

Oxford Nanopore Technologies Limited
Historical Financial Information

Historical Financial Information

Consolidated Income Statement

	<i>Notes</i>	2020 £000's	2019 £000's	2018 £000's
Revenue	5	113,860	52,061	32,521
Cost of sales		<u>(66,981)</u>	<u>(26,442)</u>	<u>(16,506)</u>
Gross profit		46,879	25,619	16,015
Operating expenses				
Research and development expenses		(48,551)	(40,456)	(37,102)
Selling, general & administrative expenses		(71,388)	(66,056)	(41,089)
Total operating expenses		<u>(119,939)</u>	<u>(106,512)</u>	<u>(78,191)</u>
Loss from operations		(73,060)	(80,893)	(62,176)
Finance income	12	91	518	574
Finance costs	12	(747)	(709)	(423)
Other gains	13	563	600	-
Loss before tax	7	(73,153)	(80,484)	(62,025)
Tax credit	14	<u>11,909</u>	<u>8,268</u>	<u>8,906</u>
Loss for the year		<u><u>(61,244)</u></u>	<u><u>(72,216)</u></u>	<u><u>(53,119)</u></u>
Loss per share	8	<u><u>£(1.99)</u></u>	<u><u>£(2.48)</u></u>	<u><u>£(1.86)</u></u>

The results of the Group are all derived from continuing operations and should be read in conjunction with the accompanying notes.

Consolidated Statement of Comprehensive Income

	2020	2019	2018
	£000's	£000's	£000's
Attributable to: Equity shareholders of the Company			
Loss for the year	(61,244)	(72,216)	(53,119)
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations	(429)	(133)	118
Total comprehensive loss	<u>(61,673)</u>	<u>(72,349)</u>	<u>(53,001)</u>

Consolidated Statement of Financial Position

	<i>Notes</i>	2020 £000's	2019 £000's	2018 £000's
Non-current assets				
Intangible assets	15	22,867	16,521	6,405
Property, plant and equipment	16	39,386	33,788	26,464
Right-of-use assets	17	13,815	9,567	-
Investments in associates	19	548	-	-
Deferred tax asset	14	1,439	348	-
		<u>78,055</u>	<u>60,224</u>	<u>32,869</u>
Current assets				
Inventory	20	35,627	20,034	18,603
Trade and other receivables	21	65,906	53,306	21,816
R&D tax credit recoverable	14	20,696	17,479	8,579
Other financial assets	34	-	-	58,000
Derivative financial instruments	23	62	600	-
Cash and cash equivalents	31	80,863	13,092	35,321
		<u>203,154</u>	<u>104,511</u>	<u>142,319</u>
Total assets		<u><u>281,209</u></u>	<u><u>164,735</u></u>	<u><u>175,188</u></u>
Current liabilities				
Trade and other payables	22	(70,144)	(34,719)	(21,790)
Lease liabilities	24	(2,039)	(2,015)	-
		<u>(72,183)</u>	<u>(36,734)</u>	<u>(21,790)</u>
Net current assets		<u>130,971</u>	<u>67,777</u>	<u>120,529</u>
Non-current liabilities				
Lease liabilities	24	(12,093)	(7,566)	-
Loan	25	(9,500)	(9,500)	(9,500)
Provisions	25	(1,499)	(1,407)	(1,005)
		<u>(23,092)</u>	<u>(18,473)</u>	<u>(10,505)</u>
Total liabilities		<u>(95,275)</u>	<u>(55,207)</u>	<u>(32,295)</u>
Net assets		<u><u>185,934</u></u>	<u><u>109,528</u></u>	<u><u>142,893</u></u>
Equity				
Share capital	26	36	33	33
Share premium reserve	27	610,544	479,332	450,231
Share based payment reserve	30	35,079	28,215	18,332
Accumulated deficit	28	(459,023)	(397,779)	(325,563)
Translation reserve	29	(702)	(273)	(140)
Total equity		<u><u>185,934</u></u>	<u><u>109,528</u></u>	<u><u>142,893</u></u>

Consolidated Statements of Changes in Equity

	Share Capital £000's	Share Premium Account £000's	Employee share-based payments £000's	Accum Deficit £000's	Translation Reserve £000's	Total £000's
Balance at 1 January 2018	31	351,409	14,846	(272,464)	(238)	93,584
Loss for the year	-	-	-	(53,119)	-	(53,119)
Exchange gain on translation of subsidiary	-	-	-	20	98	118
Issue of share capital	2	100,324	-	-	-	100,326
Cost of share issue	-	(1,502)	-	-	-	(1,502)
Employee share-based payments	-	-	3,486	-	-	3,486
Balance at 31 December 2018	33	450,231	18,332	(325,563)	(140)	142,893
Loss for the year	-	-	-	(72,216)	-	(72,216)
Exchange gain on translation of subsidiary	-	-	-	-	(133)	(133)
Issue of share capital	-	29,534	-	-	-	29,534
Cost of share issue	-	(433)	-	-	-	(433)
Employee share-based payments	-	-	9,883	-	-	9,883
Balance at 31 December 2019	33	479,332	28,215	(397,779)	(273)	109,528
Loss for the year	-	-	-	(61,244)	-	(61,244)
Exchange loss on translation of subsidiary	-	-	-	-	(429)	(429)
Issue of share capital	3	135,061	-	-	-	135,064
Cost of share issue	-	(3,849)	-	-	-	(3,849)
Employee share-based payments	-	-	6,864	-	-	6,864
Balance at 31 December 2020	36	610,544	35,079	(459,023)	(702)	185,934

Consolidated Statement of Cash Flows

	Notes	2020 £000's	2019 £000's	2018 £000's
Net cash outflow from operating activities	31	<u>(63,806)</u>	<u>(48,679)</u>	<u>(55,509)</u>
Investing activities				
Purchases of property, plant and equipment		(15,737)	(18,462)	(11,184)
Capitalisation of Development costs		(10,735)	(11,829)	(6,619)
Investment in associate	19	(548)	-	-
Interest received		81	814	383
Proceeds from maturities of short-term investments / (Purchases of short-term investments)	34	-	58,000	(48,000)
Net cash (outflow)/inflow in investing activities		<u>(26,939)</u>	<u>28,523</u>	<u>(65,420)</u>
Financing activities				
Proceeds from issue of shares		163,955	276	100,326
Costs of share issue		(2,676)	(55)	(1,502)
Principal elements of lease payments		(2,058)	(1,708)	-
Interest paid		(229)	(263)	(421)
Interest paid on leases		(415)	(238)	-
Net cash inflow/(outflow) from financing activities		<u>158,577</u>	<u>(1,988)</u>	<u>98,403</u>
Net reduction in cash and cash equivalents before foreign exchange movements		67,832	(22,144)	(22,526)
Effect of foreign exchange rate losses		(61)	(85)	50
Cash and cash equivalents at beginning of period		<u>13,092</u>	<u>35,321</u>	<u>57,797</u>
Cash and cash equivalents at end of period		<u><u>80,863</u></u>	<u><u>13,092</u></u>	<u><u>35,321</u></u>

1. Presentation of the Historical Financial Information

General information

The Company is a company incorporated in the United Kingdom under the Companies Act 2006 and is registered in England and Wales. The address of the registered office is Gosling Building, Edmund Halley Road, Oxford Science Park, Oxford, OX4 4DQ, United Kingdom.

The principal activities of the Company and its Group and the nature of the Group's operations are to research, develop, manufacture and commercialise the world's only commercial nanopore-based sequencing platform that allows the real-time analysis of deoxyribonucleic acid (DNA) or ribonucleic acid (RNA). This enables the Group's customers to perform scientific/biomedical research in a range of areas, including human genetics, cancer research, outbreak surveillance, environmental analysis, pathogens/antimicrobial resistance, microbiome analysis and crop science. These emerging uses may include applications in healthcare, agriculture, biopharma production, food/water supply chain surveillance, and education or consumer markets; anywhere where DNA information can tell a user about a sample: for example its identity, whether it is changing, healthy, or diseased.

The Company is the parent entity and the ultimate parent company of the Group.

The historical financial information presented in this Section B (*Historical Financial Information*) (for the purposes of this Section B, the "**historical financial information**" or the "**consolidated historical financial information**") is presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates, and are rounded to the nearest thousand pounds. Foreign operations are included in accordance with the policies set out in note 3.

2. Adoption of New and Revised Standards

2.1 New and amended IFRS standards adopted by the Group

In FY20, the Group applied the below amendments to IFRS Standards and Interpretations issued by the Board that are effective for an annual period that begins on or after 1 January 2020. Their adoption has not had any material impact on the disclosures or on the amounts reported in the historical financial information.

Amendments to References to the Conceptual Framework in IFRS Standards

Together with the revised Conceptual Framework, which became effective upon publication on 29 March 2018, the IASB has also issued Amendments to References to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32.

Not all amendments, however, update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the Framework they are referencing to (the IASB Framework adopted by the IASB in 2001, the IASB Framework of 2010, or the new revised Framework of 2018) or to indicate that definitions in the Standard have not been updated with the new definitions developed in the revised Conceptual Framework. The amendments, where they actually are updates, are effective for annual periods beginning on or after 1 January 2020, with early application permitted.

Amendments to IAS 1 and IAS 8 Definition of 'material'

The amendments are intended to make the definition of 'material' in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition.

The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'.

The definition of 'material' in IAS 8 has been replaced by a reference to the definition of 'material' in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of 'material' or refer to the term 'material' to ensure consistency.

The amendments are applied prospectively for annual periods beginning on or after 1 January 2020, with earlier application permitted.

New and revised IFRS standards in issue but not yet effective

At the date of authorisation of the historical financial information, the Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

IFRS 17	<i>Insurance Contracts</i>
IFRS 10 and IAS 28 (amendments)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>
Amendments to IFRS 3	<i>References to the Conceptual Framework</i>
Amendments to IAS 16	<i>Property, Plant and Equipment – Proceeds before Intended Use</i>
Amendments to IAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract</i>
Annual Improvements to IFRS Standards 2018-2020 Cycle	<i>Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture</i>

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the historical financial information of the Group in future periods.

3. Significant Accounting Policies

3.1 Basis of Preparation

The consolidated historical financial information for the three years ended 31 December 2020 has been prepared specifically for the purposes of this Registration Document and in accordance with the UK version of commission delegated regulation (EU) 2019/980 of the European Parliament and of the Council which is part of the UK law by virtue of the European Union (Withdrawal) Act of 2018 and in accordance with this basis of preparation.

The historical financial information has been prepared in accordance with International Financial Reporting Standards (IFRSs). The historical financial information has also been prepared in accordance with IFRS Standards adopted by the European Union and therefore the Group historical financial information complies with Article 4 of the EU IAS Regulation.

The historical financial information has been prepared on the historical cost basis, except for the revaluation of certain financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the consolidated historical financial information is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

The principal accounting policies adopted are set out below.

3.2 Going Concern

As at 31 December 2020, the consolidated statement of financial position reflects a net asset position of £185.9 million, with cash reserves of £80.9 million. Subsequent to the end of FY20 the Group received £202.0 million in April and May 2021, relating to a private placement of Ordinary Shares in the Company.

As part of the Directors' consideration of the appropriateness of adopting the going concern basis in preparing the historical financial information, a range of reasonably possible scenarios have been reviewed, including the potential impact of any further COVID-19 restrictions and regulations.

Under all the scenarios modelled, after taking appropriate mitigating actions, the forecasts did not indicate an additional cash requirement. On the basis of these reviews, the Directors consider it is appropriate for the going concern basis to be adopted in preparing the historical financial information.

3.3 Basis of Consolidation

The consolidated historical financial information incorporates the historical financial information of the Company, entities controlled by the Company (its subsidiaries) and its interest in associates (using the equity method of accounting) made up to 31 December each year. Control is achieved where the Company:

- (A) has the power over the investee;
- (B) is exposed, or has rights, to variable returns from its involvement with the investee; and
- (C) has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Where necessary, adjustments are made to the historical financial information of subsidiaries to bring the accounting policies used into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Group are eliminated on consolidation.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. Those interests of non-controlling shareholders that are present ownership interests entitling their holders to a proportionate share of net assets upon liquidation may initially be measured at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement is made on an acquisition-by-acquisition basis. Other non-controlling interests are initially measured at fair value. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of the subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amount of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

When the Group loses control of a subsidiary, the gain or loss on disposal recognised in profit or loss is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), less liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as required/permitted by applicable IFRS Standards). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 when applicable, or the cost on initial recognition of an investment in an associate or a joint venture.

For associates, the Group recognises its interest in the joint venture or associate as an investment and uses the equity method of accounting.

3.4 Revenue Recognition

The Group manufactures and sells a range of DNA and RNA sequencing products and also provides a range of technical training and consultancy services to customers. Products are either sold on a stand-alone basis or as part of a larger bundle of goods and services.

Revenue is recognised when control of the products has transferred, typically being when the products are delivered to the customer to the location specified during the sales ordering process. Revenue from providing services is recognised in the period in which the services are rendered because the customer receives and uses the benefits simultaneously.

Revenue from the sale of bundled goods and services include multiple performance obligations which are separately recognised. For example, a bundled contract might include the lease of a sequencing device, software licences required to operate the device, sequencing consumables and technical training services. Each deliverable is accounted for as a separate performance obligation and the transaction

price for the bundle is allocated to each performance obligation based on the stand-alone selling prices of each deliverable observed on the online store. In instances where there is no directly observable stand-alone selling price, management estimate this based on an expected cost-plus margin approach. As each performance obligation in the bundle is satisfied, revenue is either recognised at a point in time when the consumables are delivered or in the case of the lease of the sequencing device or provision of software licence, recognised over the period to which they relate.

In the case of bundled goods and services contracts, customers either pay for the whole contract in advance of delivery of all the goods and services on the contract or are invoiced as the goods and services are delivered. If the transaction price allocated to the goods delivered or services rendered by the Group exceed the payment received from a customer, a contract asset is recognised. If the payment exceeds the transaction price allocated to the goods delivered or services rendered by the Group, a contract liability is recognised. In the case of non-bundled goods and services contracts, payment of the transaction price is typically due when the customer receives the goods or services.

For bill-and-hold arrangements in respect of the supply and delivery of goods, revenue is recognised when the customer has obtained control of the goods. Control is deemed to have transferred when the goods have been delivered to the specified delivery location. Under bill-and-hold arrangements it is deemed appropriate to recognise revenue provided the customer has requested the bill-and-hold arrangement for substantive purposes, for example, because it lacks the physical space/facilities to store the goods. In addition, the goods must be able to be identified as belonging to the customer and cannot be used to satisfy orders for other customers i.e. the customer can redirect or determine how the goods are used or where the goods are delivered to.

3.5 Leased Assets

The Group has adopted IFRS 16 Leases retrospectively from 1 January 2019 but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. The new accounting policies are disclosed below.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 2.7%.

There were no leases previously classified as finance leases at 1 January 2019.

i) Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review (there were no onerous contracts as at 1 January 2019);
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the group relied on its assessment made applying IAS 17 and Interpretation 4 *Determining whether an Arrangement contains a Lease*.

ii) Initial measurement of right-of-use assets

The associated right-of-use assets for property leases were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. This is disclosed in note 17.

iii) Measurement of lease liabilities

	Group £000's
Operating lease commitments disclosed as at 31 December 2018	3,160
Discounted using the lessee's incremental borrowing rate of 2.7% at the date of initial application	3,040
Adjustments as a result of a different treatment of extension and termination options	1,936
Lease liability recognised as at 1 January 2019	4,976
Of which are:	
Current lease liabilities	1,663
Non-current lease liabilities	3,313
	4,976

iv) Adjustments recognised in the balance sheet on 1 January 2019

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

	Group £000's
Right-of-use assets (increase)	4,912
Prepayments (decrease)	(177)
Accruals (decrease)	241
Lease liabilities (increase)	(4,976)
Net impact on retained earnings on 1 January 2019	-

The Group as a lessee - Accounting policy adopted for the years ended 31 December 2020 and 31 December 2019:

The Group leases various offices and buildings. Rental contracts are typically made for fixed periods of 12 months to 5 years and may include extension and termination options. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- (A) fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- (B) variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- (C) the amount expected to be payable by the lessee under residual value guarantees;
- (D) the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- (E) payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- (A) the lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- (B) the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used);
- (C) a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and Useful Economic Life (UEL) of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

Variable rents that do not depend on an index or rate are not included in the measurement the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included within "Operating expenses" in profit or loss.

