revenue, relates varies by customer and agreement.

(e) Government grants

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

Government grants of a revenue nature are recognised as other operating income in the consolidated statement of comprehensive income. Government grants of an expense nature are recognised as a credit to administrative expenses in the consolidated statement of comprehensive income.

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

3. Significant accounting policies continued

(f) Cost of sales

Cost of sales comprises the materials, direct labour, duty, freight, and employee and employee-associated costs incurred in the generation of revenue from products sold and research and development services supplied.

Revenue from royalties and licences, which comprises payments from customers to gain preferential treatment in terms of supply or pricing, does not have an associated cost of sale.

(g) Deferred revenue and accrued income

When either party to a contract has performed, the contract balance is presented in the statement of financial position as accrued income or deferred revenue, depending on the relationship between the completion of the performance obligations and the customer's payment. Accrued income represents consideration earned through the completion of performance obligation, or part performance where revenue is recognised over time, that is not yet due for payment. Deferred revenue represents advanced consideration received from customers, for which the corresponding performance obligation has not been performed or is only part performed where revenue is recognised over time.

(h) Research and development

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

The criteria for recognising expenditure as an asset are:

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

Development costs are currently charged against income as incurred since the criteria for their recognition as an asset are not met, the exception being the costs of filing intellectual property as these are considered to generate probable future economic benefits and are capitalised as intangible assets (see note 13).

(i) Finance income and expense

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

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

(j) Income tax

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

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

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

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

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

Notes to the financial statements continued**3. Significant accounting policies** continued**(j) Income tax** continued

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

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

(k) Property, plant and equipment

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

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

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

Laboratory infrastructure	–	straight line over five years or the remainder of the lease period (if shorter)
Fixtures and fittings	–	straight line over five years
Office equipment	–	straight line over three years
Plant and machinery	–	straight line over five years

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

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

Assets under construction, which principally relate to leasehold improvements and plant and machinery, are not depreciated until such time as they are available for use. If there are indications of impairment in the carrying value, then the recoverable amount is estimated and compared to the carrying amount. The recoverable amount is determined as the value that will ultimately be capitalised as an asset, based upon IAS 16 recognition and capitalisation criteria.

(l) Intangible assets

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

Where consideration for the purchase of an intangible asset includes contingent consideration, the fair value of the contingent consideration is included in the cost of the asset.

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

Patents	–	straight line over ten years
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(m) Impairment of non-financial assets

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

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying value of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the group reviews the potential markets for the asset, and considers the possibility of short to medium-term commercial success being derived from the asset. In determining fair value less costs of disposal, an appropriate valuation model is used and these calculations are corroborated by valuation multiples or other available fair value indicators. Impairment losses on continuing operations are recognised in the consolidated statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

3. Significant accounting policies continued

(m) Impairment of non-financial assets continued

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

Impairment charges have been posted during the year in relation to intangible assets. See the relevant note for more information.

(n) Investments in subsidiaries

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

(o) Inventories

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

(p) Financial instruments

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

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

Receivables

(i) Trade and other receivables

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

For trade receivables and contract assets, the group applies the IFRS 9 simplified approach in calculating ECLs. Therefore, the group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The group has established a provision matrix that is based on shared credit risk characteristics, its historical credit loss experience and days past due, adjusted for forward-looking factors specific to the debtors and the economic environment. The amount of the provision is recognised in the balance sheet within trade receivables. Movements in the provision are recognised in the profit and loss account in administrative expenses.

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

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

Financial liabilities at amortised cost

(i) Trade and other payables

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

(ii) Loans and convertible loan notes

Obligations for loans and borrowings are measured initially at fair value and subsequently interest-bearing loans are measured at amortised cost. Convertible loan notes are presented as financial liabilities as rights of the note holder to convert the loan notes into equity are within the control of the Company.

(q) Share capital

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

(r) Share-based payments

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

Notes to the financial statements continued**3. Significant accounting policies** continued**(r) Share-based payments** continued

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

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

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

Where awards relating to services within the year have not been issued and therefore the fair value has not been calculated at the year end, an estimate, based on the current share price, is made of the cost incurred to date and a true-up is performed once the valuation is complete.

(s) Defined contribution pension scheme

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

(t) Provisions

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provision is not made for future operating losses. Provisions are discounted where the impact is deemed to be material. Where obligations are covered by "no win, no fee" funding arrangements, the liability is recognised in full at the point when the group becomes liable, i.e. when the outcome is known.

(u) Alternative performance measurements

Items of income and expenditure which are material and non-recurring are presented separately in the consolidated statement of comprehensive income. The separate reporting of such items helps to provide an indication of the underlying performance of the group and hence allows the user of the accounts a fuller understanding of that performance.

(v) Contingent assets and liabilities

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the group. Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable.

Contingent liabilities are possible obligations that arise from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the control of Nanoco. Additionally, contingent liabilities may be present obligations that arise from past events but which are not recognised because it is not probable that an outflow of resources will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities are not recognised in the consolidated statement of financial position but are disclosed and explained in the notes.

(w) IFRS 16 Leases

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and the lessor. It eliminates the classification of leases as either operating leases or financial leases and introduces a single lease accounting model requiring lessees to recognise a lease liability reflecting the future lease payments and a right of use asset for lease contracts. The group has applied the modified retrospective transition approach, with recognition of transitional adjustments on the date of initial application (1 August 2019), without restatement of comparative figures.

Lease payments for low value or short-term leases where the group has elected not to recognise a right of use asset and lease liability are charged as an expense on a straight-line basis.

At the date of commencement of property leases, the group determines the lease term to be the full term of the lease, assuming that any option to break or extend is not likely to be exercised. Leases are regularly reviewed and will be revalued if it becomes likely that a break clause or option to extend will be exercised. The weighted average incremental borrowing rate applied at the date of transition was 3.75%. For new leases entered into in the year ended 31 July 2023, the weighted average incremental borrowing rate applied was 8.00% (2022: 4.25%).

3. Significant accounting policies continued

(w) IFRS 16 Leases continued

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

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

(x) 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

During the years ended 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
Licenses	3,066	103
	5,618	2,467

There was one material customer who generated product and service revenue of £2,014,000 (2022: 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).

