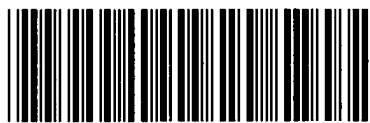


Oxford Nanopore Technologies Limited
Annual report and financial statements
for the year ended 31 December 2019

Registered number: 05386273

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OXFORD NANOPORE TECHNOLOGIES LIMITED

CONTENTS

Company information	3
Strategic report	4
Directors' report	17
Directors' responsibilities statement	20
Independent Auditor's report	21
Consolidated income statement	24
Consolidated statement of comprehensive income	24
Consolidated statement of financial position	25
Company statement of financial position	26
Statements of changes in equity	27
Consolidated statement of cash flows	28
Notes to the consolidated financial statements	29

OXFORD NANOPORE TECHNOLOGIES LIMITED

COMPANY INFORMATION

Directors

P V Allen (Chairman)
A J Aubrey
S L Gordon-Wild
J E O'Higgins
G Harmelin
G S Sanghera
J P Willcocks
T Cowper
C G Brown

Company secretary

Aldwych Secretaries Limited

Registered office

Gosling Building
Edmund Halley Road
Oxford Science Park
Oxford
OX4 4DQ
United Kingdom

Company number

05386273

Independent auditor

Deloitte LLP
Statutory Auditor
Abbots House
Abbey Street
Reading RG1 3BD
United Kingdom

OXFORD NANOPORE TECHNOLOGIES LIMITED

STRATEGIC REPORT

This strategic report has been prepared for the Group as a whole and therefore gives greater emphasis to those matters which are significant to Oxford Nanopore Technologies Limited ('Oxford Nanopore' or 'the Company') and its subsidiary undertakings when viewed as a whole ('Oxford Nanopore Group' or 'the Group').

Background

Oxford Nanopore's goal is to enable the genetic analysis of any living thing by anyone, anywhere.

The principal activities of the Group are to research, develop, manufacture and commercialise the world's only commercial nanopore-based sequencing platform that allows the real-time analysis of DNA or RNA. This enables our 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.

In 2020, Oxford Nanopore's technology made a significant contribution to the fight against COVID-19, supporting international epidemiology and research. The Company has developed a novel COVID-19 test, LamPore, which will be commercially available in Q4 2020.

The Company makes a range of nanopore sequencing devices. In order to disrupt a traditional centralised market, the Company first launched the hand-held MinION in 2015, pricing a starter pack at \$1,000 for broad accessibility. The MinION is now being used by thousands of scientists and has featured in more than a thousand publications across a diverse range of scientific disciplines. Nanopore sequencing is also scalable to very high-throughput applications. Our largest device, PromethION 48, is capable of delivering >8 terabases of longer-read DNA sequence data, and is positioned to address markets that require larger volumes of data or larger sample numbers, for example population-scale human or plant genomes. In December 2019, the Department of Health in Abu Dhabi announced an ambitious population sequencing project to be powered by PromethION¹, will sequence 100,000 genomes in the first phase and up to 1 million in the next phase.

Customers and potential customers for nanopore sequencing technology may broadly be divided into:

- **Research:** These users are typically situated in University, Industrial or Government research laboratories, or commercial laboratories that provide sequencing as a service to other scientists.
- **Applied:** Using data to gain insights that might enable decision-making, for example in food safety, healthcare, outbreak surveillance, agriculture, etc.

Strategy

The long-term goal of the Group is to enable the genetic analysis of any living thing, by anyone, anywhere. We employ a disruptive approach to the market, bringing new properties to a traditional market, and therefore aiming to reshape and expand that market.

Nanopore sequencing offers a unique combination of properties:

Data is available for analysis in **real-time** during the experiment,

- This makes rapid insights possible.
- Dynamic workflows can be deployed, for example "adaptive sequencing" which adapts the analysis in real time according to the results seen during sequencing.

¹ <https://nanoporetech.com/about-us/news/large-scale-population-genomics-project-announced-department-health-abu-dhabi-using>

OXFORD NANOPORE TECHNOLOGIES LIMITED

STRATEGIC REPORT (CONTINUED)

Oxford Nanopore's technology can sequence **any length fragment** of DNA, from short to ultra-long (>2 Mb),

- Longer reads provide rich biological information, for example enabling structural variation analysis and phasing.
- Sequencing shorter fragments means the technology is also capable of addressing markets like amplicon sequencing or liquid biopsy, where the starting material is shorter.

Oxford Nanopore's technology analyses the **native DNA/RNA strand**

- Direct analysis provides richer biological information, including real-time methylation.

The nanopore sequencing platform is scalable, from small, low cost, portable devices...