The Group as a lessee - Accounting policy adopted for the year ended 31 December 2018:

For the 2018 reporting period, the principles of IAS 17 were adopted, rentals payable under operating leases were charged to income on a straight-line basis over the term of the relevant lease. In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the lease term. There were no leases previously classified as finance leases at 1 January 2019.

The Group as lessor

The Group did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of IFRS 16.

The Group leases some of its devices to customers. Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the

carrying amount of the leased asset and recognised on a straight-line basis over the lease term. See note 4 for income from leases.

When a contract includes both lease and non-lease components, the Group applies IFRS 15 to allocate the consideration under the contract to each component.

3.6 Foreign Currencies

The historical financial information of each Group entity is presented in the currency of the primary economic environment in which it operates (its functional currency). For the purposes of the consolidated historical financial information, the results and financial position of each Group company are expressed in pounds sterling, which is the functional currency of the Company, and the presentational currency for the consolidated historical financial information.

In preparing the historical financial information of the Group entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise.

For the purpose of presenting consolidated historical financial information, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the reporting date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in a foreign exchange translation reserve (attributed to non-controlling interests as appropriate).

3.7 Retirement Costs

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

3.8 Short-term and other Long-term Employee Benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date.

3.9 Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

A provision is recognised for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Company supported by previous experience in respect of such activities and in certain cases based on specialist independent tax advice.

The Group is entitled to claim tax credits in the United Kingdom for certain R&D expenditure.

The credit is paid in arrears once tax returns have been filed and agreed. The tax credit earned in the period, based on an assessment of likely receipt, is recognised in the consolidated income statement, within the taxation line, with the corresponding asset included within current assets in the balance sheet until such time as it is received.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the historical financial information and the corresponding tax bases used in the computation of taxable profit and is accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled, or the asset is realised based on tax laws and rates that have been enacted, or substantively enacted, at the reporting date.

Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

3.10 Property, Plant and Equipment

Properties in the course of construction for production, supply or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, determined on the same basis as other property assets, commences when the assets are ready for their intended use.

Plant, machinery, fixtures and fittings are stated at cost less accumulated depreciation and accumulated impairment loss.

Freehold land is not depreciated.

Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold land and properties under construction) less their residual values over their useful lives using the following rates:

Leasehold Land	- over lease period straight-line
Building	- over 40 years straight-line
Leasehold improvements	- over the expected duration of the lease straight-line
Plant and machinery	- three to 10 years straight-line
Office equipment	- three years straight-line

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Right-of-use assets are depreciated over the shorter period of the lease term and the UEL of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the UEL of the underlying asset.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

3.11 Internally-generated Intangible Assets – Research and Development Expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. The Group regularly assesses the development expenditures against the criteria for development costs to be recognised as an asset, as set out in IAS 38 "Intangible Assets". The amortisation periods for internally generated assets incurred by the Group are:

- (A) Development of Core Technology Platform – three years
- (B) Development of Sequencing Kits – two years

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following conditions have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed until the asset is available for use or sale. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

3.12 Patents and licence

Patents and trademarks are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives which is disclosed in note 15.

3.13 Impairment of Tangible and Intangible Assets excluding Goodwill

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with an indefinite UEL are tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease and to the extent that the impairment loss is greater than the related revaluation surplus, the excess impairment loss is recognised in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is

recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3.14 Inventories

Inventories are stated at the lower of cost, calculated as standard cost based on average cost, and net realisable value.

Cost comprises direct materials and, when applicable, direct labour cost and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion.

3.15 Financial Instruments

Financial assets, other than those at fair value through profit or loss (**FVTPL**), are assessed for indicators of impairment at each balance sheet date. In accordance with IFRS 9 impairment of financial assets is based on an expected credit loss ('**ECL**') model. The ECL model requires the Group to account for the ECLs and changes in those ECLs at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected, IFRS 9 also requires current and future events to be considered when making an impairment assessment.

The Group applies the IFRS 9 simplified approach to the measurement of the ECLs which uses a lifetime ECL for all trade receivables. The ECL on these trade receivables are estimated using a provision matrix for collective assessment based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, to the extent that these are expected to have an effect on recovery of trade receivables.

To measure the ECLs, trade receivables have been grouped based on shared credit risk characteristics where relevant, and the days past due. The ECL percentage rates of default applied to trade receivables grouped by days past due are based on the payment profiles of sales over a selected period and the corresponding historical default (non-payment which resulted in the debt being written off) experienced in relation to these sales. The percentage rates of default are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of customers to settle the receivables where applicable.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the income statement.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

3.16 Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in the historical financial information using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5.

Under the equity method, an investment in an associate is recognised initially in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of

losses of an associate or a joint venture exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of IAS 36 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IFRS 9. The difference between the carrying amount of the associate or a joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or a joint venture is included in the determination of the gain or loss on disposal of the associate.

In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities.

Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the associate is disposed of.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a Group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated historical financial information only to the extent of interests in the associate that are not related to the Group.

The Group applies IFRS 9, including the impairment requirements, to long-term interests in an associate to which the equity method is not applied and which form part of the net investment in the investee. Furthermore, in applying IFRS 9 to long-term interests, the Group does not take into account adjustments to their carrying amount required by IAS 28 (i.e. adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28).

3.17 Trade and other Receivables

Trade receivables (excluding derivative financial assets) are recognised at cost less allowances for expected credit losses. They arise principally through the provision of goods and services to customers. The provision is based on the Group's ECL.

3.18 Cash and Cash Equivalents

Cash and cash equivalents comprise cash in hand and deposits held at call with banks and other short-term highly liquid investments with a maturity of three months or less at the date of acquisition.

Cash is not held for the purpose of investment in its own right and the primary goal of investment strategies is capital preservation. Cash not required for short-term working capital requirements is

invested in short-term treasury deposits (other financial assets). To the extent that it is reasonable, deposits are spread between two or more banks that have been approved by the Board of Directors. Cash required to meet short-term working capital requirements as they arise is maintained in instant access accounts at one or more approved banks.

3.19 Trade and other Payables

Trade payables (excluding derivative financial liabilities) are non-interest bearing and are stated at cost which equates to their fair value.

3.20 Other financial assets

Other financial assets comprise short-term deposits held with banks that do not meet the IAS 7 definition of a cash equivalent.

3.21 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 the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, considering the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Dilapidation provisions

Provisions for the costs to restore leased plant assets to their original condition, as required by the terms and conditions of the lease, are recognised when the obligation is incurred, either at the commencement date or as a consequence of having used the underlying asset during a particular period of the lease, at the Directors' best estimate of the expenditure that would be required to restore the assets. Estimates are regularly reviewed and adjusted as appropriate for new circumstances.

3.22 Share-based payments

Where share options and other equity instruments are awarded to employees, the fair value of the instrument at the date of grant is charged to the income statement over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of instruments that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition. Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the income statement over the remaining vesting period.

Where equity instruments are granted to persons other than employees, the income statement is charged with the fair value of goods and services received.

4. Critical Accounting Judgements and Sources of Estimation Uncertainty

In applying the Group's accounting policies, which are described in Note 3, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

4.1 Critical Judgements in Applying the Group's Accounting Policies

The following are the critical judgements and estimates that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in historical financial information.

4.2 Judgements

Internally Generated Intangible Assets - Research and Development Expenditure

Critical judgements are required in determining whether development spend meets the criteria for capitalisation of such costs as laid out in IAS 38 "Intangible Assets", in particular whether any future economic benefit will be derived from the costs and flow to the Group. The Directors believe that the criteria for capitalisation as per IAS 38 paragraph 57 for specific projects were met during FY20 and accordingly all amounts in relation to those projects have been capitalised as an intangible asset during FY20. All other spend on R&D projects has been recognised within R&D expenses in the income statement during the period.

Critical judgement is required in consideration of the UEL of those assets capitalised during FY20. The Directors believe that UELs identified are consistent with the definition in IAS 38 paragraph 8 of a useful life. The amortisation of development costs for FY20, was £4,835,000, based on the following assessments for UEL:

- (A) Development of Core Technology Platform – three years
- (B) Development of Sequencing Kits & related technology – two years

If the UEL's had been assessed as being a year longer for each category:

- (A) Development of Core Technology Platform – four years
- (B) Development of Sequencing Kits & related technology – three years,

then the amortisation would have been £3,066,000, £1,769,000 less than included in the historical financial information.

If the UEL's had been assessed as being a year shorter for each category:

- (A) Development of Core Technology Platform – two years
- (B) Development of Sequencing Kits – one year,

then the amortisation would have been £6,267,000, £1,431,000 more than included in the historical financial information.

Revenue recognition

As noted in the revenue recognition accounting policy, revenue contracts for the sale of bundled goods and services require the allocation of the total contract price to individual performance obligations based on their stand-alone selling prices. In particular, contract bundles which include the lease or purchase of a PromethION or GridION sequencing device require management to exercise judgement in determining the stand-alone selling prices of the devices for the purposes of allocating revenue to these performance obligations. This is because these particular sequencing devices are not sold separately and hence do not have a directly observable stand-alone selling price. As a result, judgement exists in determining the approach to allocation of the transaction price, which impacts the profile of revenue recognition for such contracts. As the business continues to grow, the introduction of new pricing structures could cause the assumptions on which the allocation of the transaction price is based to change, which could materially affect how revenue is recognised in the future.

Bill-and-hold arrangement

During FY20, the Group recognised revenue amounting to £18.8 million under a bill-and-hold arrangement for the sale of goods to a customer. The customer did not have adequate storage facilities and requested the company ship the goods to a specific storage facility located on the Group's premises. Revenue was recognised as goods were shipped to this delivery location. The bill-and-hold recognition criteria requires that there is substantive evidence that the customer has requested this arrangement. This is not explicit in the signed contract, therefore there is judgement in applying this method. In addition, management has applied significant judgement in allocating the total contract price to each performance obligation in the contract.

4.3 Estimates

Share-based payments

Details of the share-based payment schemes operated by the Group and share option valuation methods used are disclosed in note 30. During FY20, awards which have a market performance vesting condition were valued using the Monte Carlo Simulation model. The model incorporates a number of assumptions based on management's best estimate of when certain events are likely to take place. In particular, the probability of options vesting and the expected vesting period are considered to be key estimates made by management at the grant date and cannot subsequently be revised. The estimated expected vesting period for these particular awards is approximately 3.3 years. If the vesting period were to decrease to 2 years, the Group recognised total expenses of £6.8 million (FY19: £9.9 million) relating to equity-settled share-based payment transactions in FY20 would increase by £4.5 million (FY19: £2.4 million).

5. Revenue

The Group derives revenue from the transfer of goods and services over time and at a point in time in the following categories and geographical regions:

	2020 £000's	2019 £000's	2018 £000's
Geographical region			
USA	16,414	14,613	10,246
Europe	18,914	14,341	7,921
China	7,715	8,740	4,144
UK	52,879	3,691	2,953
Japan	4,162	3,228	2,250
Rest of World	13,776	7,448	5,007
	<u>113,860</u>	<u>52,061</u>	<u>32,521</u>
	2020 £000's	2019 £000's	2018 £000's
Category			
Sale of goods	106,057	46,620	29,762
Rendering of services	4,884	3,391	514
Lease income	2,919	2,050	2,245
Total revenue from contracts with customers	<u>113,860</u>	<u>52,061</u>	<u>32,521</u>
	2020 £000's	2019 £000's	2018 £000's
Timing of revenue recognition			
At a point in time	106,057	46,620	29,762
Over time	7,803	5,441	2,759
Total revenue from contracts with customers	<u>113,860</u>	<u>52,061</u>	<u>32,521</u>

Notes 21 and 22 disclose assets and liabilities the Group has recognised in relation to contracts with customers.

Revenue recognised in relation to contract liabilities:

	2020 £000's	2019 £000's	2018 £000's
Revenue recognised that was included in the contract liability balance at the beginning of the period	4,740	3,081	1,616

6. Segment Information

6.1 Products and services from which reportable segments derive their revenues

The information reported to the Group's senior management team, which is considered the chief operating decision maker ("**CODM**"), for the purposes of resource allocation and assessment of segment performance is defined by market rather than product type. The segment measure of profit evaluated by the CODM is Adjusted EBITDA, as this is considered to give the most appropriate information in respect of profitability of the individual segments.

The Directors consider that the Group reportable segments under IFRS 8 Operating Segments are as set out below:

Reportable segments	Description
Life Science Research Tools (" LSRT ")	Oxford Nanopore's core business, generating revenue from providing products and services for research use, including Research and Development expenditure and corporate expenditure.
COVID Testing	In FY20, the Group generated revenue from providing products for SAR-Cov-2 testing. It should be noted that its sequencing products continue to be used for the purposes of COVID-19 genomic surveillance, including variant identification, but this is reported within the LSRT segment.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3.

6.2 Information about major customers

The Group has one major UK Government customer, which represents 42% of Group revenue. Revenues from this customer were £47.6 million (FY19: £nil) and reported within the COVID Testing segment.

No other individual customer represents more than 10% of the Group's total revenue.

The following is an analysis of the Group's revenue, results, assets and liabilities by reportable segment.

	LSRT £000's	COVID Testing £000's	2020 £000's	2019* £000's	2018* £000's
Revenue					
USA	16,414	-	16,414	14,613	10,246
Europe	18,285	629	18,914	14,341	7,921
China	7,715	-	7,715	8,740	4,144
UK	5,268	47,611	52,879	3,691	2,953
Japan	4,162	-	4,162	3,228	2,250
Rest of the World	13,689	87	13,776	7,448	5,007
Total Revenue	65,533	48,327	113,860	52,061	32,521

* All revenues earned in 2018 and 2019 were generated from LSRT.

6.3 Adjusted EBITDA

Adjusted EBITDA is loss for the year before finance income, loan interest, interest on leases, other gains, taxes, depreciation and amortisation, and foreign exchange losses/movements. Adjusted EBITDA reconciles to loss before tax as follows:

	LSRT	COVID Testing	2020	2019*	2018*
	£000's	£000's	£000's	£000's	£000's
(Loss)/Profit before tax	(87,854)	14,701	(73,153)	(80,484)	(62,025)
Finance income	(91)	-	(91)	(518)	(574)
Loan interest	251	-	251	263	423
Interest on leases	496	-	496	351	-
Depreciation and amortisation	16,839	496	17,335	14,845	6,356
EBITDA	(70,359)	15,197	(55,162)	(65,543)	(55,820)
Other gains	(563)	-	(563)	(600)	-
Exchange losses/(gains)	2,070	-	2,070	95	(569)
Adjusted EBITDA	(68,852)	15,197	(53,655)	(66,048)	(56,389)

* All Adjusted EBITDA earned in 2018 and 2019 were generated from LSRT.

6.4 Supplementary Information

	LSRT	COVID Testing	2020	2019*	2018*
	£000's	£000's	£000's	£000's	£000's
Depreciation of property, plant and equipment	10,125	-	10,125	11,118	6,142
Depreciation of right-of-use assets	2,247	128	2,375	2,014	-
Amortisation of internally generated intangible assets	4,467	368	4,835	1,713	214
Additions to non-current assets**	26,794	6,365	33,159	41,872	11,184
Segment assets					
Investment in associates	548	-	548	-	-
Acquired intangible assets	446	-	446	-	-
Other segment assets***	128,846	48,309	177,155	133,216	73,288
Total segment assets	129,840	48,309	178,149	133,216	73,288
Unallocated:					
Deferred tax asset			1,439	348	-
R&D tax credit recoverable			20,696	17,479	8,579
Derivative financial instruments			62	600	-
Other financial assets			-	-	58,000
Cash and cash equivalents			80,863	13,092	35,321
Total assets as per the balance sheet			281,209	164,735	175,188
Segment liabilities					
Total segment liabilities	(84,411)	(1,364)	(85,775)	(45,707)	(22,795)
Unallocated:					
Non-current borrowings			(9,500)	(9,500)	(9,500)
Total liabilities as per the balance sheet			(95,275)	(55,207)	(32,295)

* All supplementary information in 2018 and 2019 relates to LSRT.