Notes to the financial statements continued

4. Segmental information continued

Operating segments continued

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		
USA	59	27
Japan	447	244
UK	1	1
Singapore	–	3
Holland	1,423	1,474
France	385	348
Taiwan	323	351
Canada	9	19
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. Other operating income

	31 July 2023 £'000	31 July 2022 £'000
Government grants	230	361

Grants of £230,000 (2022: £361,000) are included in other operating income. There are no unfulfilled conditions or other contingencies attached to these grants.

6. Operating profit/(loss)

	31 July 2023 £'000	31 July 2022 £'000
Operating profit/(loss) is stated after charging/(crediting):		
Depreciation of tangible fixed assets (see note 11)	76	105
Depreciation of right of use assets (see note 12)	555	349
(Profit)/loss on disposal of fixed assets	8	(36)
Amortisation of intangible assets (see note 13)	279	498
Impairment of intangible assets (see note 13)	92	859
(Profit) on disposal of intangible assets	(68,687)	–
Settled litigation costs	49,337	–
Requisitioned general meeting	490	–
Lease costs of low value/short life lease obligations	7	11
Staff costs (see note 7)	3,480	2,552
Foreign exchange losses/(gains)	1,747	(192)
Research and development expense ¹	1,802	1,770
Share-based payments	953	619
Employers tax on Share-based payments	(225)	264

¹ Included within research and development expense are staff costs totalling £1,117,000 (2022: £1,439,000) also included in note 7. Included in research and development expenses are £507,000 (2022: £512,000) included in cost of sales.

6. Operating profit/(loss) continued

On 3 February 2023, the group signed agreements with Samsung for a sale of part of the group's IP portfolio and a licence on the remaining IP. The two contracts also ended the litigation against Samsung for the alleged infringement of the group's IP on a no fault basis. The information and tables below set out the impact of the transactions on the group's financial statements for FY23.

Income statement impact for FY23

	£'000
Revenue (licence fee income)	2,963
Administrative costs (litigation costs)	(49,337)
Profit on disposal of intangible assets	68,687
Unrealised foreign exchange loss on accrued income	(1,929)
Net operating profit	20,384
Interest payable on loan notes	(4,725)
Profit before tax	15,659

The sale of IP was recognised in full in FY23 as a profit on disposal of intangible assets. The litigation costs were also recognised in full in FY23 as an administrative expense. The profit on disposal of intangible assets is made up of proceeds of £69,067,000 less £356,000 of net book value at the time of sale and £24,000 of IP registration transfer fees.

The IP licence income will be recognised as revenue over the average remaining life of the patent portfolio as it exists at 3 February 2023. This is estimated to be 8.8 years from 3 February 2023. The licence income in FY23 reflects the six months of the revenue recognition period included in FY23. The following table demonstrates the sensitivity to the estimate of the remaining life of the patent portfolio.

	Impact on revenue 2023 £'000
Remaining patent life at start of licence	
7 years	775
8 years	307
9 years	(56)
10 years	(347)

The following table sets out the balance sheet impact of the agreements on initial recognition and as at 31 July 2023.

Balance sheet impact

	03 Feb 2023 £'000	31 July 2023 £'000
Proceeds receivable (debtors due within one year)	96,616	33,041
Deferred income (due within one year)	–	(6,080)
Deferred income due after more than one year	–	(17,801)
Disposal of intangible assets	(356)	(356)
Litigation fees payable	(48,436)	–
Financial liability	(4,725)	–
Withholding tax asset	–	2,269
Cash	–	4,458
Net assets	43,099	15,531

The second tranche of license fee of \$32.5 million, including above in proceeds receivable, has not yet been recognised as the performance obligation is only part complete and the payment is not yet due. This will be recognised on the due date for payment and the income deferred until recognised over time. The figures above are shown before the impact of any UK taxation. Tax treatment is disclosed in note 9.

During the year a small group of activist shareholders called a general meeting with the aim of removing the entire Board and appointing their own six nominees instead. The group incurred costs of £490,000 in legal and advisory fees in relation to this matter of which £348,000 was included in accruals at 31 July 2023.

Notes to the financial statements continued

6. Operating profit/(loss) continued

Auditors' remuneration

	31 July 2023 £'000	31 July 2022 £'000
Audit services:		
– Fees payable to Company auditors for the audit of the Parent and the consolidated accounts	102	41
– Auditing the accounts of subsidiaries pursuant to legislation	60	44
Total auditors' remuneration	162	85

7. Staff costs

The group's costs for employees, including Directors, during the year were as follows:

	31 July 2023 £'000	31 July 2022 £'000
Wages and salaries	3,022	2,241
Social security costs	340	226
Defined contribution pension costs	118	85
	3,480	2,552
Share-based payments	953	619
Social security costs on share-based payments	(225)	264
Total staff costs	4,208	3,435
Directors' remuneration (including benefits in kind) included in the aggregate remuneration above comprised:		
Emoluments for qualifying services	1,401	797

Emoluments for Directors of the group (excluding social security costs and long-term incentives, but including benefits in kind) disclosed above include £542,000 paid to the highest paid Director (2022: £265,000). Details of the compensation of key management personnel are described in note 29.

The group made contributions to money purchase pension schemes for two current Directors (2022: two). Aggregate gains made by Directors during the year following the exercise of share options were £357,000 (2022: £nil). An analysis of the highest paid Director's remuneration is included in the Directors' remuneration report.

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

Group	31 July 2023 Number	31 July 2022 Number
Directors	6	7
Laboratory and administrative staff	36	35
	42	42

8. Finance income and expense

Group	31 July 2023 £'000	31 July 2022 £'000
Finance income		
Interest receivable	38	–
Finance expense		
Loan note interest	(643)	(433)
Loan note success fee	(4,725)	–
Unwinding interest on lease liabilities	(86)	(14)
Other interest payable	(3)	(3)
	(5,419)	(450)

The loan note success fee was a one-off interest payment to the loan note holders on the successful conclusion to the Samsung litigation.