** Additions to non-current assets include all non-current assets except for investments and deferred tax asset.

*** Other segment assets include non-current assets except for investments, acquired intangible assets and deferred tax assets. It also includes inventory and trade and other receivables.

The Group's non-current assets by geographical location are detailed below:

	LSRT	COVID	2020	2019	2018
	£000's	Testing	£000's	£000's	£000's
		£000's			
USA	4,508	-	4,508	2,652	1,255
Europe	7	-	7	-	-
China	340	-	340	505	-
UK	69,558	2,125	71,683	56,664	31,614
Japan	36	-	36	27	-
Rest of world	42	-	42	28	-
	<u>74,491</u>	<u>2,125</u>	<u>76,616</u>	<u>59,876</u>	<u>32,869</u>

Non-current assets comprise intangible assets, interest in associate, right of use assets and property, plant and equipment.

7. Loss before Tax

	Notes	2020	2019	2018
		£000's	£000's	£000's
<i>This is after charging / (crediting):</i>				
Non-staff R&D costs		22,030	19,042	19,018
Amortisation of internally generated intangible assets	15	4,835	1,713	214
Depreciation of property, plant and equipment	16	10,125	11,118	6,142
Depreciation of right-of-use assets	17	2,375	2,014	-
Loss on disposal of property, plant and equipment		1	4	20
Cost of inventories		33,767	17,427	22,011
Write-down of inventories		1,428	1,196	1,232
Net foreign exchange loss/(gain)		2,070	95	(569)
		<u>76,616</u>	<u>59,876</u>	<u>32,869</u>

All amounts relate to continuing operations.

Amortisation of internally generated intangible assets is included within selling, general & administration expenses in the consolidated income statement.

No amortisation was charged to the acquired intangible asset which was acquired as at 31 December 2020.

8. Loss per Share

8.1 Basic and diluted loss per share

	2020	2019	2018
	£'s	£'s	£'s
Total basic and diluted loss per share attributable to the ordinary equity holders of the company from continuing operations	<u>(1.99)</u>	<u>(2.48)</u>	<u>(1.86)</u>

8.2 Losses used in calculating loss per share

	2020	2019	2018
	£000's	£000's	£000's
<i>Basic and diluted loss</i>			
Loss attributable to the ordinary equity holders of the company used in calculating basic and diluted loss per share from continuing operations	<u>(61,244)</u>	<u>(72,216)</u>	<u>(53,119)</u>

8.3 Weighted average number of shares used as the denominator

	2020 (Number)	2019 (Number)	2018 (Number)
Weighted average number of Ordinary Shares used as the denominator in calculating basic loss per share	<u>30,727,651</u>	<u>29,089,856</u>	<u>28,558,900</u>

There have been no events that have caused any retrospective adjustments between the balance sheet date and the date of issuance of the historical financial information, being the date of this Registration Document.

Options

Options granted to employees under the Oxford Nanopore Technologies Share Option Scheme and the Oxford Nanopore Technologies Limited Share Option Plan 2018 are considered to be potential ordinary shares. These options have not been included in the determination of diluted loss per share for FY20 on the basis they are anti-dilutive. They could potentially dilute basic earnings per share in the future. Details relating to the options are set out in note 30.

9. Auditor's Remuneration

The analysis of auditor's remuneration is as follows:

	2020 £000's	2019 £000's	2018 £000's
<i>Fees payable to the Group's auditor for the audit of the Group's annual accounts</i>			
- Current year	250	190	122
- Prior years	31	-	-
Fees payable to the Group's auditor for other services to the Group	21	2	-
Total fees payable to the Group's auditor	<u>302</u>	<u>192</u>	<u>122</u>

10. Staff Costs

The average monthly number of employees was:

	2020 (Number)	2019 (Number)	2018 (Number)
R&D	235	214	201
Production	106	97	95
Sales, General & Administration	186	155	109
	<u>527</u>	<u>466</u>	<u>405</u>

Their aggregate remuneration comprised:	Notes	2020 £000's	2019 £000's	2018 £000's
Wages and salaries		40,619	33,157	25,922
Pension costs		946	606	1,596
Social security costs		4,324	3,588	2,576
Other staff costs		897	684	562
Share-based payments	30	6,864	9,883	3,486
		<u>53,650</u>	<u>47,918</u>	<u>34,142</u>

Pension costs relate to the Company's defined contribution scheme.

11. Directors' and Key Management Compensation

	2020	2019	2018
	£000's	£000's	£000's
<i>Directors' emoluments consist of:</i>			
Salaries, bonuses and benefits in kind	2,610	1,969	1,639
Amount paid as directors' fees	238	182	167
Money purchase pension contributions	10	6	-
	<u>2,858</u>	<u>2,157</u>	<u>1,806</u>
Highest paid director:			
Remuneration for director's fees and management services	<u>870</u>	<u>798</u>	<u>727</u>
	<u>870</u>	<u>798</u>	<u>727</u>

One director is a member of a money purchase plan.

The highest paid director exercised no share options in the current period (FY19: nil; FY18: nil).

In FY20, no share options were granted to the Directors (FY19: 193,000; FY18: nil) and 18,825 share options were exercised during FY20 (FY19: nil; FY18: nil). The total number of share options held by Directors is 282,179 (FY19: 301,004; FY18: 108,004).

Executive directors receive medical insurance for themselves as a non-monetary benefit. Total premiums in respect of this cover amounted to £19,852 (FY19: £18,951; FY18: £18,397). All the emoluments relate to short-term employee benefits. No director received any post-employment benefit, other long-term benefit or termination benefit.

Key Management Compensation

Aggregate compensation for key management, being Directors and members of the Executive Committee, was as follows:

	2020	2019	2018
	£000's	£000's	£000's
Short-term employee benefits	<u>3,939</u>	<u>2,936</u>	<u>2,858</u>

In addition to the above, charges to the profit and loss account relating to share-based payments relating to options held by Directors amounted to £1,193,218 (FY19: £2,386,831; FY18: £16,474).

12. Finance Income and Costs

	2020	2019	2018
	£000's	£000's	£000's
Bank interest	91	518	574
	<u>91</u>	<u>518</u>	<u>574</u>
	2020	2019	2018
	£000's	£000's	£000's
Finance costs			
Loan interest	(251)	(263)	(423)
Interest on leases	(496)	(351)	-
Exchange losses	-	(95)	-
	<u>(747)</u>	<u>(709)</u>	<u>(423)</u>

13. Other Gains and Losses

	2020 £000's	2019 £000's	2018 £000's
Gains			
Gain on derivative financial instrument	563	600	-
	<u>563</u>	<u>600</u>	<u>-</u>

The derivative financial instruments are disclosed in note 23.

14. Tax on Loss on Ordinary Activities

	2020 £000's	2019 £000's	2018 £000's
Current tax			
R&D tax credit receivable for the period	(10,934)	(9,000)	(8,579)
Prior year adjustment in respect of R&D tax credit	(762)	100	(470)
Prior year adjustment in respect of current tax	386	-	-
Tax payable on foreign subsidiary	492	980	143
Deferred tax			
Origination and reversal of temporary differences	(1,091)	(348)	-
Total tax	<u>(11,909)</u>	<u>(8,268)</u>	<u>(8,906)</u>

A deferred tax asset of £1,439,000 (FY19: £348,000, FY18: £nil) has been recognised in relation to future share option exercises, and other timing differences in Oxford Nanopore Technologies Inc., because it is probable that the asset will be utilised in the foreseeable future.

The remaining deferred tax asset of £80,891,000 (FY19: £51,545,000; FY18: £43,730,000) relating to the rest of the Group has not been recognised due to uncertainty that the asset will be utilised in the foreseeable future. The unrecognised deferred tax asset in relation tax losses of £343,167,000 (FY19: £299,212,000; FY18: £250,907,000) has increased during the period. Deferred tax balances have been recognised at the rate expected to apply when the deferred tax attribute is forecast to be utilised based on substantively enacted rates at the balance sheet date.

All other current tax balances have been calculated at the rates enacted for the period. The effective rate of corporation tax applied to reported loss is 16.1% (FY19: 10.3%; FY18: 14.4%) of the loss before tax for the Group.

The current UK corporation tax rate of 19% was set to reduce to 17% from 1 April 2020, however this reduction was reversed in the Finance Bill 2020 (substantively enacted on 17 March 2020). It has been announced that the rate of UK corporation tax will increase to 25% from April 2023. When enacted this will increase the unrecognised deferred tax asset to £106,408,000. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The differences between the rate of corporate tax in the UK of 19% (FY19: 19%; FY18: 19%) and the tax credit for the year are explained below:

	2020 £000's	2019 £000's	2018 £000's
Loss before taxation	(73,153)	(80,484)	(62,025)
Tax rate in the UK for period as a percentage of losses at 19% (FY19 and FY18: 19%) (FY19: 19%)	(13,900)	(15,292)	(11,785)
Adjustment in respect of overseas tax rates	43	30	-
Enhanced R&D tax relief	(4,705)	(3,872)	(3,698)
Expenses not deductible	716	133	179
Adjustments to tax charge in respect of previous periods	(376)	100	(470)
Origination of unrecognised tax losses	8,257	9,223	6,895
Impact of share options	(1,690)	1,410	(27)
Other timing differences	(254)	-	-
	<u>(11,909)</u>	<u>(8,268)</u>	<u>(8,906)</u>
R&D tax credit recoverable	2020 £000's	2019 £000's	2018 £000's
Balance at 1 January	17,479	8,579	14,786
Adjustment to R&D tax credit in respect of previous periods	762	(100)	
Cash receipt	(8,479)	-	(15,258)
R&D tax credit for the period	10,934	9,000	8,579
Balance at 31 December	<u>20,696</u>	<u>17,479</u>	<u>8,579</u>

15. Intangible Assets

	Patent and Licence £000's	Capitalised development costs £000's	Total £000's
Cost			
At 1 January 2018	-	-	-
Additions from internal development	-	6,619	6,619
At 31 December 2018	-	6,619	6,619
Additions from internal development	-	11,829	11,829
At 31 December 2019	-	18,448	18,448
Additions from internal development	-	10,735	10,735
Additions	446	-	446
At 31 December 2020	446	29,183	29,629
Amortisation			
At 1 January 2018	-	-	-
Charge for the year	-	(214)	(214)
At 31 December 2018	-	(214)	(214)
Charge for the year	-	(1,713)	(1,713)
At 31 December 2019	-	(1,927)	(1,927)
Charge for the year	-	(4,835)	(4,835)
At 31 December 2020	-	(6,762)	(6,762)
Carrying amount			
At 31 December 2018	-	6,405	6,405
At 31 December 2019	-	16,521	16,521
At 31 December 2020	446	22,421	22,867

Development costs have been capitalised in accordance with IAS 38 Intangible Assets and are therefore not treated for dividend purposes as a realised loss until recognised as an amortisation charge in the income statement.

The amortisation periods for intangible assets are:

- (A) Development of Core Technology Platform – three years
- (B) Development of Sequencing Kits – two years
- (C) Patent and Licence – over the expected duration of the patent or licence

16. Property, Plant and Equipment

	Land and Buildings £000's	Leasehold Improvements £000's	Plant and Machinery £000's	Assets subject to operating leases £000's	Equipment £000's	Total £000's
Cost						
At 1 January 2018	16,194	1,360	7,727	-	4,516	29,797
Additions	49	34	1,728	7,844	1,529	11,184
Disposals	-	-	(156)	-	(5)	(161)
Foreign exchange movements	-	-	16	88	21	125
At 31 December 2018	16,243	1,394	9,315	7,932	6,061	40,945
Additions	-	4,795	4,000	7,478	2,189	18,462
Disposals	-	-	(50)	(1,985)	(5)	(2,040)
Transfers	-	340	(340)	-	-	-
Foreign exchange movements	-	-	(16)	-	(25)	(41)
At 31 December 2019	16,243	6,529	12,909	13,425	8,220	57,326
Additions	158	-	3,785	8,829	2,965	15,737
Disposals	-	-	(76)	(2,241)	(18)	(2,335)
Foreign exchange movements	-	-	(7)	(11)	(31)	(49)
At 31 December 2020	16,401	6,529	16,611	20,002	11,136	70,679
Accumulated depreciation						
At 1 January 2018	(51)	(1,258)	(4,391)	-	(2,721)	(8,421)
Charge for the year	(409)	(94)	(1,420)	(3,169)	(1,050)	(6,142)
Eliminated on disposals	-	-	135	-	5	140
Foreign exchange movements	-	-	(14)	(31)	(13)	(58)
At 31 December 2018	(460)	(1,352)	(5,690)	(3,200)	(3,779)	(14,481)
Charge for the year	(419)	(120)	(1,413)	(7,553)	(1,613)	(11,118)
Eliminated on disposals	-	-	49	1,985	2	2,036
Foreign exchange movements	-	-	10	-	15	25
At 31 December 2019	(879)	(1,472)	(7,044)	(8,768)	(5,375)	(23,538)
Charge for the year	(1,347)	(34)	(1,653)	(4,968)	(2,123)	(10,125)
Eliminated on disposals	-	-	75	2,241	18	2,334
Foreign exchange movements	-	-	10	1	25	36
At 31 December 2020	(2,226)	(1,506)	(8,612)	(11,494)	(7,455)	(31,293)
Carrying amount						
At 31 December 2018	15,783	42	3,625	4,732	2,282	26,464
At 31 December 2019	15,364	5,057	5,865	4,657	2,845	33,788
At 31 December 2020	14,175	5,023	7,999	8,508	3,681	39,386

On 1 June 2017 the Company purchased the building and land known as Gosling Building, Edmund Halley Road, Oxford Science Park, Oxford subject to a long leasehold. The remaining length of the lease at year end is 134 years and 9 months.

At 31 December 2020 and 2019, the Group did not enter into contractual commitments for the acquisition of property, plant and equipment.

17. Right-of-Use Assets

	Buildings £000's	Total £000's
Cost		
At 1 January 2019	-	-
Recognised on adoption of IFRS 16	<u>11,581</u>	<u>11,581</u>
At 31 December 2019	11,581	11,581
Additions	6,687	6,687
Exchange gain	<u>(127)</u>	<u>(127)</u>
At 31 December 2020	<u><u>18,141</u></u>	<u><u>18,141</u></u>
Amortisation		
At 1 January 2019	-	-
Charge for the year	<u>(2,014)</u>	<u>(2,014)</u>
At 31 December 2019	(2,014)	(2,014)
Charge for the year	(2,375)	(2,375)
Exchange loss	<u>63</u>	<u>63</u>
At 31 December 2020	<u><u>(4,326)</u></u>	<u><u>(4,326)</u></u>
Carrying amount		
At 31 December 2019	<u>9,567</u>	<u>9,567</u>
At 31 December 2020	<u><u>13,815</u></u>	<u><u>13,815</u></u>

18. Investment in Subsidiaries

The principal subsidiaries of the Company are as follows:

Name	Registered address	Country of Incorporation	Share class	Proportion of ownership interest	
				31 December 2020	31 December 2019
Oxford Nanopore Technologies, Inc.	One Kendall Square, Building 200 Suite B2005	USA	Ordinary	100%	100%
Oxford Nanolabs Limited	Gosling Building, Edmund Halley Road, Oxford Science Park, OX4 4DQ	UK	Ordinary	100%	100%
The Genome Foundry Limited	Gosling Building, Edmund Halley Road, Oxford Science Park, OX4 4DQ	UK	Ordinary	100%	100%
Metrichor Limited	Gosling Building, Edmund Halley Road, Oxford Science Park, OX4 4DQ	UK	Ordinary	100%	100%
KK Oxford Nanopore Technologies	Tokyo Club Building 11F 3-2-6 Kasumigaseki, Chiyoda-ku, Tokyo 100-0013	Japan	Ordinary	100%	100%
Oxford Nanopore Diagnostics Limited	Gosling Building, Edmund Halley Road, Oxford Science Park, OX4 4DQ	UK	Ordinary	100%	100%
Nanopore Technologies Hong Kong Limited	Room 1901, 19/F, Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong	Hong Kong	Ordinary	100%	100%
Nanopore Technologies (Shanghai) Co. Limited	Room 2208, Tower 1, Grand Gateway 66, No. 1 Hongqiao Road, Xuhui District, Shanghai	China	Ordinary	100%	100%
Oxford Nanopore Technologies Singapore PTE Ltd	38 Beach Road, #29-11, South Beach Tower, Singapore (189767)	Singapore	Ordinary	100%	100%
Oxford Nanopore Technologies BV	Gustav Mahlerplein 2, 1082 MA Amsterdam	The Netherlands	Ordinary	100%	100%
Oxford Nanopore Technologies Australia PTY Ltd*	Level 10, 171 Clarence Street, Sydney, NSW 2000	Australia	Ordinary	100%	n/a
Oxford Nanopore Technologies Denmark ApS**	c/o Crowe Rygårds Allé 104, 2009 Hellerup, Denmark	Denmark	Ordinary	100%	n/a
Oxford Nanopore Technologies SARL***	22 Rue de Londres, 75009 Paris 9	France	Ordinary	100%	n/a

- (A) Oxford Nanopore Technologies Inc. was set up on 23 September 2011 to provide sub-contracted R&D and other services in the USA to Oxford Nanopore Technologies Limited.
- (B) Oxford Nanolabs Limited was set up on 20 March 2008, has never traded and is a dormant company.
- (C) Metrichor Limited was set up on 17 May 2013 to offer analysis solutions vertically integrated to nanopore sensing devices, with the potential to enable a wide range of new users, applications and markets outside of the traditional laboratory-confined customers. The company is exempt from the requirements under the Companies Act 2006 relating to the audit of historical financial information under section 479A of that Act. Oxford Nanopore Technologies Limited has provided a parent company guarantee over the liabilities of this subsidiary company, pursuant to section 479C of the Companies Act 2006.
- (D) The Genome Foundry Limited was set up on 7 September 2015, has never traded and is a dormant company.
- (E) KK Oxford Nanopore Technologies was set up on 25 May 2016 to provide services to Oxford Nanopore Technologies Limited in Japan.
- (F) Nanopore Technologies Hong Kong Limited was set up on 26 March 2018.
- (G) Nanopore Technologies (Shanghai) Co. Limited was set up on 4 June 2018 and is a 100% subsidiary of Nanopore Technologies Hong Kong Limited.
- (H) Oxford Nanopore Technologies Singapore PTE Ltd was set up on 14 September 2018.
- (I) Oxford Nanopore Diagnostics Limited was set up on 14 November 2018 and has not commenced trading. On 22 April 2020, the name of the company was changed firstly from Oxford Nanopore Manufacturing Limited to Oxford Nanopore Technologies Services Limited and then on 28 August 2020 to Oxford Nanopore Diagnostics Limited.
- (J) Oxford Nanopore Technologies B.V. was set up on 31 October 2019 and commenced trading on 1 May 2020.
- (K) *Oxford Nanopore Technologies Australia PTY Ltd was set up on 6 January 2020 and commenced trading in November 2020.

(L) **Oxford Nanopore Technologies Denmark ApS was set up on 29 September 2020 and commenced trading on 1 December 2020.

(M) ***Oxford Nanopore Technologies SARL was set up on 1 December 2020 and not yet commenced trading.

All of the Company's subsidiary undertakings have been consolidated in the Group historical financial information.

19. Investment in Associates

An associate of Oxford Nanopore Technologies Limited is as follows:

Name	Principal activities	Country of Incorporation	Class of shares	Proportion of ownership interest		
				31 December 2020	31 December 2019	31 December 2018
Veiovia Limited	Technology Development	UK	Ordinary	18.5%	n/a	n/a

The above associate is accounted for using the equity method in the consolidated historical financial information as set out in the Group's accounting policies in note 3.

- (A) Pursuant to a shareholder agreement, the Company has the right to cast 18.5% of the votes of Veiovia Limited.
- (B) Although the Group holds less than 20% of the equity shares of Veiovia Limited, and it has less than 20% of the voting power at shareholder meetings, the Group exercises significant influence by virtue of its contractual right to appoint one director to the board of directors of that entity.
- (C) For the purposes of applying the equity method of accounting, the financial statements of Veiovia Limited for FY20 have been used. Management is not aware of any indicators of impairment that may have developed and existed at the reporting year end.
- (D) Veiovia Limited's registered office is The University of York, Biology B/A/039, Wentworth Way, York, UK, YO10 5DD.

	2020 £000's	2019 £000's	2018 £000's
Investment at cost	548	-	-
Carrying amount of the Group's interest in the associate	548	-	-

20. Inventory

	2020 £000's	2019 £000's	2018 £000's
Raw materials	11,738	13,078	9,490
Work in progress	14,363	3,850	5,517
Finished goods	9,526	3,106	3,596
	<u>35,627</u>	<u>20,034</u>	<u>18,603</u>

Cost of inventories recognised as an expense during FY20 amounted to £33.8 million (FY19: £17.4 million; FY18: £22.0 million). These were included in cost of sales (note 7) in the statement of profit and loss.

The carrying amount of inventories were not materially different from their replacement cost.

21. Trade and Other Receivables

	2020	2019	2018
	£000's	£000's	£000's
Trade receivables	49,021	14,126	10,575
Contract assets	1,873	-	1,000
Other debtors	1,310	30,007	862
Accrued interest income	16	7	303
Other taxes	2,886	4,360	3,119
Prepayments	10,800	4,806	5,957
	<u>65,906</u>	<u>53,306</u>	<u>21,816</u>

Other Debtors at 31 December 2019 includes £29.3 million in relation to share capital that was issued on 31 December 2019, but for which funds were outstanding at that date. These funds were received in the first two months of 2020.

Ageing of past due trade receivables with loss allowance calculated using the Group's provision matrix.

Trade receivables	Trade receivables – days past invoice date				Total
	not past due	30-60 days	61-90 days	91+ days	
At 31 December 2020	34,513	5,800	3,260	7,406	50,979
Loss allowance	-	-	-	(1,958)	(1,958)
	<u>34,513</u>	<u>5,800</u>	<u>3,260</u>	<u>5,448</u>	<u>49,021</u>
At 31 December 2019	7,639	3,197	1,520	3,714	16,070
Loss allowance	-	-	-	(1,944)	(1,944)
	<u>7,639</u>	<u>3,197</u>	<u>1,520</u>	<u>1,770</u>	<u>14,126</u>
At 31 December 2018	3,637	2,367	2,118	3,324	11,446
Loss allowance	(29)	(71)	(106)	(665)	(871)
	<u>3,608</u>	<u>2,296</u>	<u>2,012</u>	<u>2,659</u>	<u>10,575</u>

The following table shows the movement in lifetime ECL that has been recognised for trade receivables in accordance with the simplified approach set out in IFRS 9:

	Total
	£000's
At 1 January 2018	173
Net charges and releases to income statement	676
Amounts written off	-
Foreign exchange gains and losses	22
	<u>871</u>
Balance at 31 December 2018	871
Net charges and releases to income statement	1,145
Amounts written off	(50)
Foreign exchange gains and losses	(22)
	<u>1,944</u>
Balance at 31 December 2019	1,944
Net charges and releases to income statement	51
Foreign exchange gains and losses	(37)
	<u>1,958</u>
Balance at 31 December 2020	<u>1,958</u>

The contract assets relate to the Group's rights to consideration for goods and services provided but not billed at the reporting date for goods and services provided. The contract assets are transferred to receivables when the rights become unconditional. This usually occurs when the Group issues an invoice to the customer.

22. Current Trade and Other Payables

	2020	2019	2018
	£000's	£000's	£000's
Trade payables and other creditors	31,007	11,952	10,530
Payroll taxation and social security	2,890	894	2,156
Corporation tax payable	570	884	-
Accruals	17,849	14,481	6,023
Contract liabilities	17,828	6,508	3,081
	<u>70,144</u>	<u>34,719</u>	<u>21,790</u>

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases by the Company and Group is 89 days (FY19: 41 days; FY18: 39 days).

The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

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

Contract liabilities primarily relate to performance obligations on customer contracts which were not satisfied at 31 December. Contract liabilities have increased by £11.3 million mainly due to an increase in overall contract activity. Management expects that the majority of the transaction price allocated to unsatisfied performance obligations as of 31 December 2020 will be recognised as revenue during the next reporting period.

23. Derivative Financial Instruments

	2020	2019	2018
	£000's	£000's	£000's
Derivative financial assets			
Foreign currency forward contracts	62	600	-
	<u>62</u>	<u>600</u>	<u>-</u>

24. Lease Liabilities

	2020	2019	2018*
	£000's	£000's	£000's
Maturity analysis – contractual undiscounted cash flows			
Up to one year	2,656	2,119	-
One to five years	7,512	4,264	-
Greater than five years	9,940	8,594	-
Total undiscounted lease liabilities at 31 December	<u>20,108</u>	<u>14,977</u>	<u>-</u>
Current	2,039	2,015	-
Non-current	12,093	7,566	-
Lease liabilities included in the consolidated statement of financial position	<u>14,132</u>	<u>9,581</u>	<u>-</u>

* The Group has adopted IFRS 16 Leases retrospectively from 1 January 2019 but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

25. Loans and Provisions

	2020	2019	2018
Loans	£000's	£000's	£000's
Loan on Land and Building Purchase	9,500	9,500	9,500
Balance at 31 December	9,500	9,500	9,500

During 2017 the Lease of land and accompanying purchase of Gosling Building (see note 16) was purchased for £16.2 million. A term loan facility of £9.5 million was taken out with Barclays Bank plc to part fund the purchase (the balance being taken out of cash reserves). During FY20, the Group has refinanced the loan with Barclays Bank for a new term starting from 5 August 2020 for 4 years. The average interest rate charged in the year was 2.63% (FY19: 2.75%; FY18: 2.54%). Barclays Bank has a legal charge on this leasehold property as security against the loan. The financial covenant relating to this loan is for the loan outstanding to be no more than 55% of the property value. The Company continues to meet this banking covenant, with significant headroom.

Loan on Land and Building is measured at amortised cost under IFRS 9 (note 34).

	2020	2019	2018
Provisions	£000's	£000's	£000's
Balance at 1 January	1,407	1,005	1,005
Additional provision in the year	97	402	-
Foreign exchange movements	(5)	-	-
Balance at 31 December	1,499	1,407	1,005

The dilapidation provision relates to the leased properties, representing an obligation to restore the premises to their original condition at the time the Group vacates the properties.

The provision is non-current and expected to be utilised between 2 and 25 years.

The Group has reviewed the provision on the properties at the Oxford Science Park and considers that no additional charge was required during FY20.

26. Share Capital

	Number of shares			Par Value			
	2020	2019	2018		2020	2019	2018
Issued Share Capital	Shares	Shares	Shares	£	£	£	£
Opening - ordinary shares	29,711,482	29,129,799	27,056,210	0.001	29,711	29,130	27,056
Opening - deferred shares	733,677	733,677	733,677	0.005	3,668	3,668	3,668
Issued - ordinary shares	2,741,192	581,683	2,073,589	0.001	2,742	582	2,074
Issued - deferred shares	-	-	-	0.005	-	-	-
Closing - ordinary shares	32,452,674	29,711,482	29,129,799	0.001	32,453	29,711	29,130
Closing - deferred shares	733,677	733,677	733,677	0.005	3,668	3,668	3,668
Total authorised, issued and fully paid Share Capital					36,121	33,379	32,798

On 31 December 2020, Oxford Nanopore raised £135 million (FY19: 29 million) through the issuance of 2,505,915 ordinary shares (FY19: 504,470) at a share price of £53 per share (FY19: £58). During FY20, 235,277 ordinary shares (FY19: 77,213; FY18: 141,221) were issued as a result of share options exercised. Transaction costs for the issue of shares are offset against the Share Premium Reserve.

The ordinary shares do not carry any right to fixed income.

The deferred shares have no voting or dividend rights and only very limited capital return rights, which render them effectively valueless. The Company redeemed all the deferred shares in May 2021 for £0.01.

27. Share Premium

	2020	2019	2018
	£000's	£000's	£000's
At 1 January	479,332	450,231	351,409
Premium arising on issue of equity shares	135,061	29,534	100,324
Share issue costs	(3,849)	(433)	(1,502)
At 31 December	<u>610,544</u>	<u>479,332</u>	<u>450,231</u>

28. Accumulated Deficit

	2020	2019	2018
	£000's	£000's	£000's
At 1 January	(397,779)	(325,563)	(272,464)
Total recognised loss for the year	(61,244)	(72,216)	(53,119)
At 31 December	<u>(459,023)</u>	<u>(397,779)</u>	<u>(325,563)</u>

29. Foreign Exchange Translation Reserve

	2020	2019	2018
	£000's	£000's	£000's
At 1 January	(273)	(140)	(238)
Exchange (loss)/gain on translating the net assets of foreign subsidiaries	(429)	(133)	98
At 31 December	<u>(702)</u>	<u>(273)</u>	<u>(140)</u>

30. Share-Based Payments Reserve

Share options have been awarded under two equity-settled share-based remuneration schemes: the Oxford Nanopore Technologies Share Option Scheme and the Oxford Nanopore Technologies Limited Share Option Plan 2018. The contractual life of all options is 10 years.

The share options outstanding can be summarised as follows:

	2020	2019	2018
	£000's	£000's	£000's
At 1 January	28,215	18,332	14,846
Employee share-based payments	6,864	9,883	3,486
At 31 December	<u>35,079</u>	<u>28,215</u>	<u>18,332</u>

Oxford Nanopore Technologies Limited Share Option Plan 2018: The Plan was approved by the Board in November 2018 and replaces the Oxford Nanopore Technologies Share Option Scheme. The first grant of awards was made in January 2019. All employees are eligible to be awarded approved share options, with the exception of employees in Nanopore Technologies (Shanghai) Co. Limited due to local taxation rules. These employees are instead eligible to be remunerated under a local bonus scheme. All awards granted to participants in FY19 were subject to either service conditions or both service and market performance conditions. The market performance condition was met in April 2021. Options cannot normally be exercised before the third anniversary of the date of grant.

Oxford Nanopore Technologies Limited Share Option Scheme: This Scheme was closed to new members in FY18. The Scheme was set up to allow the Company to award both HM Revenue & Customs approved Executive Management Incentive ("EMI") share options to qualifying individuals and unapproved share options.

All unapproved options may be subject to performance criteria and vesting schedules set at the Board's discretion. All employees are eligible to be awarded unapproved share options.

The movement in share options outstanding is summarised in the following table:

	Year ended 31 December 2020		Year ended 31 December 2019		Year ended 31 December 2018	
	Number of share options	Weighted average exercise price (in £)	Number of share options	Weighted average exercise price (in £)	Number of share options	Weighted average exercise price (in £)
Outstanding at beginning of period	2,649,419	19.52	1,930,567	16.55	2,007,419	15.06
Granted during the period	144,050	24.50	831,510	24.96	107,500	27.90
Forfeited during the period	(61,147)	12.18	(35,445)	19.79	(43,131)	22.69
Exercised during the period	<u>(235,277)</u>	<u>9.57</u>	<u>(77,213)</u>	<u>3.59</u>	<u>(141,221)</u>	<u>2.15</u>
Outstanding at the end of the period	<u>2,497,045</u>	<u>20.93</u>	<u>2,649,419</u>	<u>19.52</u>	<u>1,930,567</u>	<u>16.55</u>
Exercisable at the end of the period	<u>1,372,645</u>	<u>17.32</u>	<u>1,640,503</u>	<u>15.85</u>	<u>1,818,834</u>	<u>12.93</u>

Share options outstanding at the end of the year have the following expiry and exercise prices:

Scheme	Grant year	Expiry year	Exercise price (£)	2020 (Number)	2019 (Number)	2018 (Number)
Oxford Nanopore Technologies Limited Share Option Scheme	2008 - 2018	2020 - 2028	0.70 - 27.90	1,534,565	1,825,409	1,930,567
Oxford Nanopore Technologies Limited Share Option Plan 2018	2019 - 2020	2029 - 2030	20.70 - 36.23	962,480	824,010	-
				<u>2,497,045</u>	<u>2,649,419</u>	<u>1,930,567</u>

The weighted average share price at the date of exercise for share options exercised during FY20 was £53.00 (FY19: £51.75; FY18: £31.05).