9. Taxation

The tax credit is made up as follows:

Group	31 July 2023 £'000	31 July 2022 £'000
Current income tax		
UK corporation tax	1,072	–
Research and development income tax credit receivable	(302)	(524)
Foreign taxation	291	–
Adjustment in respect of prior years	–	–
	1,061	(524)
Deferred tax		
Origination and reversal of temporary differences	(2,522)	–
Adjustments in respect of prior periods	(51)	–
Total income tax credit	(1,512)	(524)

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

Group	31 July 2023 £'000	31 July 2022 £'000
Profit/(loss) before taxation	9,573	(5,221)
Tax at standard rate of 21% (2022: 19%)	2,011	(992)
Effects of:		
Expenses not deductible for tax purposes	1,237	(15)
Capital allowances in excess of depreciation	13	16
Additional deduction for research and development expenditure	–	(365)
Surrender of research and development relief for repayable tax credit	–	640
Research and development tax credit receivable	(302)	(524)
Share options exercised (CTA 2009 Pt 12 deduction)	(75)	–
Losses (Recognised)/Not Recognised	(4,636)	716
Foreign tax credits	291	–
Adjustment in respect of prior years	(51)	–
Tax charge/(credit) in income statement	(1,512)	(524)

The group has accumulated losses available to carry forward against future trading profits of £31.6 million (2022: £40.5 million).

Deferred tax liabilities/(assets) provided/(recognised) at a standard rate of 25% (2022: 19%) are as follows:

	31 July 2023 £'000	31 July 2022 £'000
Accelerated capital allowances	(37)	–
Short-term temporary differences	(272)	–
Tax losses	(2,264)	–
	(2,573)	–
Foreign withholding tax receivable – current	(592)	–
Foreign withholding tax receivable – non-current	(1,756)	–
Total foreign withholding tax receivable	(2,348)	–

The group also has deferred tax assets, measured at a standard rate of 25% (2022: 25%), in respect of share-based payments and tax losses of £5,326,000 (2022: £10,246,000) which have not been recognised as an asset as it is not yet sufficiently probable that future taxable profits will be available against which the assets can be utilised. The foreign withholding tax receivable relates to withholding tax incurred on license income that will be recovered through tax deductions in future years.

Notes to the financial statements continued

10. Earnings per share

Group	31 July 2023 £'000	31 July 2022 £'000
Profit/(loss) for the financial year attributable to equity shareholders	11,085	(4,697)
Share-based payments	953	619
Profit/(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 profit/(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	–
Diluted profit/(loss) per share (pence)	3.32	–

Diluted loss per share has not been presented for 2022 as the effect of share options issued is anti-dilutive.

Adjusted profit/(loss) per share and diluted adjusted profit/(loss) per share are non-GAAP measures included for reference.

11. Tangible fixed assets

Group	Laboratory infrastructure £'000	Office equipment, fixtures and fittings £'000	Plant and machinery £'000	Total £'000
Cost				
At 1 August 2021	3,380	466	8,020	11,866
Additions	–	–	4	4
Disposals	(42)	(67)	(796)	(905)
At 31 July 2022	3,338	399	7,228	10,965
Additions	25	50	230	305
Disposals	(1,825)	(88)	(1,385)	(3,298)
At 31 July 2023	1,538	361	6,073	7,972
Accumulated depreciation				
At 1 August 2021	3,380	432	7,855	11,667
Charged during the year	–	23	82	105
Disposals	(42)	(67)	(796)	(905)
At 31 July 2022	3,338	388	7,141	10,867
Charged during the year	4	8	64	76
Disposals	(1,825)	(86)	(1,364)	(3,275)
At 31 July 2023	1,517	310	5,841	7,668
Net book value				
At 31 July 2023	21	51	232	304
At 31 July 2022	–	11	87	98

The aggregate original cost of tangible assets now fully depreciated but considered to be still in use is £7,458,000 (2022: £10,668,000).

Capital commitments

At 31 July 2023, the group had capital commitments amounting to £nil in respect of orders placed for capital expenditure (2022: £nil).

12. Right of use assets

	Office Equipment £'000	Property Leases £'000	Total £'000
Right of use assets			
Cost			
At 1 August 2022	–	893	893
Additions	34	2,540	2,574
Disposals	–	(225)	(225)
At 31 July 2023	34	3,208	3,242
Accumulated depreciation			
At 1 August 2022	–	837	837
Charged during the year	6	549	555
Disposals	–	(225)	(225)
At 31 July 2023	6	1,161	1,167
Net book value			
At 31 July 2023	28	2,047	2,075
At 1 August 2022	–	56	56
Lease liabilities			Total £'000
Opening liabilities at 1 August 2022			(169)
Additions			(2,165)
Lease payments			549
Interest charge			(86)
Closing liabilities at 31 July 2023			(1,871)

A provision for dilapidations of £445,000 is recognised in relation to the right of use assets, see note 23.

The group had undiscounted future lease payments due as follows:

	Within 1 year £'000	1 to 2 years £'000	2 to 3 years £'000	3 to 4 years £'000	4 to 5 years £'000	More than 5 years £'000	Total £'000
31 July 2023	509	509	500	496	–	–	2,014
31 July 2022	156	4	4	4	4	–	172

The group has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the group's business needs. Management exercises judgement in determining whether these extension and termination options are reasonably certain to be exercised.

Set out below are the undiscounted potential future rental payments related to periods following the exercise date of extension and termination options that are not included in the lease term:

	Within five years £'000	More than five years £'000	Total £'000
31 July 2023			
Extension options expected to be exercised	–	–	–
Extension options expected not to be exercised	–	–	–
Total	–	–	–
31 July 2022			
Extension options expected not to be exercised	17	–	17
Extension options expected to be exercised	2,493	–	2,493
Total	2,510	–	2,510

Notes to the financial statements continued

12. Right of use assets continued

Capital commitments

At 31 July 2023, the group had capital commitments amounting to £nil in respect of new leases (2022: £2,119,000).

13. Intangible assets

Group	Patents £'000
Cost	
At 1 August 2021	7,668
Additions	115
Disposals	(3,004)
At 31 July 2022	4,779
Additions	76
Disposals	(1,034)
At 31 July 2023	3,821
Accumulated amortisation	
At 1 August 2021	4,810
Charged during the year	498
Impairment charge	859
Disposals	(3,004)
At 31 July 2022	3,163
Charged during the year	279
Impairment charge	92
Disposals	(679)
At 31 July 2023	2,855
Net book value	
At 31 July 2023	966
At 31 July 2022	1,616

Contingent consideration of \$150,000 is payable in respect of a purchase of patents made during a previous period. The amount is payable if the group reaches a revenue target in a future reporting period.