The options outstanding at 31 December 2020 had a weighted average exercise price of £20.93 (FY19: £19.52; FY18: £16.55), and a weighted average remaining contractual life of 6.0 years (FY19: 6.3 years; FY18: 5.9 years).

The Group recognised total expenses of £6,840,682 (FY19: £9,883,110; FY18: £3,485,773) related to equity-settled share-based payment transactions in FY20.

Valuation models

Oxford Nanopore Technologies Limited Share Option Plan 2018

The fair value of share options granted during FY20 was determined using the Monte Carlo Simulation model and Black Scholes model dependent on the performance vesting conditions.

Oxford Nanopore Technologies Limited Share Option Scheme

There were 144,050 options granted during FY20 (FY19: nil), all options granted in previous years were valued using the Black Scholes model.

Black Scholes

The following assumptions were used in the Black Scholes model in calculating the fair values of the options granted during FY20:

	2020	2019	2018
Weighted average share price	£ 53.00	£ 51.75	£27.90
Weighted average exercise price	£ 24.50	£ 26.60	£27.90
Expected volatility	47%	49.92% - 51.28%	50.0%
Expected life	6.5 years	6.5 years	10 years
Risk-free rate	0%	0.46% - 0.88%	0.73%
Expected dividend yields	Nil	Nil	Nil

The volatility assumption has been derived as the median volatility over a 5 year period of a bespoke comparator group. For options granted during FY20, the expected life assumption of 6.5 years assumes exercise will occur halfway through the total exercisable period, being the midpoint of years 3 and 10. The risk-free interest rate used reflects the UK Government 5-year Gilt rate as reported by the Bank of England. The weighted average fair value of options granted during FY20 determined using the Black Scholes model at the grant date was £34.62 (FY19: £34.30) per option.

Monte Carlo Simulation

There were no options granted in FY18 that were valued solely using the Monte Carlo Simulation model. The following assumptions were used in the Monte Carlo Simulation model in calculating the fair values of the options granted during FY20:

	2020	2019	2018
Weighted average share price	£ 53.00	£ 51.75	-
Weighted average exercise price	£ 24.50	£ 23.80	-
Expected volatility	47%	49.92% - 51.28%	-
Expected life	2.5 years	4.08 - 4.41 years	-
Risk-free rate	0%	0.55% - 0.88%	-
Expected dividend yields	Nil	Nil	-

The Monte Carlo Simulation model has been used to value the portion of the awards which have a market performance vesting condition (achievement of a target company valuation). The model incorporates a discount factor reflecting this performance condition into the fair value of this portion of the award. The weighted average fair value of options granted during FY20 determined using the Monte Carlo Simulation model at the grant date was £33.72 (FY19: £20.90) per option.

The volatility assumption has been derived as the median volatility over a 5-year period of a bespoke comparator group. For options granted during FY20, the expected life represents the term until expected vesting and exercise. The risk-free interest rate used reflects the UK Government 5-year Gilt rate as reported by the Bank of England.

31. Notes to the Cash Flow Statement

Cash and cash equivalents

	2020	2019	2018
	£000's	£000's	£000's
Cash and cash equivalents	80,863	13,092	35,321

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets is approximately equal to their fair value. Cash and cash equivalents at the end of the reporting period as shown in the consolidated statement of cash flows can be reconciled to the related items in the consolidated reporting position as shown above.

At 31 December 2020, the Company had £9.7 million of undrawn facilities.

Reconciliation from loss before tax to operating cashflows

	2020	2019	2018
	£000's	£000's	£000's
Loss before tax	<u>(73,153)</u>	<u>(80,484)</u>	<u>(62,025)</u>
Adjustments for:			
Depreciation on property, plant and equipment	10,125	11,118	6,142
Depreciation on right-of-use assets	2,375	2,014	-
Amortisation of internally generated intangible assets	4,835	1,713	214
Loss on disposal of property, plant and equipment	1	4	20
Exchange loss/(gain)	69	(33)	179
Interest on leases	496	351	-
Net bank interest	160	(255)	(330)
Non-cash movement on derivatives	538	(600)	-
Employee share benefit costs	<u>6,864</u>	<u>9,883</u>	<u>3,486</u>
Operating cash flows before movements in working capital	<u>(47,690)</u>	<u>(56,289)</u>	<u>(52,314)</u>
(Increase) in receivables	(41,484)	(3,525)	(12,726)
(Increase) in inventory	(15,592)	(1,432)	(12,154)
Increase in payables	<u>33,655</u>	<u>12,798</u>	<u>6,471</u>
Cash absorbed by operations	(71,111)	(48,448)	(70,723)
Income taxes – R&D tax credit received	8,479	-	15,256
Foreign tax paid	<u>(1,174)</u>	<u>(231)</u>	<u>(42)</u>
Net cash absorbed by operating activities	<u><u>(63,806)</u></u>	<u><u>(48,679)</u></u>	<u><u>(55,509)</u></u>

(i) Non-cash transactions

During the year ended 31 December 2020, the Group refinanced a term loan facility of £9.5 million with Barclays Bank for a new term starting from 5 August 2020 for 4 years.

Additions to right-of-use assets during the year ended 31 December 2020 amounting to £6.7 million (2019: £6.7 million) were financed by new leases.

(ii) Changes in Liabilities arising from Financing Activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	1/1/20 £000's	Non-cash changes			Cash changes			31/12/20 £000's
		Financing cash flows (i) £000's	Refinance of bank loan £000's	New leases £000's	Other changes (b) £000's	Principal repaid £000's	Interest paid £000's	
Bank loans (note 25)	9,500	-	-	-	-	-	-	9,500
Lease liabilities (note 24)	9,581	4,551	-	6,590	434	(2,058)	(415)	14,132
Total liabilities from financing activities	19,081	4,551	-	6,590	434	(2,058)	(415)	23,632

	1/1/19 £000's	Non-cash changes			Cash changes			31/12/19 £000's
		Financing cash flows £000's	Refinance of bank loan £000's	New leases £000's	Other changes (c) £000's	Principal repaid £000's	Interest paid £000's	
Bank loans (note 25)	9,500	-	-	-	-	-	-	9,500
Lease liabilities (note 24)	-	9,581	-	6,246	4,976	(1,290)	(351)	9,581
Total liabilities from financing activities	9,500	9,581	-	6,246	4,976	(1,290)	(351)	19,081

	1/1/18 £000's	Non-cash changes			Cash changes			31/12/18 £000's
		Financing cash flows £000's	Refinance of bank loan £000's	New leases £000's	Other changes £000's	Principal repaid £000's	Interest paid £000's	
Bank loans (note 25)	9,500	-	-	-	-	-	-	9,500
Total liabilities from financing activities	9,500	-	-	-	-	-	-	9,500

(a) The cash flows from bank loans and other borrowings make up the net amount of proceeds from borrowings and repayments of borrowings in the cash flow statement.

(b) Other changes include lease interest accrued and exchange difference.

(c) Other changes in 2019 included a recognition of lease liabilities in relation to the adoption of IFRS 16 as at 1 January 2019.

32. Commitments

As at 31 December 2020, the Group had the following non-cancellable commitments under research agreements. The total of future minimum non-cancellable payments due for each of the following periods are:

	2020 £000's	2019 £000's	2018 £000's
Within one year	1,229	2,021	1,797
In the second to fifth years inclusive	339	456	170
At 31 December	1,568	2,477	1,967

33. Retirement Benefit Plans

The Group operates a defined contribution pension scheme for the benefit of its employees. Most of the employees who contribute to the Company's pension scheme do so via salary sacrifice.

The total expense recognised in the consolidated income statement of £949,065 (FY19: £606,072; FY18: £562,379) represents contributions payable to the scheme by the Group at rates specified in the rules of the scheme. As at 31 December 2020, contributions of £174,254 (FY19 and FY18: nil) due in respect of the current reporting period had not been paid over to the plans.

34. Financial Instruments – Risk Management

34.1 *Classes and categories of financial instruments and their fair values*

The following table combines information about:

- (A) classes of financial instruments based on their nature and characteristics;
- (B) loan on Land and Buildings is held at amortised cost;
- (C) the carrying amounts of financial instruments; and
- (D) fair values of financial instruments (except financial instruments when carrying amount approximates their fair value).

	Total Carrying Value £000's	Fair Value £000's
31 December 2020		
Financial assets		
Cash and cash equivalents	80,863	80,863
Trade and other receivables	65,906	65,906
Derivative financial instruments	62	62
Financial liabilities		
Trade and other payables	(70,144)	(70,144)
Loan on Land & Buildings	(9,500)	(9,500)
	<u>80,863</u>	<u>80,863</u>
	Total Carrying Value £000's	Fair Value £000's
31 December 2019		
Financial assets		
Cash and cash equivalents	13,092	13,092
Trade and other receivables	48,500	48,500
Derivative financial instruments	600	600
Financial liabilities		
Trade and other payables	(28,211)	(28,211)
Loan on Land & Buildings	(9,500)	(9,500)
	<u>13,092</u>	<u>13,092</u>
	Total Carrying Value £000's	Fair Value £000's
31 December 2018		
Financial assets		
Other financial assets	58,000	58,000
Cash and cash equivalents	35,321	35,321
Trade and other receivables	14,859	14,859
Financial liabilities		
Trade and other payables	(18,709)	(18,709)
Loan on Land & Buildings	(9,500)	(9,500)
	<u>58,000</u>	<u>58,000</u>

The following summarises the methods and assumptions used in estimating the fair values of financial instruments reflected in the table.

Trade receivables, trade payables, other financial assets and cash and cash equivalents

Trade payables and receivables generally have a remaining life of less than one year so their value recorded in the balance sheet is considered to be a reasonable approximation of fair value. Other financial assets comprise short-term deposits held with banks that do not meet the IAS 7 definition of a cash equivalent.

Foreign currency forward swaps

Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.

During FY20, a number of fixed forward contracts were entered into. As at the end of FY20, only one contract remained unsettled, with a settlement date of 30 September 2021 as is included in the Balance Sheet as follows:

	2020 £000's	2019 £000's	2018 £000's
Foreign currency forwards – cash flow hedges	62	600	-
	<u>62</u>	<u>600</u>	<u>-</u>

34.2 Financial Risk Management Objectives and Policies

Overview

The Group has exposure to liquidity, credit and market risks from its use of financial instruments. This note sets out the Group's key policies and processes for managing these risks.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities as they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. Following the share capital raised in FY20, the Group has a substantial cash balance to fund its operations.

At the end of FY20, the Group has the following financing arrangements:

	2020 £000's	2019 £000's	2018 £000's
Maturity analysis			
- Expiring within one year (undiscounted lease liabilities)	2,656	2,119	-
- Expiring beyond one year (undiscounted lease liabilities and bank loan)	26,952	22,358	9,500
	<u>29,608</u>	<u>24,477</u>	<u>9,500</u>

The bank loan facility has a term of four years from 5 August 2020, at an average rate of 2.65% p.a. The amounts disclosed in this table for lease liabilities are based on contractual undiscounted cash flows.

The Directors consider that except for lease and loan liabilities, all of the Group's financial liabilities at the year end and prior year end have maturity dates of less than 12 months from the balance sheet date.

Management monitors rolling forecasts of the Group's financing arrangements (comprising the lease liabilities and bank loan above) and cash and cash equivalents (note 31) on the basis of expected cash flows. This is generally carried out at local level in the operating companies of the group, in accordance with practice and limits set by the Group.

Credit risk

Credit risk is the risk of financial loss to the Group if a deposit taker should fail. It is currently Group policy that the majority of external monetary deposits are made on a fixed interest basis over terms varying from one to three months depending upon the rate available. Maturities are staggered whenever possible to spread exposure to interest rate movement. Although the Board accepts that this policy neither protects the Group from the risk of receiving rates below the current market rates nor eliminates fully cash flow risk associated with interest receipts, it considers that it achieves an appropriate balance of exposure to these risks. Term deposits are denominated in UK sterling with institutions rated as A or better by both Moody's and Standard & Poor's.

At the end of FY20, the Group placed £60 million (FY19: nil; FY18: £58 million) deposits with several reputable financial institutions to minimise its credit risk.

Additional credit risk exists on trade receivables, which is managed by a centralised accounts receivable process including credit checks on initial order acceptance.

Credit approvals and other monitoring procedures are also in place to ensure that follow-up action is taken to recover overdue debts. Furthermore, the Group reviews the recoverable amount of each trade debt and debt investment on an individual basis at the end of the reporting period to ensure that adequate loss allowance is made for irrecoverable amounts. In this regard, the Directors of the Company consider that the Group's credit risk is significantly reduced and remain at the same level for the foreseeable future. Trade receivables consist of a large number of customers, spread across diverse geographical areas.

Of the trade receivables balance at the end of FY20, £29.8 million (FY19: nil) is due from the UK Government, the Group's largest customer.

As at the end of FY20, an amount of £1.96 million (FY19: £1.94 million; FY18: £0.87 million) measured at an amount equal to 12-month expected credit losses has been estimated as a loss allowance in accordance with IFRS 9 (see note 21).

The credit risk on liquid funds and derivative financial instruments are measured at an amount equal to lifetime expected credit losses. Their credit risk is considered as limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's costs of R&D or the value of its holdings in financial instruments. The Group has little exposure to interest rate risk other than that returns on short-term fixed interest deposits will vary with movements in underlying bank interest rates. The Group's principal market risk exposure is to movements in foreign exchange rates.

Foreign currency risk

Foreign exchange risk arises because the Group from time to time enters into transactions denominated in a currency other than Sterling. Where it is considered that the risk to the Group is significant, it will enter into a matching forward contract with a reputable bank, or hold deposits of the currency in cash.

Derivatives are only used for economic hedging purposes and not as speculative investments.

In addition, significant amounts of dollars were held during FY20. In FY20 approximately 33% (FY19: 26%; FY18: 21%) of the Group's annual expenditures was denominated in US dollars and approximately 15% (FY19: 10%; FY18: 13%) of the Group's expenditure was denominated in Euros. A significant portion of the Group's revenue is denominated in US Dollars.

Exchange rate exposures are managed within approved policy parameters. The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets			Liabilities		
	2020 £000's	2019 £000's	2018 £000's	2020 £000's	2019 £000's	2018 £000's
Financial assets and liabilities	16,454	13,423	8,726	6,182	932	4,952

Sensitivity analysis

A 5% strengthening of the US\$ at 31 December 2020 would have resulted in changes to equity and profit or loss by the amounts shown below:

	2020 £000's	2019 £000's	2018 £000's
Decrease in loss for the period	(321)	(291)	(139)
Increase in equity	(321)	(291)	(139)

The interest rate for short-term deposits is variable dependent on the rates offered by the Group's bankers. During FY20, the short-term deposits returned an average of 0.25% (FY19: 0.95%; FY18: 0.80%).

The Group has considered its sensitivity to interest rate fluctuations and does not believe that a change in interest rates would have a material risk impact on the historical financial information.

Capital management

The Group defines the capital that it manages as the Group's total equity. The Group's objectives when managing capital are:

- (A) to safeguard the Group's ability to continue as a going concern, so that it can continue to strive to provide returns to investors;
- (B) to provide an adequate return to investors based on the level of risk undertaken;
- (C) to have available the necessary financial resources to allow the Group to invest in areas that may deliver future benefits for inventive sources and returns to investors; and
- (D) to maintain sufficient financial resources to mitigate against risks and unforeseen events.