Intangible assets are amortised on a straight-line basis over ten years. Amortisation provided during the period is recognised in administrative expenses. The group does not believe that any of its patents in isolation are material to the business. The aggregate original cost of intangible assets now fully depreciated but considered to be still in use is £1,470,000 (2022: £1,988,000).

The group continues to undertake annual reviews to identify patents which are deemed insufficiently certain to recover their carrying value and should therefore be allowed to lapse. The lapses in the current year related to patent applications where a grant was no longer deemed to be likely. As a consequence, patents with a value of £92,000 (2022: £859,000) have been fully impaired in these financial statements. The impairment charge is recognised within administrative expenses.

14. Investment in subsidiaries

Company	Shares £'000	Share impairment £'000	Loans £'000	Loan impairment £'000	Total £'000
At 1 August 2021	63,235	(24,006)	25,074	(24,175)	40,128
Increase in respect of share-based payments	–	–	619	–	619
At 31 July 2022	63,235	(24,006)	25,693	(24,175)	40,747
Increase in respect of share-based payments	–	–	953	–	953
At 31 July 2023	63,235	(24,006)	26,646	(24,175)	41,700

14. Investment in subsidiaries continued

By subsidiary	Shares £'000	Share impairment £'000	Loans £'000	Loan impairment £'000	Total £'000
Nanoco Tech Limited	63,235	(24,006)	–	–	39,229
Nanoco Life Sciences Limited	–	–	20,286	(20,286)	–
Nanoco Technologies Limited	–	–	6,360	(3,889)	2,471
At 31 July 2023	63,235	(24,006)	26,646	(24,175)	41,700

Accounting standards (IAS 36 Impairment of Assets) require investments in subsidiary undertakings (equity and loans) to be carried at the lower of cost or recoverable value. Recoverable value is defined as the higher of fair value less costs of disposal (effectively net sale proceeds) and value in use. Indicators of potential impairment noted in IAS 36 (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.

Consistent with IAS 36 and the indicator of impairment noted above in respect of net assets exceeding market capitalisation, the Directors have used the Company's market capitalisation as at 31 July 2023 as its fair value less costs of disposal. Given the volatility of the share price during the year, the Directors do not believe that a sufficiently robust period of share price appreciation has occurred as yet to merit an upwards revision in the value of the investment, which has therefore been left unchanged.

The investment balance with Nanoco Technologies Limited arises due to the recharge for share-based payments. There is no immediate intention for this to be repaid.

Loans to subsidiary undertakings carry no interest and are repayable on demand. Further information in relation to these loans is given in note 28.

Subsidiary undertakings	Country of incorporation	Principal activity	Share of issued ordinary share capital	
			31 July 2023	31 July 2022
Nanoco Life Sciences Limited	England and Wales	Research and development	100%	100%
Nanoco Tech Limited	England and Wales	Holding company	100%	100%
Nanoco Technologies Limited ¹	England and Wales	Manufacture and development of nanoparticles	100%	100%
Nanoco 2D Materials Limited	England and Wales	Research and development	100%	100%
Nanoco US Inc. ²	USA	Management services	100%	100%

All subsidiaries incorporated in England and Wales are registered at Science Centre, The Heath Business and Technical Park, Runcorn WA7 4QX. Nanoco US Inc. is registered at 33 Bradford Street, Concord, MA 01742.

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

1 Share capital is owned by Nanoco Tech Limited.

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

15. Inventories

	31 July 2023 Group £'000	31 July 2023 Company £'000	31 July 2022 Group £'000	31 July 2022 Company £'000
Finished goods	37	–	–	–
Raw materials and consumables	271	–	174	–
Total	308	–	174	–

A total of £626,000 (2022: £296,000) was included in cost of sales with respect to the cost of inventory expensed during the year. Inventories are stated net of an allowance of £111,000 (2022: £126,000) in respect of excess or slow-moving items. Movement in the allowance was due to utilisation in the year.

Notes to the financial statements continued

16. Trade and other receivables

	31 July 2023 Group £'000	31 July 2023 Company £'000	31 July 2022 Group £'000	31 July 2022 Company £'000
Trade receivables	87	–	975	–
Accrued income	33,139	–	143	–
Prepayments	430	–	248	29
Inter-company short-term loan to subsidiary	–	67,220	–	66,813
Less impairment provision	–	(14,490)	–	(66,813)
Other receivables	330	146	298	146
	33,986	52,876	1,664	175

The impairment of the short-term loan is explained in note 14. The quantum of this provision will be reviewed at each reporting date.

Trade receivables are non-interest bearing and are generally due and paid within 30 to 60 days. The Directors consider that the carrying amount of trade and other receivables approximates to their fair value. An expected credit loss of £nil (2022: £10,000) has been recognised at the year end.

Accrued income includes the second tranche of the consideration on the sale of IP to Samsung of \$42.5 million (£33.0 million) which is due in Feb 24. The \$32.5 million second tranche of the license income, also due in Feb 24 has not been recognised at 31 July 23.

Other receivables include an amount of £146,000 (2022: £146,000) relating to consideration due on shares awarded as part of the Deferred Bonus Plan.

Trade receivables are denominated in the following currency:

	31 July 2023 Group £'000	31 July 2023 Company £'000	31 July 2022 Group £'000	31 July 2022 Company £'000
US Dollars	87	–	963	–
Sterling	–	–	12	–
	87	–	975	–

At 31 July, the ageing analysis of trade receivables was as follows:

	Not yet due £'000	Due £'000	Past due 90 days to 120 days £'000	Past due > 120 £'000	Total £'000
2023	58	29	–	–	87
2022	497	477	1	–	975

17. Cash and cash equivalents

	31 July 2023 Group £'000	31 July 2023 Company £'000	31 July 2022 Group £'000	31 July 2022 Company £'000
Cash and cash equivalents	8,207	105	6,762	5,497

Under IAS 7, cash held on long-term deposits (being deposits with original maturity of greater than three months and no more than twelve months) that cannot readily be converted into cash must be classified as a short-term investment. There were no such deposits at 31 July 2023 (2022: none).

An analysis of cash, cash equivalents and deposits by denominated currency is given in note 27.

18. Trade and other payables

	31 July 2023 Group £'000	31 July 2023 Company £'000	31 July 2022 Group £'000	31 July 2022 Company £'000
Current				
Trade payables	864	–	622	–
Other payables	338	146	113	–
Accruals	1,581	381	775	–
Inter-company payable	–	626	–	638
	2,783	1,153	1,510	638

The Directors consider that the carrying amount of trade and other payables approximates to their fair value. The average credit period taken is 67 days (2022: 46 days). Interest is not charged on inter-company loans (2022: no interest).

19. Loans

	31 July 2023 Group £'000	31 July 2023 Company £'000	31 July 2022 Group £'000	31 July 2022 Company £'000
Convertible Series A loan note 2028	400	–	400	–
Accrued interest on Convertible Series A loan note 2028	157	–	127	–
Loan notes (net of costs)	2,989	2,989	2,989	2,989
Accrued interest on loan notes	1,015	1,015	403	403
	4,561	4,004	3,919	3,392

The loan note issued by Nanoco 2D Materials Limited is unsecured, bears a fixed interest at 6.5% p.a. and is fully repayable with accrued interest in 2028 unless options to convert into shares of that company have been exercised. The note holders have a right to convert the loan note into shares of the subsidiary in certain circumstances but these are within the control of the Company.

On 26 July 2021, there was a non-dilutive loan note subscription with two major shareholders, raising net proceeds before fees (£161,000) of £3.15 million on a loan note price of £4.50 million. The loan notes are unsecured and have a nominal value of £1 each, and an arrangement fee of 1.4% of the nominal amount and are repayable three years from completion. The subscription price of 70 pence represents a discount to the nominal value of £1 equivalent to 12% interest per annum. The Company may redeem the loan notes at any time prior to their maturity at 80% of nominal value during the first year of the term, 90% at any time in year two, and 100% at any time in year three. Following the successful outcome to the Samsung litigation, the loan note holders were paid a success bonus of £4,725,000, 105% of the nominal value of the loan notes subscribed. There have been no changes in liabilities arising from financing activities other than described in this note.

	Group £'000	Company £'000
Movement in loans		
At 1 August 2021	3,487	3,446
Accrued interest on loan note	396	396
Reclassification to current liabilities	–	(450)
Interest on convertible loan	36	–
At 31 July 2022	3,919	3,392
Accrued interest on loan note	612	612
Success fee due following Samsung agreement	4,725	4,725
Success fee paid	(4,725)	(4,725)
Interest on convertible loan	30	–
At 31 July 2023	4,561	4,004

Notes to the financial statements continued

20. Deferred revenue

	31 July 2023 Group £'000	31 July 2023 Company £'000	31 July 2022 Group £'000	31 July 2022 Company £'000
Current				
Upfront licence fees	6,123	–	103	–
Milestone payments	–	–	457	–
	6,123	–	560	–
Non-current				
Upfront licence fees	17,801	–	44	–
	23,924	–	604	–

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

	2023 £'000	2022 £'000
Opening deferred revenue	604	399
Revenue deferred	26,843	1,825
Revenue booked current year	(3,523)	(1,620)
Closing deferred revenue	23,924	604

21. Lease liabilities

	31 July 2023 Group £'000	31 July 2023 Company £'000	31 July 2022 Group £'000	31 July 2022 Company £'000
Current				
Property leases	448	–	153	–
Equipment leases	8	–	–	–
Total current	456	–	153	–
Non-current				
Property leases	1,399	–	16	–
Equipment leases	16	–	–	–
Total non-current	1,415	–	16	–

22. Issued equity capital

On 18 July 2023, the Company undertook a capital reduction which cancelled the share premium reserve.

Group	Number	Share capital £'000	Share premium £'000	Reverse acquisition reserve £'000	Total £'000
At 1 August 2021	305,699,102	30,570	117,292	(77,868)	69,994
Shares issued on placement	15,284,340	1,528	3,853	–	5,381
Shares issued on exercise of options	1,462,302	146	–	–	146
At 31 July 2022	322,445,744	32,244	121,145	(77,868)	75,521
Capital reduction	–	–	(121,145)	–	(121,145)
Shares issued on exercise of options	1,985,206	199	–	–	199
At 31 July 2023	324,430,950	32,443	–	(77,868)	(45,425)

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

22. Issued equity capital continued

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.

23. Provisions

	Property dilapidations £'000	Total £'000
At 1 August 2022	212	212
Provided during the period	297	297
Utilised during the period	(64)	(64)
At 31 July 2023	445	445

The provision relates to the potential dilapidation costs from the exit of all its premises. Because of the long-term nature of the liability, there is uncertainty in estimating the provision. The extent and cost of potential dilapidation costs represent a best estimate applied across the group's lease portfolio based on past experience, the extent of remediation work required and the expected timing of activity, for which there is a high level of uncertainty.

During the year, part of the provision was utilised against the exit of the Manchester premises.

24. Share-based payment reserve

Group and Company	£'000
At 1 August 2021	4,318
Share-based payments	619
Exercise of share options	(21)
At 31 July 2022	4,916
Share-based payments	953
Exercise of share options	(259)
At 31 July 2023	5,610

The share-based payment reserve accumulates the corresponding credit entry in respect of share-based payment charges. Movements in the reserve are disclosed in the consolidated statement of changes in equity.

A charge of £953,000 has been recognised in the statement of comprehensive income for the year (2022: charge of £619,000).

Share option schemes

The group operates the following share option schemes, all of which are operated as Enterprise Management Incentive ("EMI") schemes insofar as the share options being issued meet the EMI criteria as defined by HM Revenue & Customs. Share options issued that do not meet EMI criteria are issued as unapproved share options, but are subject to the same exercise performance conditions.

Nanoco Group plc Long Term Incentive Plan ("LTIP")

Grant in May 2014

Share options were granted to certain staff on 23 May 2014. The exercise price was set at 89 pence, being the average closing share price on the three days preceding the issue of the share options. The fair value benefit is measured using a binomial model, taking into account the terms and conditions upon which the share options were issued. The options vested at the end of three years from the date of grant and are exercisable until the tenth anniversary of the award. The awards were not subject to performance conditions. Vesting of the award was subject to the employees remaining full-time members of staff at the point of vesting. No options were granted to Executive Directors.