	2020 £000's	2019 £000's	2018 £000's
Debt	9,500	9,500	9,500
Equity	185,934	109,528	142,893
Debt to Equity Ratio	5.1%	8.7%	6.6%

Debt is defined as long- and short-term borrowings (excluding derivatives and financial guarantee contracts) as detailed in note 25. Equity includes all capital and reserves of the Group that are managed as capital.

35. Related Party Transactions

At the end of FY20, there were 112,759 (FY19: 149,023) options outstanding in respect of options granted to Non-Executive Directors and consultants.

The Company continued to fund the following subsidiaries during FY20: Oxford Nanopore Technologies Inc. ("**ONT Inc**"), KK Oxford Nanopore Technologies, Nanopore Technologies (Shanghai) Co. Ltd, Oxford Nanopore Technologies Singapore PTE Ltd and Metrichor Limited. During FY20, the Company paid these subsidiaries £10,124,000 (FY19: £5,715,000; FY18: £4,104,000) for the R&D and other services provided to it.

In addition, the Company made sales to its US subsidiary, ONT Inc, of \$14.3 million (FY19: \$12.8 million; FY18: \$9.6 million), the Group's limited risk distributor in the USA.

During FY20, the Company paid commission fee on fund raising of £660,000 to IP Group which is related to the Company by the shared directorship of Alan Aubrey. No commission fee was paid to IP Group in FY19.

In FY18, the Company purchased services from IP Group to the value of £793,000.

36. Post Balance Sheet Events

36.1 Trading

In July 2020, the Company entered into a contract with the Department of Health and Social Care ("DHSC") to deliver LamPORE kits for the testing of the SARS-Cov-2 virus, as part of the UK Governments Test and Trace strategy. A number of kits were sold to the DHSC in 2020, but in April 2021, the DHSC determined that they no longer had a requirement for the Group's product and terminated the contract before taking the maximum quantity allowable under the contract.

This is a non-adjusting event, there is no financial effect on the net assets or any individual financial statement line item as at 31 December 2020. The Group does not expect to suffer any liability as a result of this contract termination.

36.2 Equity

On the 29 March 2021, a resolution was passed to cancel and extinguish £610.8 million of the share premium account of the Company.

Oxford Nanopore has completed a £202.0 million of fund raise in April 2021 via a private placement of ordinary shares in the Group.

On 9 June 2021, the shareholders approved:

- (a) a conditional retention equity award of up to 6.5% of the Company's equity to the Executive Directors. The grant is subject to achievement of performance conditions tied to revenue and share price and is subject to holding periods. On 22 June 2021, awards under this plan were granted to the executive directors of the company; and
- (b) a limited anti-takeover non-voting share of £1.00 in the capital of the Company (a "**LAT Share**").

The Articles contain provision for three classes of "limited anti-takeover" share, each of £1.00 in the capital of the Company: (i) the class A "limited anti-takeover" share (the "**A LAT Share**"); (ii) the class B "limited anti-takeover" share (the "**B LAT Share**"); and (iii) the class C "limited anti-takeover" share (the "**C LAT Share**") (the A LAT Share, the B LAT Share and the C LAT Share being, collectively, the "**LAT Shares**"). The rights attaching to the LAT Shares are set out below.

The Active LAT Share

The "Active LAT Share" shall be determined as follows:

- the Active LAT Share shall be the A LAT Share unless, for any reason, Dr Gordon Sanghera ceases to be a director or employee of any company in the Group (including by reason of death) or is given, or gives, notice of the same (a "**GS Disqualifying Event**");
- if a GS Disqualifying Event occurs, then the Active LAT Share shall be the B LAT Share unless, for any reason, Dr James Willcocks ceases to be a director or employee of any company in the Group (including by reason of death) or is given, or gives, notice of the same (a "**JW Disqualifying Event**");
- if a GS Disqualifying Event and a JW Disqualifying Event has occurred, then the Active LAT Share shall be the C LAT Share unless, for any reason, Clive Brown ceases to be a director or employee of any company in the Group (including by reason of death) or is given, or gives, notice of the same (a "**CB Disqualifying Event**"); and
- if, at any time, each of a GS Disqualifying Event, a JW Disqualifying Event and a CB Disqualifying Event has occurred then, from the last of those events to occur, there shall no longer be any Active LAT Share.

The holder of a LAT Share will have the right to attend and speak at any general meeting of the Company. However, no LAT Share will carry any voting rights (other than in respect of a separate class meeting of the LAT Shares or any class of them (as a separate class)), until a Change of Control of the Company (in which case the Active LAT Share will carry the voting rights set out below).

Immediately on a Change of Control of the Company, the Active LAT Share will automatically carry such number of votes on any resolution put to the shareholders at a general meeting as shall be necessary to ensure the effective passing of such shareholder resolution if those votes are cast by the holder of the Active LAT Share in favour of, or to ensure the defeat of, such shareholder resolution if those votes are cast by the holder of the Active LAT Share against such shareholder resolution.

For the purposes of this summary, a Change of Control will broadly arise if there is an acquisition by any person of an interest in Ordinary Shares which (when taken together with the Ordinary Shares in which that person and any persons acting in concert with them are interested) carry more than 50% of the voting

rights exercisable by the shareholders on a poll in a general meeting (excluding those attributable to the Active LAT Share). In circumstances where an offer is made for the Ordinary Shares, a Change of Control will occur: (a) on a scheme of arrangement under Part 26 of the Companies Act 2006 at the point at which the scheme of arrangement becomes effective; and (b) on a takeover offer under Part 28 of the Companies Act 2006, at the point at which the takeover offer becomes unconditional in all respects.

No LAT Share will entitle any holder to receive any dividend or other distribution of the Company whether out of profits or on the winding-up of the Company or otherwise.

LAT Shares are not capable of transfer (unless pursuant to a purchase or cancellation by the Company of any LAT Shares following the sunset period (as set out below)) and the broader transfer provisions under the Articles applicable to the Ordinary Shares will not apply.

The rights attributable to a LAT Share will cease (and that LAT Share will be capable of being repurchased or cancelled by the Company) on the earlier of: (a) the date falling three years after the date of the issue of that LAT Share; (b) the transfer of that LAT Share to any person; and (c) a GS Disqualifying Event, JW Disqualifying Event or CB Disqualifying Event (as relevant).

The rights attached to the LAT Shares (or any class of them) shall not be capable of being varied or abrogated in any respect whatsoever without the prior written consent of the holder of each affected class of the LAT Shares.

On 23 August 2021, the Company completed a bonus issue (one-for-one) and a subsequent share split (10-for-one) which resulted in share capital increasing from £35,000 to £71,000, with a corresponding decrease in accumulated income reserves. There was no cash or other financial impact.

36.3 Employer social security taxes on unapproved share options

Share options that are 'readily convertible assets' ("**RCAs**") (i.e. where there is an arrangement in place that allows employees easy conversion of shares into cash) typically attract social security taxes on exercise.

On 31 March 2021, the Company informed its shareholders that it had started the process of preparing for the IPO. Whilst the timing of the IPO is not under the control of the Company, due to market condition, at that time, the Company intended the IPO to occur in the second half of 2021.

As a result, in accordance with Section 702 (Earnings and Pensions) Act 2003, share options granted under the Unapproved Share Option Scheme have become RCAs and will be subject to social security taxes on exercise. The Company estimates employer social security taxes will not exceed £11 million based on the number of outstanding unapproved share options at 31 December 2020 as this is a non-adjusting subsequent event.

37. Litigation and Contingent Liabilities

PacBio filed a complaint against ONT Inc in the US District Court for the District of Delaware on 15 March 2017, alleging infringement of US Patent No. 9,546,400 (US '400). A subsequent complaint filed on 25 September 2017, alleged infringement of US Patent Nos. 9,678,056 (US '056) and 9,738,929 (US '929) and an amended complaint filed on 28 March 2018 also alleged infringement of US Patent No. 9,772,323 (US '323). PacBio also filed further complaints against the Company with the effect that both the Company and ONT Inc (together, "**Oxford Nanopore**") were parties to the proceedings. On 18 March 2020, a federal jury in Delaware found in favour of Oxford Nanopore and invalidated all four patents asserted by PacBio in this litigation. Following the verdict, PacBio moved the Court for judgments as a matter of law overturning the jury's invalidity findings. On 30 July 2020, the trial judge, Chief Judge Leonard Stark, denied all of PacBio's motions. The final verdict was entered on 13 August 2020.

PacBio appealed the ruling to the US Court of Appeals for the Federal Circuit. This appeal was limited to the determinations that the '400 and the '323 patents were invalid for lack of enablement. PacBio also asked that the Federal Circuit grant PacBio a new trial because it alleged Oxford Nanopore's references to its efforts relating to coronavirus detection unfairly prejudiced the jury. On 11 May 2021, the US Court of Appeals for the Federal Circuit issued a unanimous Precedential Opinion and Judgement affirming the jury's March 2020 verdict in the PacBio v. Oxford Nanopore case that invalidated a number of PacBio patents. PacBio did not petition for a rehearing.

38. Ultimate Controlling Party

The Company is owned by a number of investors, none of whom is deemed to have overall control.

Interim Financial Information

Condensed Consolidated Income Statement

	<i>Notes</i>	6 months to June 2021	6 months to June 2020
		£000's	£000's
		(Unaudited)	(Unaudited)
Revenue	3	58,951	48,307
Cost of sales	4	(28,747)	(32,214)
Gross profit		<u>30,204</u>	<u>16,093</u>
Operating expenses			
Research and development expenses	4	(30,602)	(23,770)
Selling, general & administrative expenses	4	(43,173)	(34,040)
Total operating expenses		<u>(73,775)</u>	<u>(57,810)</u>
Loss from operations		(43,571)	(41,717)
Finance income		60	51
Finance costs		(144)	(118)
Other losses		(749)	(562)
Loss before tax		<u>(44,404)</u>	<u>(42,346)</u>
Tax (expense) / credit	5	(426)	6,885
Loss for the period		<u>(44,830)</u>	<u>(35,461)</u>
Loss per share	6	<u>(0.0026)</u>	<u>(0.0024)</u>

Condensed Consolidated Statement of Comprehensive Income

	6 months to June 2021 £000's (Unaudited)	6 months to June 2020 £000's (Unaudited)
Attributable to: Equity shareholders of the Company		
Loss for the period	(44,830)	(35,461)
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	(96)	199
Total comprehensive loss	<u>(44,926)</u>	<u>(35,262)</u>

Condensed Consolidated Statement of Financial Position

	<i>Notes</i>	30 June 2021 £000's (Unaudited)	31 December 2020 £000's (Audited)
Non-current assets			
Intangible assets	7	22,480	22,867
Property, plant and equipment	8	43,009	39,386
Right-of-use assets		13,615	13,815
Investments in associates	9	-	548
Deferred tax asset		3,749	1,439
		<u>82,853</u>	<u>78,055</u>
Current assets			
Inventory	10	49,321	35,627
Trade and other receivables		41,351	65,906
R&D tax credit recoverable		12,733	20,696
Other financial assets	11	130,539	-
Derivative financial instruments		-	62
Cash and cash equivalents	11	119,687	80,863
		<u>353,631</u>	<u>203,154</u>
Total assets		<u>436,484</u>	<u>281,209</u>
Current liabilities			
Trade and other payables		(50,365)	(70,144)
Derivative financial instruments		(139)	-
Lease liabilities		(1,786)	(2,039)
		<u>(52,290)</u>	<u>(72,183)</u>
Net current assets		<u>301,341</u>	<u>130,971</u>
Non-current liabilities			
Lease liabilities		(11,998)	(12,093)
Loan		(9,500)	(9,500)
Provisions	16	(12,837)	(1,499)
		<u>(34,335)</u>	<u>(23,092)</u>
Total liabilities		<u>(86,625)</u>	<u>(95,275)</u>
Net assets		<u>349,859</u>	<u>185,934</u>
Equity			
Share capital	13	35	36
Share premium reserve	14	200,854	610,544
Share based payment reserve	15	42,850	35,079
Accumulated income / (deficit)		106,918	(459,023)
Translation reserve		(798)	(702)
Total equity		<u>349,859</u>	<u>185,934</u>

Condensed Consolidated Statement of Changes in Equity

	Share Capital £000's	Share Premium Account £000's	Employee Share Based Payments £000's	Accum (Deficit)/ Income £000's	Translation Reserve £000's	Total £000's
Balance at 1 January 2021	36	610,544	35,079	(459,023)	(702)	185,934
Loss for the period	-	-	-	(44,830)	-	(44,830)
Exchange loss on translation of subsidiary	-	-	-	-	(96)	(96)
Issue of share capital	3	-	-	-	-	3
Premium arising on issue of equity shares	-	202,636	-	-	-	202,636
Cancellation of deferred shares	(4)	-	-	4	-	-
Cost of share issue	-	(1,559)	-	-	-	(1,559)
Employee share-based payments	-	-	5,929	-	-	5,929
Deferred tax asset	-	-	1,842	-	-	1,842
Capital reduction (Note 14)	-	(610,767)	-	610,767	-	-
Balance at 30 June 2021 (unaudited)	35	200,854	42,850	106,918	(798)	349,859

	Share Capital £000's	Share Premium Account £000's	Employee Share Based Payments £000's	Accum Deficit £000's	Translation Reserve £000's	Total £000's
Balance at 1 January 2020	33	479,332	28,215	(397,779)	(273)	109,528
Loss for the period	-	-	-	(35,461)	-	(35,461)
Exchange loss on translation of subsidiary	-	-	-	-	199	199
Issue of share capital	1	-	-	-	-	1
Premium arising on issue of equity shares	-	48,935	-	-	-	48,935
Cost of share issue	-	(1,508)	-	-	-	(1,508)
Employee share-based payments	-	-	3,635	-	-	3,635
Balance at 30 June 2020 (unaudited)	34	526,759	31,850	(433,240)	(74)	125,329

Condensed Consolidated Statement of Cash Flows

	<i>Notes</i>	6 months to June 2021 £000's (Unaudited)	6 months to June 2020 £000's (Unaudited)
Net cash outflow from operating activities	11	<u>(15,456)</u>	<u>(25,980)</u>
Investing activities			
Purchases of property, plant and equipment		(9,761)	(5,421)
Cash expenditures for development costs		(4,256)	(1,825)
Proceeds from sale of fixed asset		-	1
Interest received		76	51
Purchases of short-term investments	11	<u>(130,539)</u>	<u>-</u>
Net cash outflow in investing activities		<u>(144,480)</u>	<u>(7,194)</u>
Financing activities			
Proceeds from issue of shares		202,636	78,085
Costs of share issue		(2,319)	(1,305)
Principal elements of lease payments		(942)	(1,020)
Finance costs net of exchange loss		(144)	(49)
Interest paid on leases		<u>(329)</u>	<u>(200)</u>
Net cash inflow from financing activities		<u>198,902</u>	<u>75,511</u>
Net increase in cash and cash equivalents before foreign exchange movements		38,965	42,337
Effect of foreign exchange rate losses		(141)	159
Cash and cash equivalents at beginning of period		<u>80,863</u>	<u>13,092</u>
Cash and cash equivalents at end of period		<u><u>119,687</u></u>	<u><u>55,588</u></u>

1. General Information

The information for FY20 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditors reported on those accounts: their report was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

2. Accounting Policies

Basis of preparation

The annual financial statements of the Company will be prepared in accordance with the IFRS. The condensed set of financial statements included in this Section C (*Interim Financial Information*) (for the purposes of this Section C, the "**condensed interim financial statements**" or the "**financial statements**") has been prepared in accordance with United Kingdom adopted IAS 34 'Interim Financial Reporting'.

The condensed interim financial statements have been prepared in accordance with the accounting policies set out in the Group's annual report and financial statements for FY20.

Going concern

During the period Oxford Nanopore received £202.0 million in April and May 2021, relating to a private placement of ordinary shares in the Company. As at 30 June 2021, the consolidated statement of financial position reflects a net asset position of £349.9 million, with cash reserves of £120 million and short-term investments of £130 million.

As part of the Directors' consideration of the appropriateness of adopting the going concern basis in preparing the historical financial information, a range of reasonably possible scenarios have been reviewed, including the potential impact of any further COVID-19 restrictions and regulations.