Notes to the financial statements continued

24. Share-based payment reserve continued

Share option schemes continued

Nanoco Group plc 2015 Long Term Incentive Plan ("LTIP")

Grants in December 2015 (fully lapsed), April 2016 (fully lapsed), November 2017 (fully lapsed), November 2018 (fully lapsed), October 2020 (fully lapsed), November 2021, December 2021 and October 2022

Following approval of the new scheme at the 2015 AGM, share options have been granted to Executive Directors and key staff on a number of occasions at nil cost, and have an exercise price of £nil. The fair value benefit is measured using a stochastic model, taking into account the terms and conditions upon which the share options are issued. In each case, the options vest at the end of the three-year performance period subject to meeting the performance criteria (as detailed in the Directors' remuneration report) in each reporting period and are exercisable after a two-year holding period until the tenth anniversary of the award.

Deferred Bonus Plan ("DBP")

On 22 November 2016, awards in the form of nil-cost options were granted to the Executive Directors in respect of 50% of their bonuses for the year ended 31 July 2016 which are delivered in the form of a share award under the DBP. The awards vested during FY19, after the required two-year holding period.

On 31 October 2019 and 10 December 2019, awards in the form of nil-cost options were granted to the Executive Directors in respect of 100% of their bonuses for the year ended 31 July 2019 which were delivered in the form of a share award under the DBP. The awards vested during FY22, after the required two-year holding period.

On 9 November 2021, awards in the form of nil-cost options were granted to the Executive Directors and certain other employees in respect of 100% of their bonuses for the year ended 31 July 2021 which are delivered in the form of a share award under the DBP. The awards will vest in FY24, after the required two-year holding period.

On 27 October 2022, awards in the form of nil-cost options were granted to the Executive Directors and certain other employees in respect of 100% of their bonuses for the year ended 31 July 2022 which are delivered in the form of a share award under the DBP. The awards will vest in FY25, after the required two-year holding period.

The following tables illustrate the number and weighted average exercise prices of, and movements in, share options during the year.

Group and Company	2023 total Number	2022 total Number
Outstanding at 1 August	19,820,352	20,580,246
Granted during the year	5,314,890	6,806,783
Exercised during the year	(1,985,206)	(1,462,302) ¹
Forfeited during the year	(237,388)	(260,466)
Expired during the year	(2,853,193)	(1,921,403)
Lapsed during the year	(8,143,855)	(3,922,506)
Outstanding at 31 July 2023	11,915,600	19,820,352
Exercisable at 31 July 2023	195,000	5,048,399

¹ For the share options exercised during the prior year, the exercise price payable was the nominal value of the shares issued of 10p.

Weighted average exercise price of options

Group and Company	2023 Pence	2022 Pence
Outstanding at 1 August	8.9	28.8
Granted during the year	—	—
Exercised during the year	—	—
Expired during the year	57.0	50.0
Lapsed during the year	0.2	60.3
Outstanding at 31 July 2023	1.0	8.9

24. Share-based payment reserve continued

Weighted average exercise price of options continued

The weighted average exercise price of options granted during the year to 31 July 2023 was £nil (2022: £nil). The range of exercise prices for options outstanding at the end of the year was £nil–89 pence (2022: £nil–89 pence). The weighted average exercise price of options exercisable at 31 July 2023 was 64 pence (2022: 35 pence).

For the share options outstanding as at 31 July 2023, the weighted average remaining contractual life is 8.6 years (2022: 6.59 years). The aggregate fair value of options issued in the year was £1,550,000 (2022: £1,009,000).

The following table lists the inputs to the models used for the years ended 31 July 2023 and 31 July 2022.

Group and Company	Market performance-linked grants		Non-market performance-linked grants	
	2023	2022	2023	2022
Expected volatility	89.5%	112.3%	N/A	N/A
Risk-free interest rate	3.19%	0.50%	N/A	N/A
Expected life of options (years average)	3	3	2	2
Weighted average exercise price	£nil	£nil	£nil	£nil
Weighted average share price at date of grant	35.6p	22.3p	35.6p	22.3p
Expected dividends	£nil	–	£nil	–
Model used	Stochastic	Stochastic	Black-Scholes	Black-Scholes

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

Certain awards are subject to a holding period after vesting. A Finnerty model has been used to determine a discount for the lack of marketability of the shares.

Sensitivity analysis to movement in non-market vesting assumptions

The following table demonstrates the sensitivity to a reasonably possible change in the non-market vesting assumptions with all other variables held constant, of the group's share based payment charge for the year

Increase/(decrease) @ vesting %	Impact on share based payment expense 2023 £'000
100%	–
60%	(66)
25%	(124)
0%	(165)

25. Merger reserve and capital redemption reserve

Merger reserve

Group	£'000
At 1 August 2021, 31 July 2022 and 31 July 2023	(1,242)

The merger reserve arises under section 612 of the Companies Act 2006 on the shares issued by Nanoco Tech Limited to acquire Nanoco Technologies Limited as part of a simple group reorganisation on 27 June 2007.

Capital redemption reserve

Company	£'000
At 1 August 2021 and 31 July 2022	4,402
Capital reduction	(4,402)
At 31 July 2023	–

The capital redemption reserve arises from the off-market purchase of deferred shares on 4 May 2005 and their subsequent cancellation. On 18 July 2023, the Company undertook a capital reduction which cancelled the capital redemption reserve.

Notes to the financial statements continued

26. Movement in retained earnings/(accumulated losses)

Group	Profit and loss £'000	Foreign currency translation reserve £'000	Treasury shares £'000	Shares held by EBT £'000	Total (accumulated losses)/retained earnings £'000
At 1 August 2021	(70,002)	4	(20)	–	(70,018)
Loss for the year	(4,697)	–	–	–	(4,697)
Other comprehensive income	–	–	–	–	–
At 31 July 2022	(74,699)	4	(20)	–	(74,715)
Profit for the year	11,085	–	–	–	11,085
Capital reduction	121,145	–	–	–	121,145
Issue of shares to EBT	–	–	–	(199)	(199)
Shares utilised by EBT to satisfy options	60	–	–	94	154
At 31 July 2023	57,591	4	(20)	(105)	57,470

Profit and loss represents the cumulative profit/(loss) attributable to the equity holders of the Parent Company.

During the year a new Employee Benefit Trust ("EBT") was established by the Company for the purpose of satisfying employee share options when exercised. At 31 July 2023 1,050,282 shares in the Company were held by the EBT and were distributed to employees post year end following the exercise of share options in the year (2022: nil). In addition there are 12,222 (2022: 12,222) treasury shares not held by the EBT.

Company	Accumulated losses £'000	Treasury shares £'000	Total (accumulated losses)/retained earnings £'000
At 1 August 2021	(119,958)	(20)	(119,978)
Loss for the year	(340)	–	(340)
At 31 July 2022	(120,298)	(20)	(120,318)
Profit for the year	46,182	–	46,182
Capital reduction	125,547	–	125,547
Exercise of share options	60	–	60
At 31 July 2023	51,491	(20)	51,471

27. Financial risk management

Overview

This note presents information about the group's exposure to various kinds of financial risks, the group's objectives, policies and processes for measuring and managing risk, and the group's management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the group's risk management framework. The Executive Directors report regularly to the Board on group risk management.

Capital risk management

The Company reviews its forecast capital requirements on a half-yearly basis to ensure that entities in the group will be able to continue as a going concern while maximising the return to stakeholders.

The capital structure of the group consists of equity attributable to equity holders of the Parent, comprising issued share capital, reserves and accumulated losses as disclosed in notes 22 to 26 and in the group statement of changes in equity. At 31 July 2023 total equity was £16,413,000 (2022: £4,480,000).

The Company is not subject to externally imposed capital requirements.

Liquidity risk

The group's approach to managing liquidity is to ensure that, as far as possible, it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the group's reputation.

The group manages all of its external bank relationships centrally in accordance with defined treasury policies. The policies include the minimum acceptable credit rating of relationship banks and financial transaction authority limits. Any material change to the group's principal banking facility requires Board approval. The group seeks to mitigate the risk of bank failure by ensuring that it maintains relationships with a number of investment-grade banks.

27. Financial risk management continued

Categorisation of financial instruments

Financial assets/(liabilities)	Financial assets at amortised cost	Financial liabilities at amortised cost	Financial assets and liabilities at amortised cost	
	£'000	£'000	Group £'000	Company £'000
31 July 2023				
Cash and cash equivalents	8,207	–	8,207	105
Trade receivables	87	–	87	–
Other receivables	184	–	184	–
Inter-company short-term loan to subsidiary	–	–	–	67,220
Less impairment provision	–	–	–	(14,490)
Trade and other payables	–	(2,637)	(2,637)	(378)
Lease liabilities	–	(1,871)	(1,871)	–
Loan notes and accrued interest	–	(4,561)	(4,561)	(4,004)
Inter-company payable	–	–	–	(626)
	8,478	(9,069)	(591)	47,827

Financial assets/(liabilities)	Financial assets at amortised cost	Financial liabilities at amortised cost	Financial assets and liabilities at amortised cost	
	£'000	£'000	Group £'000	Company £'000
31 July 2022				
Cash and cash equivalents	6,762	–	6,762	5,497
Trade receivables	975	–	975	–
Other receivables	298	–	298	146
Inter-company short-term loan to subsidiary	–	–	–	66,813
Less impairment provision	–	–	–	(66,813)
Trade and other payables	–	(1,510)	(1,510)	–
Lease liabilities	–	(169)	(169)	–
Loan notes and accrued interest	–	(3,919)	(3,919)	(3,392)
Inter-company payable	–	–	–	(638)
	8,035	(5,598)	(2,437)	1,613

The values disclosed in the above table are carrying values. The Board considers that the carrying amount of financial assets and liabilities approximates to their fair value.

The main risks arising from the group's financial instruments are credit risk and foreign currency risk. The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below.

Credit risk

The group's principal financial assets are cash, cash equivalents and deposits. The group seeks to limit the level of credit risk on the cash balances by only depositing surplus liquid funds with multiple counterparty banks that have investment-grade credit ratings. The maximum exposure to credit risk in relation to cash, cash equivalents and deposits is the carrying value at the balance sheet date.

The group trades only with recognised, creditworthy third parties. Receivable and accrued income balances are monitored on an ongoing basis with the result that the group's exposure to bad debts is not significant. The group's maximum exposure is the carrying amount as disclosed in note 16, which was neither past due nor impaired. All trade receivables and accrued income are ultimately overseen by the CFO and are managed on a day-to-day basis by the UK finance team. Credit limits are set as deemed appropriate for the customer.

Foreign currency risk

The group is exposed to currency risk on sales and purchases that are denominated in a currency other than the respective functional currency of the Company. These are primarily US Dollars ("USD") and Euros. Transactions outside of these currencies are limited.

Notes to the financial statements continued

27. Financial risk management continued

Foreign currency risk continued

Almost all of the Company's revenue is denominated in USD. The group purchases some raw materials, certain services and some assets in USD which partly offsets its USD revenue, thereby reducing net foreign exchange exposure.

The group may use forward exchange contracts as an economic hedge against currency risk, where cash flows can be judged with reasonable certainty. Foreign exchange swaps and options may be used to hedge foreign currency receipts in the event that the timing of the receipt is less certain. There were no open forward contracts as at 31 July 2023 or at 31 July 2022.

After the year end, the group took out a one-off hedge at a rate of GBP1:USD1.22, against the second tranche of proceeds from the Samsung agreements which means the net cash receipt of \$71.75 million will be converted to £58.8 million.

The split of group assets between Sterling and other currencies at the year end is analysed as follows (Company assets are all in Sterling):

Group	31 July 2023				31 July 2022			
	GBP £'000	EUR £'000	USD £'000	Total £'000	GBP £'000	EUR £'000	USD £'000	Total £'000
Cash and cash equivalents	7,948	1	258	8,207	6,547	30	185	6,762
Trade receivables	–	–	87	87	12	–	963	975
Accrued income	97	–	33,042	33,139	143	–	–	143
Trade payables	(775)	(5)	(84)	(864)	(614)	(1)	(7)	(622)
	7,270	(4)	33,303	40,569	6,088	29	1,141	7,258

All other categories of assets and liabilities in the statement of financial position are denominated in Sterling.