Under all the scenarios modelled, after taking appropriate mitigating actions, the forecasts did not indicate an additional cash requirement. On the basis of these reviews, the Directors consider it is appropriate for the going concern basis to be adopted in preparing the historical financial information.

Judgements

The following are the critical judgements and estimates that the Directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

(i) *Inventory provisioning*

Critical judgement is required in consideration of the need for an inventory provision against the LamPORE inventory the Company holds. LamPORE is the Company's Covid testing product sold through the Covid testing segment.

In July 2020, the Company entered into a contract with the DHSC to deliver LamPORE kits for the testing of the SARS-Cov-2 virus, as part of the UK Government's Test and Trace strategy. A number of kits were sold to the DHSC in 2020, but in April 2021, the DHSC determined that they no longer had a requirement for the Group's product and terminated the contract before taking the maximum quantity allowable under the contract. As at 30 June 2021, the Company held inventory relating to LamPORE. However, the Directors do not expect to suffer any liability as a result of this contract termination and have used judgement to conclude that no provision is required against this inventory.

(ii) *Employer social security taxes on unapproved share options*

The Company has a constructive obligation to pay the employer social security costs when employees exercise unapproved share options. The liability included in the financial statements depends on a number of factors including: the fair value of the Company's shares at the balance sheet date, the share option exercise price, the number of options likely to vest and the employer social security rate of the relevant tax jurisdiction. As the Company's shares are not traded in an active market, the Directors estimated the fair value of the shares on its most recent fundraising share price. The liability at the balance sheet date was approximately £11.3 million. This was based on an estimated share fair value of £70 at the balance sheet date.

(iii) *Long-term incentive plan*

The Company informed its shareholders on 30 March 2021 that it has started the process of preparing for an IPO and the Directors expect it will occur in the second half of 2021 on the

London Stock Exchange. The Company has set up a long-term incentive plan ("**LTIP**") which was approved by the Board on 22 June 2021. The LTIP is a one-off discretionary share plan, under which the Company granted awards over 6.5% of the Company's Ordinary Share capital (at the date of grant) to the Executive Directors. Awards were granted as conditional awards of Ordinary Shares ("**Conditional Awards**").

There are a number of judgements involved in the valuation of and accounting for this award, which has resulted in a total charge to the income statement in HY21 of £0.7 million, as outlined in note 15. It is the Directors' judgement that it is probable the IPO will occur, and assumptions over the vesting percentage of the awards have been made which could change over time, having a material impact on the charge going forward. It has also been assumed that the awards with revenue conditions will vest over a three year period, and the awards with share price conditions will vest over a 2.16 year period. The vesting period for the awards with revenue conditions could alter should conditions be met earlier/later, resulting in an accelerated/decelerated charge.

3. Segment Information

A summary of the key financial results is set out below:

	30 June 2021	30 June 2020
	£000's	£000's
Geographical region		
USA	11,483	7,261
Europe	12,635	5,233
China	3,148	5,139
UK	9,607	24,609
UAE	10,329	330
Japan	3,087	1,745
Rest of World	8,662	3,990
	<u>58,951</u>	<u>48,307</u>

	30 June 2021	30 June 2020
	£000's	£000's
Category		
Sale of goods	49,127	44,121
Rendering of services	2,077	2,443
Lease income	7,747	1,743
Total revenue from contracts with customers	<u>58,951</u>	<u>48,307</u>

Products and services from which reportable segments derive their revenues.

The information reported to the Group's senior management team, which is considered the CODM, for the purposes of resource allocation and assessment of segment performance is defined by market rather than product type. The segment measure of profit evaluated by the CODM is Adjusted EBITDA, as this is considered to give the most appropriate information in respect of profitability of the individual segments.

The Directors consider that the Group reportable segments under IFRS 8 Operating Segments are as set out below:

Reportable segments	Description
LSRT	The Group's core business, generating revenue from providing products and services for research use, including R&D expenditure and corporate expenditure.
COVID Testing	In the interim period, the Group generated revenue from providing products for SAR-Cov-2 testing. It should be noted that its sequencing products continue to be used for the purposes of COVID genomic surveillance, including variant identification, but this is reported within the LSRT segment.

(a) Information about major customers

In HY21, the Group has one major customer based in the UAE, which represents 17.5% of Group revenue (HY20: 0.7%).

No other individual customer represents more than 10% of the Group's total revenue.

The following is an analysis of the Group's revenue, results, assets and liabilities by reportable segment.

	LSRT £000's	COVID Testing £000's	30 June 2021 £000's	LSRT £000's	Covid Testing £000's	30 June 2020 £000's
Revenue						
USA	11,483	-	11,483	7,261	-	7,261
Europe	11,826	809	12,635	5,233	-	5,233
China	3,148	-	3,148	5,139	-	5,139
UK	4,068	5,539	9,607	1,518	23,091	24,609
Japan	3,087	-	3,087	1,745	-	1,745
UAE	10,329	-	10,329	330	-	330
Rest of the World	8,646	16	8,662	3,990	-	3,990
Total Revenue	52,587	6,364	58,951	25,216	23,091	48,307

(b) Adjusted EBITDA

Adjusted EBITDA is loss for the year before finance income, loan interest, interest on lease, other gains, taxes, depreciation and amortisation, and foreign exchange losses/movements. Adjusted EBITDA reconciles to loss before tax as follows:

	LSRT £000's	COVID Testing £000's	30 June 2021 £000's	LSRT £000's	COVID Testing £000's	30 June 2020 £000's
Profit/(loss) before tax	(46,065)	1,661	(44,404)	(47,235)	4,889	(42,346)
Finance income	(60)	-	(60)	(51)	-	(51)
Loan interest	144	-	144	118	-	118
Interest on leases	329	-	329	208	-	208
Exchange gains	(644)	-	(644)	(422)	-	(422)
Other losses	749	-	749	561	-	561
Depreciation and amortisation	10,949	1,067	12,016	7,650	-	7,650
Adjusted EBITDA	(34,598)	2,728	(31,870)	(39,171)	4,889	(34,282)

(c) Supplementary information

Segment assets	LSRT	COVID	30 June 2021	LSRT	COVID	30 June 2020
	£000's	Testing £000's		£000's	Testing £000's	
Investment in associates	-	-	-	548	-	548
Acquired intangible assets	430	-	430	446	-	446
Other segment assets*	152,860	16,486	169,346	177,155	-	177,155
Total segment assets	153,290	16,486	169,776	178,149	-	178,149
Unallocated:						
Deferred tax asset			3,749			1,439
R&D tax credit recoverable			12,733			20,696
Derivative financial instruments			-			62
Other financial assets			130,539			-
Cash and cash equivalents			119,687			80,863
Total assets as per the balance sheet			436,484			281,209
Segment liabilities						
Total segment liabilities	(75,683)	(1,303)	(76,986)	(85,775)	-	(85,775)
Unallocated:						
Derivative financial instruments	(139)	-	(139)	-	-	-
Non-current borrowings	(9,500)	-	(9,500)	(9,500)	-	(9,500)
Total liabilities as per the balance sheet			(86,625)			(95,275)

* Other segment assets include non-current assets except for investments, acquired intangible assets and deferred tax assets. It also includes inventory and trade and other receivables.

4. Notes to Expenses

	30 June 2021	30 June 2020
	£000's	£000's
Cost of sales	<u>(28,747)</u>	<u>(32,214)</u>
Operating expenses		
Research and development expenses	(30,602)	(23,770)
Selling, general & administrative expenses	<u>(43,173)</u>	<u>(34,040)</u>
Total operating expenses	<u>(73,775)</u>	<u>(57,810)</u>

Included within cost of sales in HY21 are employee share benefit costs totalling £0.2 million (HY20: £0.2 million) and National Insurance on readily convertible assets of £0.9 million (HY20: £nil).

Included within R&D expenses in HY21 are employee share benefit costs totalling £2.2 million (HY20: £1.5 million) and National Insurance on readily convertible assets of £6.4 million (HY20: £nil).

Included within selling, general & administrative expenses in HY21 are employee share benefit costs totalling £3.5 million (HY20: £2.0 million) and National Insurance on readily convertible assets of £4.0 million (HY20: £nil).

5. Income Tax

	30 June 2021	30 June 2020
	£000's	£000's
Current tax		
R&D tax credit receivable for the period	-	(5,468)
Prior year adjustment in respect of R&D tax credit	-	(762)
Prior year adjustment in respect of current tax	-	386
Tax payable on foreign subsidiary	907	246
Deferred tax		
Origination and reversal of temporary differences	(481)	(1,287)
Total current tax	<u>426</u>	<u>(6,885)</u>

A deferred tax asset of £3,749,000 (FY20: £1,439,000) has been recognised in relation to future share option exercises, and other timing differences in ONT Inc, because it is probable that the asset will be utilised in the foreseeable future.

All other current tax balances have been calculated at the rates enacted for the period.

The effective rate of corporation tax applied to reported profit is -0.95% (FY20: 16.28%) of the profit before tax for the Group. In 2021 the Company will claim the R&D Expenditure Credit for the first time. This has reduced the Group's effective tax rate.

The current UK corporation tax rate of 19% was set to reduce to 17% from 1 April 2020, however this reduction was reversed in the Finance Bill 2020 (substantively enacted on 17 March 2020). It has been announced that the rate of UK corporation tax will increase to 25% from April 2023. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

	30 June 2020	30 December 2019
	£000's	£000's
R&D tax credit recoverable		
Balance at start of period	20,696	17,479
Adjustment to R&D tax credit in respect of previous periods	0	762
Cash receipt	(9,763)	(8,479)
R&D tax credit for the period	1,800	10,934
Balance at end of period	<u>12,733</u>	<u>20,696</u>

6. Loss per Share

(a) Basic and diluted loss per share

	30 June 2021	30 June 2020
	£'s	£'s
Total basic and diluted loss per share attributable to the ordinary equity holders of the company from continuing operations	<u>(0.0026)</u>	<u>(0.0024)</u>

(b) Reconciliations of losses used in calculating loss per share

	30 June 2021	30 June 2020
	£000's	£000's
<i>Basic and diluted loss per share</i>		
Loss attributable to the ordinary equity holders of the company used in calculating basic and diluted loss per share from continuing operations	<u>(44,830)</u>	<u>(35,461)</u>

(c) Weighted average number of shares used as the denominator

30 June	30 June
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	2021	2020
	(Number)	(Number)
Weighted average number of ordinary shares used as the denominator in calculating basic loss per share	17,469,607	14,974,914

There have been no events that have caused any retrospective adjustments between the balance sheet date and the date of issuance of the financial statements, being the date of this Registration Document.

Options

Options granted to employees under the Oxford Nanopore Technologies Share Option Scheme and the Oxford Nanopore Technologies Limited Share Option Plan 2018 are considered to be potential Ordinary Shares. These options have not been included in the determination of basic and diluted loss per share for HY21. They could potentially dilute basic earnings per share in the future.

7. Intangible Assets

During HY21, the Group capitalised £4.3 million of R&D costs (FY20: £10.7 million).

8. Property, Plant and Equipment

Group	Land and Buildings £000's	Leasehold Improvements £000's	Plant and Machinery £000's	Assets Subject to Operating Leases £000's	Equipment £000's	Total £000's
Cost						
At 1 January 2020	16,243	6,529	12,909	13,425	8,220	57,326
Additions	158	-	3,785	8,829	2,965	15,737
Disposals	-	-	(76)	(2,241)	(18)	(2,335)
Foreign exchange movements	-	-	(7)	(11)	(31)	(49)
At 31 December 2020	16,401	6,529	16,611	20,002	11,136	70,769
Additions	-	417	2,069	5,863	1,404	9,753
Transfer	(1,344)	1,344	-	-	-	-
Disposals	-	-	(13)	(840)	(4)	(857)
Foreign exchange movements	(1)	-	(4)	(2)	(8)	(15)
At 30 June 2021	15,056	8,290	18,663	25,023	12,528	79,560
Accumulated depreciation						
At 1 January 2020	(879)	(1,472)	(7,044)	(8,768)	(5,375)	(23,538)
Charge for the year	(1,347)	(34)	(1,653)	(4,968)	(2,123)	(10,125)
Eliminated on disposals	-	-	75	2,241	18	2,334
Foreign exchange movements	-	-	10	1	25	36
At 31 December 2020	(2,226)	(1,506)	(8,612)	(11,494)	(7,455)	(31,293)
Charge for the year	(151)	(539)	(1,184)	(3,066)	(1,191)	(6,131)
Transfer	1,293	(1,293)	-	-	-	-
Eliminated on disposals	-	-	13	850	2	865
Foreign exchange movements	-	-	3	-	5	8
At 30 June 2021	(1,084)	(3,338)	(9,780)	(13,710)	(8,639)	(36,551)
Carrying amount						
At 1 January 2021	14,175	5,023	7,999	8,508	3,681	39,386
At 30 June 2021	13,972	4,952	8,883	11,313	3,889	43,009

On 1 June 2017 the Company purchased the building and land known as Gosling Building, Edmund Halley Road, Oxford Science Park, Oxford subject to a long leasehold. The remaining length of the lease at period end is 134 years and 3 months.

At 30 June 2021, certain assets previously classified as land and buildings were transferred to leasehold improvements. At 30 June 2021 and 31 December 2020, the Group had not entered into contractual commitments for the acquisition of property, plant and equipment.

9. Investment in Associates

An associate of the Company is as follows:

Name	Principal activities	Country of Incorporation	Class of shares	Proportion of ownership interest	
				30/06/2021	31/12/2020
Veiovia Limited	Technology Development	UK	Ordinary	18.5%	18.5%

- Pursuant to a shareholder agreement, the Company has the right to cast 18.5% of the votes of Veiovia Limited.
- Although the Company holds less than 20% of the equity shares of Veiovia Limited, and it has less than 20% of the voting power at shareholder meetings, the Company exercises significant influence by virtue of its contractual right to appoint one director to the board of directors of that entity.
- For the purposes of applying the equity method of accounting, the financial statements of Veiovia Limited for HY21 have been used. Management has considered full impairment loss on the investment, as the recoverable amount of the investment falls below its carrying amount.
- Veiovia Limited's registered office is The University of York, Biology B/A/039, Wentworth Way, York, UK, YO10 5DD.

	30 June 2021	30 December 2020
	£000's	£000's
Investment at cost	548	548
Less: Impairment	(548)	-
Carrying amount of the Company's interest in the associate	<u>-</u>	<u>548</u>

10. Inventory

	30 June 2021	30 December 2020
	£000's	£000's
Raw materials	18,697	11,738
Work in progress	23,122	14,363
Finished goods	7,502	9,526
	<u>49,321</u>	<u>35,627</u>

11. Notes to the Cash Flow Statement

Cash, cash equivalents and other financial assets

	6 months	12 months	6 months
	30 June 2021	31 December 2020	30 June 2020
	£000's	£000's	£000's
Cash and cash equivalents	119,687	80,863	55,589
Other financial assets	130,539	-	-

Cash and cash equivalents comprise cash in hand and deposits held at call with banks and other short-term highly liquid investments with a maturity of three months or less at the date of acquisition.

Cash is not held for the purpose of investment in its own right and the primary goal of investment strategies is capital preservation. Cash not required for short-term working capital requirements is invested in short-term treasury deposits (other financial assets). To the extent that it is reasonable, deposits are spread between two or more banks that have been approved by the Board. Cash required to meet short-term working capital requirements as they arise is maintained in instant access accounts at one or more approved banks.

Other financial assets comprise longer-term deposits held with banks that do not meet the IAS 7 definition of a cash equivalent.