Sensitivity analysis to movement in exchange rates

The following table demonstrates the sensitivity to a reasonably possible change in the Sterling rate against other currencies used within the business, with all other variables held constant, of the group's loss before tax (due to foreign exchange translation of monetary assets and liabilities) and the group's equity.

Increase/(decrease)	Impact on loss before tax and group equity 2023 £'000	Impact on loss before tax and group equity 2022 £'000
10%	3,700	132
5%	1,753	62
(5%)	(1,586)	(56)
(10%)	(3,027)	(108)

Interest rate risk

As the group's borrowing is in the form of loan notes with a fixed rate of return and are held at amortised cost, interest rate risk is limited to the reduction of interest received on cash surpluses held at bank which receive a floating rate of interest. The group's financial instruments with interest rate risk exposure and maximum exposures are set out below:

Group	31 July 2023			31 July 2022		
	Fixed rate £'000	Floating rate £'000	Total £'000	Fixed rate £'000	Floating rate £'000	Total £'000
Cash and cash equivalents	–	8,207	8,207	–	6,762	6,762
Loan notes	4,561	–	4,561	(3,919)	–	(3,919)
Company						
Cash and cash equivalents	–	105	105	–	5,497	5,497
Loan notes	4,004	–	4,004	(3,392)	–	(3,392)

The exposure to interest rate movements is immaterial.

27. Financial risk management continued

Maturity profile

Set out below is the maturity profile of the group's financial liabilities at 31 July 2023 and 31 July 2022 based on contractual undiscounted payments, including contractual interest.

	Up to one year £'000	One to five years £'000	Greater than five years £'000	Total £'000
2023				
Financial liabilities				
Trade and other payables	2,521	445	–	2,966
Lease liabilities	509	1,505	–	2,014
Loans (including contractual interest)	4,500	751	–	5,251
	7,530	2,701	–	10,231
2022	Up to one year £'000	One to five years £'000	Greater than five years £'000	Total £'000
Financial liabilities				
Trade and other payables	1,728	–	–	1,728
Lease liabilities	41	128	–	169
Loans (including contractual interest)	–	3,392	527	3,919
	1,769	3,520	527	5,816

Trade and other payables are due within three months.

As all financial assets are expected to mature within the next twelve months, an aged analysis of financial assets has not been presented.

28. Related party transactions

The group

There were no sales to, purchases from or, at the year end, balances with any related party.

The Company

The following table summarises inter-company balances at the year end between Nanoco Group plc and subsidiary entities:

	Notes	31 July 2023 £'000	31 July 2022 £'000
Long-term loans owed to Nanoco Group plc by:			
Nanoco Life Sciences Limited		20,286	20,286
Nanoco Technologies Limited ¹		6,360	5,407
		26,646	25,693
Less provision against debt owed by Nanoco Life Sciences Limited	14	(20,286)	(20,286)
Less provision against debt owed by Nanoco Technologies Limited	14	(3,889)	(3,889)
		2,471	1,518
Short-term loan owed to Nanoco Group plc by:			
Nanoco Technologies Limited ²	16	67,220	66,813
Less impairment provision	16	(14,490)	(66,813)
		52,730	–
Inter-company payable by Nanoco Group plc to:			
Nanoco Tech Limited	18	(450)	(450)
Nanoco US Inc.	18	(176)	(188)

Notes to the financial statements continued

28. Related party transactions continued

- The movement in the long-term loan due from Nanoco Technologies Limited relates to the recharge in respect of the expense for share-based payments for staff working for Nanoco Technologies Limited and is included in investments.
- The movement in the short-term loan due from Nanoco Technologies Limited relates to transfers of cash balances between the entities for the purposes of investing short-term funds and the funding of trading losses.

There are no formal terms of repayment in place for these loans and it has been confirmed by the Directors that the long-term loans will not be recalled within the next twelve months. Long-term loans to subsidiaries are classed as investments.

None of the loans are interest bearing.

There is no controlling party of the group or Company.

29. Compensation of key management personnel (including Directors)

Company	2023 £'000	2022 £'000
Short-term employee benefits	753	644
Pension costs	56	39
Cash bonus	549	—
Share-based payments	283	624
	1,641	1,307

The key management team comprises the Executive Directors and one member of staff (2022: one) who are not Directors of the Company. The staff member of the team is the Operations Director.

30. Reconciliation of net debt

Group	Liabilities from financing activities				Total net debt £'000
	Loans £'000	Lease liabilities £'000	Total liabilities from financing activities £'000	Cash and cash equivalents £'000	
At 1 August 2021	(3,487)	(678)	(4,165)	3,813	(352)
Financing cash flows	—	589	589	2,930	3,519
New leases	—	(67)	(67)	—	(67)
Foreign exchange adjustments	—	—	—	19	19
Interest expense	(432)	(13)	(445)	—	(445)
At 31 July 2022	(3,919)	(169)	(4,088)	6,762	2,674
Financing cash flows	4,725	549	5,274	1,263	6,537
New leases	—	(2,165)	(2,165)	—	(2,165)
Foreign exchange adjustments	—	—	—	182	182
Interest expense	(5,367)	(86)	(5,453)	—	(5,453)
At 31 July 2023	(4,561)	(1,871)	(6,432)	8,207	1,775

Company	Loans £'000	Cash and cash equivalents £'000	Total net debt £'000
Net debt at 1 August 2021		1	(2,995)
Financing cash flows		5,496	5,496
Interest expense	(396)	—	(396)
Net debt as at 31 July 2022	(3,392)	5,497	2,105
Financing cash flows	4,725	(5,402)	(677)
Foreign exchange adjustments	—	10	10
Interest expense	(5,337)	—	(5,337)
Net debt at 31 July 2023	(4,004)	105	(3,899)

Investor information

Directors

Dr Christopher Richards	Non-Executive Chairman
Brian Tenner	Chief Executive Officer
Dr Nigel Pickett	Chief Technology Officer
Liam Gray	Chief Financial Officer
Dr Alison Fielding	Senior Independent and Non-Executive Director
Chris Batterham	Non-Executive Director

Secretary

Liam Gray

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