	6 months 30 June 2021 £000's	6 months 30 June 2020 £000's
Loss before tax	(44,404)	(42,346)
Adjustments for:		
Depreciation on property, plant and equipment	6,131	4,754
Depreciation on right-of-use assets	1,241	1,114
Amortisation of internally generated intangible assets	4,644	1,782
Impairment of associate	548	-
RDEC tax credit	(1,800)	-
Loss on disposal of property, plant and equipment	1	-
Exchange loss	121	329
Net bank interest	84	67
Increase in provision	11,339	-
Employee share benefit costs	7,772	3,635
Operating cash flows before movements in working capital	(14,323)	(30,665)
Decrease in receivables	22,228	7,288
(Increase) in inventory	(13,695)	(7,399)
(Decrease) in payables	(19,201)	(3,675)
Cash absorbed by operations	(24,991)	(34,451)
Income taxes – R&D tax credit received	9,763	9,146
Foreign tax paid	(228)	(675)
Net cash absorbed by operating activities	(15,456)	(25,980)

12. Related Party Transactions

At the end of HY21, there were 68,368 (FY20: 112,759) options outstanding in respect of options granted to Non-Executive Directors and consultants.

The Company continued to fund the following subsidiaries during HY21: ONT Inc, KK Oxford Nanopore Technologies, Nanopore Technologies (Shanghai) Co. Ltd, Oxford Nanopore Technologies Singapore PTE Ltd and Metrichor Limited. During HY21, the Company paid these subsidiaries £2,960,000 (FY20: £10,124,000) for the R&D and other services provided to it.

During HY21, the Company accrued a commission fee on fundraising of £44,000 (FY20: £660,000) to IP Group which is related to the Company by the shared directorship of A Aubrey.

13. Share Capital

	Number of shares		Par Value £	Par Value £	
	30 June 2021 Shares	31 December 2020 Shares		30 June 2021 £	31 December 2020 £
Issued Share Capital					
Opening - ordinary shares	32,452,674	29,711,482	0.001	32,453	29,711
Opening - deferred shares	733,677	733,677	0.005	3,668	3,668
Issued - ordinary shares	3,004,501	2,741,192	0.001	3,005	2,742
Redeemed - deferred shares	(733,677)	-	0.005	(3,668)	-
Closing - ordinary shares	35,457,175	32,452,674	0.001	35,457	32,453
Closing - deferred shares	-	733,677	0.005	-	3,668
Total authorised, issued and fully paid Share Capital				35,457	36,121

During HY21, the Group raised £202 million (FY20: £132.8 million) through the issuance of 2,886,667 Ordinary Shares (FY20: 2,505,915) at a share price of £70 per share (FY20: £53). In addition, 71,690 Ordinary Shares (FY20: 235,277) were issued as a result of share options exercised. Transaction costs for the issue of shares are offset against the Share Premium Reserve.

The Ordinary Shares do not carry any right to fixed income.

The Deferred Shares have no voting or dividend rights and only very limited capital return rights, which render them effectively valueless. The Company redeemed all the Deferred Shares in April 2021 for £0.01.

On 9 June 2021, the Ordinary Shareholders approved: (a) a conditional retention equity award of up to 6.5% of the Company's equity to the Executive Directors, which was subsequently granted on 22 June 2021 (see note 15). The grant is subject to the achievement of performance conditions tied to revenue and share price and is subject to holding periods; and (b) a LAT Share (as defined in note 36 of Section B (*Historical Financial Information*) above. The latter was granted to help ensure the Company has time to realise the opportunity it believes is available to it with its new generation of sensing technology and to maximise long-term shareholder value, the Board is hereby proposing that, conditional on completion of the IPO, Dr Gordon Sanghera, who is the co-founder of the Company and has been its chief executive officer since its foundation in 2005, will be issued a LAT Share. To provide for continuity of protection, and as described below, each of Dr James Willcocks and Mr Clive Brown would also be issued a LAT Share, conditional on completion of the IPO. However, no rights would attach to Dr James Willcocks' or Mr Clive Brown's LAT Shares for so long as Dr Gordon Sanghera is a director or employee of the Company (or a Group company).

The LAT Shares are effectively only a single set of share rights, with the rights transferring between the holders in the order of priority set out below when there is a Disqualifying Event (as defined below) in respect of the preceding holder. The LAT Shares have been structured this way to ensure that there are no issues at a critical time with respect to delay (including as a consequence of the probate process) in the rights attaching to any LAT Share being transferred to the right person upon the holder of such LAT Share being subject to a Disqualifying Event. The rights attaching to each LAT Share will cease automatically upon the holder ceasing to be a director or employee of the Company (or any Group company) (or, if earlier, upon such holder giving or being given notice of termination of such appointment or engagement) (a "**Disqualifying Event**").

On 23 August 2021, the Company completed a bonus issue (one-for-one) and a subsequent share split (10-for-one) which resulted in share capital increasing from £35,000 to £71,000, with a corresponding decrease in accumulated income reserves. There was no cash or other financial impact.

14. Share Premium Reserve

	30 June 2021	31 December 2020
	£000's	£000's
At 1 January	610,544	479,332
Premium arising on issue of equity shares	202,636	135,061
Share issue costs	(1,559)	(3,849)
Capital reduction	(610,767)	-
At 30 June & 30 December	<u>200,854</u>	<u>610,544</u>

On 29 March 2021, a resolution was passed to cancel and extinguish £610.8 million of the share premium account of the Company. This was transferred to retained earnings.

15. Share Based Payments

The total charge for share-based incentive plans in 2021 was £5.9 million (31 December 2020: £6.8 million). Of this amount, £5.2 million (31 December 2020: £6.8 million) arose from the Company Share Option plans and £0.7 million (31 December 2020: £nil) arose from the Company Long-term Incentive Plan.

	30 June 2021	31 December 2020
	£000's	£000's
At 1 January	35,079	28,215
Employee share-based payments	5,929	6,864
Deferred tax asset	1,842	-
At 30 June & 30 December	<u>42,850</u>	<u>35,079</u>

Share options

Oxford Nanopore Technologies Limited Share Option Plan 2018: The Plan replaced the Oxford Nanopore Technologies Share Option Scheme in January 2018. The first grant of awards was made in January 2019. All employees are eligible to be awarded approved share options, with the exception of employees in Nanopore Technologies (Shanghai) Co. Limited due to local taxation rules. These employees are instead eligible to be remunerated under a local bonus scheme. Awards granted to participants are subject to either service conditions or both service and market performance conditions. Options cannot normally be exercised before the third anniversary of the date of grant.

Oxford Nanopore Technologies Limited Share Option Scheme: This Scheme was closed to new members in 2018. The Scheme was set up to allow the Company to award both HM Revenue & Customs approved EMI share options to qualifying individuals and unapproved share options.

All unapproved options may be subject to performance criteria and vesting schedules set at the Board's discretion. All employees are eligible to be awarded unapproved share options.

The movement in the Company's share option schemes outstanding is summarised in the following table:

	Period ended		Year ended	
	30 June 2021		31 December 2020	
	Number of share options	Weighted average exercise price (in £)	Number of share options	Weighted average exercise price (in £)
Outstanding at beginning of period	2,497,045	20.93	2,649,419	19.52
Granted during the period	934,453	42.40	144,050	24.50
Forfeited during the period	(4,329)	22.79	(61,147)	12.18
Exercised during the period	(111,802)	4.81	(235,277)	9.57
Outstanding at the end of the period	<u>3,315,367</u>	<u>22.80</u>	<u>2,497,045</u>	<u>20.93</u>
Exercisable at the end of the period	<u>1,261,020</u>	<u>18.41</u>	<u>1,372,645</u>	<u>17.32</u>

Share options outstanding at the end of the year have the following expiry and exercise prices (for the avoidance of doubt, such figures not taking into account any amendments to the share option schemes

arising from the one-for-one Bonus Issue and the 10-for-one Share Subdivision further particularised in "Share capital" at section 4 of Part 9 (*Additional Information*):

Scheme	Grant year	Expiry year	Exercise price (£)	2021 (Number)	2020 (Number)
Oxford Nanopore Technologies Limited Share Option Scheme	2008 - 2018	2020 - 2028	0.70 - 27.90	1,984,963	1,534,565
Oxford Nanopore Technologies Limited Share Option Plan 2018	2019 - 2021	2029 - 2031	20.70-70.00	1,330,404	962,480
				3,315,367	2,497,045

The weighted average share price at the date of exercise for share options exercised during HY21 was £57.00 (FY20: £53.00).

The options outstanding at the end of HY21 had a weighted average exercise price of £22.80 (FY20: £20.93), and a weighted average remaining contractual life of 6.9 years (FY20: 6.0 years).

The Group recognised total expenses of £5,235,000 (FY20: £6,841,000) related to equity-settled share-based payment transactions in 2020.

Valuation models:

Oxford Nanopore Technologies Limited Share Option Plan 2018: The fair value of share options granted during the period was determined using the Monte Carlo Simulation model and Black Scholes model dependent on the performance vesting conditions.

There were 934,453 options granted during HY21 (FY20: 144,050).

Black Scholes:

The following assumptions were used in the Black Scholes model in calculating the fair values of the options granted during HY21:

	30 June 2021	31 December 2020
Range of share prices	£ 53.00 - £70.00	£ 53.00
Range of exercise prices	£42.40 - £70.00	£ 24.50
Expected volatility range	47% - 50%	47%
Expected life	6.5 years	6.5 years
Risk-free rate range	0% - 0.4%	0%
Expected dividend yields	Nil	Nil

The volatility assumption has been derived as the median volatility over a five year period of a bespoke comparator group. For options granted during 2021, the expected life assumption of 6.5 years assumes exercise will occur halfway through the total exercisable period, being the midpoint of years three and 10. The risk-free interest rate used reflects the UK Government five year Gilt rate as reported by the Bank of England.

The weighted average fair value of options granted during HY21 determined using the Black Scholes model at the grant date was £34.74 (FY20: £34.62) per option.

Monte Carlo Simulation:

There were no options granted in HY21 that were valued solely using the Monte Carlo Simulation model. The following assumptions were used in the Monte Carlo Simulation model in calculating the fair values of the options granted during HY21:

	30 June 2021	31 December 2020
Weighted average share price	£ 53.00	£ 53.00
Weighted average exercise price	£42.40	£ 24.50
Expected volatility	48%	47%
Expected life	2.5 years	2.5 years
Risk-free rate	0%	0%
Expected dividend yields	Nil	Nil

The Monte Carlo Simulation model has been used to value the portion of the awards which have a market performance vesting condition (achievement of a target company valuation). The model incorporates a discount factor reflecting this performance condition into the fair value of this portion of the award. The weighted average fair value of options granted during HY21 determined using the Monte Carlo Simulation model at the grant date was £24.27 (FY20: £33.72) per option.

The volatility assumption has been derived as the median volatility over a five year period of a bespoke comparator group. For options granted during HY21, the expected life represents the term until expected vesting and exercise. The risk-free interest rate used reflects the UK Government five year Gilt rate as reported by the Bank of England.

LTIP

Oxford Nanopore Technologies LTIP: The Company has set up a LTIP which was approved by the Board on 22 June 2021. The LTIP is a one-off discretionary share plan, under which the Company granted awards over 6.5% of the Company's Ordinary Share capital (at the date of grant) to the Executive Directors. Awards were granted as Conditional Awards. The grant is subject to achievement of performance obligations tied to revenue and share price and is subject to holding periods.

The movement in LTIP scheme awards outstanding at 30 June 2021 is summarised in the following table:

	30 June 2021
	Number of awards
Outstanding at beginning of period	-
Granted during the period	2,304,718
Forfeited during the period	-
Released during the period	-
Outstanding at the end of the period	<u>2,304,718</u>

The LTIP awards are free to the recipient and therefore have an exercise price of £nil. 'Released' means the Executive Director becoming entitled to receive the shares subject to the award. The LTIP awards outstanding at the end of HY21 had a weighted average contractual life of 5.51 years (FY20: £nil).

Valuation models:

Oxford Nanopore Technologies Long-Term Incentive Plan 2021 ("LTIP"): The fair value of awards granted during the period was determined using the Monte Carlo Simulation model and Black Scholes model dependent on the performance vesting conditions.

Black Scholes:

The following assumptions were used in the Black Scholes model in calculating the fair values of the LTIP awards granted during the year:

	30 June 2021
Weighted average share price	£70.00
Weighted average exercise price	£0.00
Expected volatility	50%
Expected life	3 years
Risk-free rate	0.4%
Expected dividend yields	Nil

The volatility assumption has been derived as the median volatility over a five-year period of a bespoke comparator group. The risk-free interest rate used reflects the UK Government five-year Gilt rate as reported by the Bank of England. The share price assumptions are made with reference to recent equity fund rounds.

The weighted average fair value of LTIP awards granted during the period determined using the Black Scholes model at the grant date was £64.46 per award.

Monte Carlo Simulation

The following assumptions were used in the Monte Carlo Simulation model in calculating the fair values of the LTIP awards granted during the year:

30 June

	2021
Weighted average share price	£70.00
Weighted average exercise price	£0.00
Expected volatility	50%
Expected life	2.16 years
Risk-free rate	0.4%
Expected dividend yields	Nil

The volatility assumption has been derived as the median volatility over a five-year period of a bespoke comparator group. The risk-free interest rate used reflects the UK Government five-year Gilt rate as reported by the Bank of England. The share price assumptions are made with reference to recent equity fund rounds.

The weighted average fair value of LTIP awards granted during the period determined using the Monte Carlo simulation model at the grant date was £43.64 per award.

16. Provisions

	Employer social security taxes	Dilapidation provision	Total
	£000's	£000's	£000's
Balance at 1 January 2020	-	1,407	1,407
Additional provision in the year	-	97	97
Foreign exchange movements	-	(5)	(5)
Balance at 1 January 2021	-	1,499	1,499
Additional provision in the period	11,339	-	11,339
Foreign exchange movements	-	(1)	(1)
Balance at 30 June 2021	11,339	1,498	12,837

The dilapidation provision

The dilapidation provision relates to the leased properties, representing an obligation to restore the premises to their original condition at the time the Company vacates the properties.

The provision is non-current and expected to be utilised between two and 25 years.

The Company has reviewed the provision on the properties at the Oxford Science Park and considers that no additional charge was required during the period.

Employer social security taxes on Unapproved share options

Share options that are RCAs (i.e. where there is an arrangement in place that allows employees easy conversion of shares into cash) typically attract social security taxes on exercise.

On 31 March 2021, the Company informed its shareholders that it had started the process of preparing for a potential IPO. Whilst the timing of the IPO is not under the control of the Company, due to market conditions at that time, the Company intended the IPO to occur in the second half of 2021.

As a result, in accordance with section 702 Income Tax (Earnings and Pensions) Act 2003, share options granted under the Unapproved Share Option Scheme have become RCAs and will be subject to social security taxes on exercise. Based on the fair value of the shares as at 30 June 2021, the Company estimates employer social security taxes will be £11.3 million based on the number of outstanding unapproved share options.

17. Litigation and Contingent Liabilities

PacBio filed a complaint against ONT Inc in the United States District Court, District of Delaware on 15 March 2017, alleging infringement of US Patent No. 9,546,400 (US '400), a subsequent complaint filed on 25 September 2017, alleging infringement of US Patent Nos. 9,678,056 (US '056) and 9,738,929 (US '929) and an amended complaint filed on 28 March 2018 alleging infringement of US Patent No. 9,772,323 (US '323). PacBio also filed further complaints against the Company with the effect that both the Company and ONT Inc are parties to the proceedings. On 18 March 2020, a federal jury in Delaware found in favour of Oxford Nanopore and invalidated all four patents asserted by PacBio in this litigation. Following the verdict, PacBio moved the Court for judgements as a matter of law overturning the jury's

invalidity findings. On 30 July 2020, the trial judge, Chief Judge Leonard Stark, denied all of PacBio's motions. The final verdict was entered on 13 August 2020.

PacBio appealed the ruling to the US Court of Appeals for the Federal Circuit. This appeal was limited to the determinations that the '400 and the '323 patents are invalid for lack of enablement. PacBio was also asking that the Federal Circuit grant PacBio a new trial because it alleges Oxford Nanopore's references to its efforts relating to coronavirus detection unfairly prejudiced the jury. On 11 May 2021, the US Court of Appeals for the Federal Circuit issued a unanimous Precedential Opinion and Judgement affirming the jury's March 2020 verdict in the PacBio v. Oxford Nanopore case, which invalidated a number of PacBio patents. PacBio did not petition for a rehearing.