- Taking the sequencer to the sample in any location or being used as a personal sequencer for every scientist in the laboratory.

...to ultra-high throughput devices

- Providing rich biological data at large scale, for projects such as population sequencing, large human genomics or plant genomics projects.

Key strategies

To complement its innovation powerhouse, Oxford Nanopore has 'baked in' a number of commercial strategies through the design of the product as well as pricing and distribution approaches. A key theme is accessibility, low-cost, easy to use, easy to distribute devices that enable a broad range of devices to be used for a broad range of applications by a broad range of people. In summary Oxford Nanopore deploys the following strategies:

- **Innovation:** An interdisciplinary R&D team that pushes the boundaries of sensing technology to create products with both novel properties and high performance, designed to reshape markets;
- **Product design:** Beyond the core technology platform, device form factors are designed to offer new properties, for example portability and the ability to ship anywhere by post;
- **Continuous development:** R&D teams focus on improving all the elements of on-market products and have delivered orders-of-magnitude performance improvements;
- **Commercial:** Overall commercial strategy lowers barriers to entry. Strong digital infrastructure means that a community of users can be supported efficiently and support each other. In-field sales teams can focus on complex users and regional dynamics; and
- **Operational:** Oxford Nanopore has invested in expansion of production capacity and commercial operations.

OXFORD NANOPORE TECHNOLOGIES LIMITED

STRATEGIC REPORT (CONTINUED)

Review of 2019

Summary table of Financial results

Year ended 31 December	2015	2016	2017	2018	2019
Revenue GBP (£m)	£0.7	£4.5	£13.8	£32.5	£52.1
Revenue GBP growth (%)		543%	207%	136%	60%
Loss after tax GBP (£m)	£38.5	£59.1	£56.5	£53.1	£72.2
Net fund raising	£70.4	£100.1	£0.2	£98.8	£0.2
Cash and cash equivalents at period end	£52.6	£64.1	£57.8	£35.3	£13.1
Average headcount	243	288	343	405	466

Financial highlights of 2019:

- Group Revenue has increased by 60% to £52.1m (2018: 136% to £32.5m), as sales volumes for devices and flow cells continue to increase significantly.
- Loss after tax increased by £19.1m to £72.2m (2018: loss of £53.1m), with operating expenditure increasing by 35%, primarily to support the investment in commercial/operational growth and opening of a new high tech manufacturing facility, as the company transition from predominantly R&D business to an international, commercial business.
- Cash and cash equivalents at the year-end were £13.1m (2018: £35.3m).
- Net fund raising is defined as Proceeds from issue of shares less cost of share issue (as shown in note 36). On 31 December 2019, Oxford Nanopore raised £29.3m (\$38.6m) in new funding via a private placement of ordinary shares in the Group in new capital (note 23) and additionally facilitated the sale of £80.2m (\$105.9m) in secondary shares. The £29.3m cash raised was received in Q1 2020 and was shown in debtors at the year-end (note 18).
- Oxford Nanopore continues to invest in Research and Development. In 2019, £11.8m of development costs have been capitalised (2018: £6.6m) – see note 13.
- A new manufacturing facility was opened in the year, with the Company investing approximately £10m on the facility (notes 14 and 15).
- Headcount increased by 15% to 466 (2018: 405), as the Group continued to expand, in particular with the global Sales & Marketing team.

In 2020, Oxford Nanopore has closed funding of:

- £48.4m (\$59.2m) in May 2020 to expand global commercial activities. This includes the growth of the commercial team, which already serves more than 80 countries, and the support of the Group's R&D to expand its suite of nanopore analysis devices; and
- a further £84.4m (\$107.5m) in September 2020, to fund the scale up plan for the Company's new LamPore technology for COVID-19 (note 33).

Operational Highlights of 2019:

- **Scale-up:** In July 2019, the Group opened a new manufacturing facility at Harwell, Oxford, UK. This 34,500 sq. ft. facility is designed to provide high-throughput, high-tech manufacturing with increased automation and will have the capability to support the increasing demand for nanopore products in the short to medium term.
- **Ongoing performance improvement – data yields:** A number of releases, including new cDNA sequencing kits, a new wash kit, and new releases of the MinKNOW software, enabled us to further increase the yield of sequence data produced from a single flow cell. As the pricing of flow cells has remained constant, these updates equate to a substantial reduction in per-Gb data costs to our customers.
- **Ongoing performance improvement – accuracy:** During 2019, a number of releases contributed to increases in sequencing accuracy, including raw accuracy, consensus, variant calling and test accuracy. These improvements support customer adoption. More information can be found at <https://nanoporetech.com/accuracy>
- **Market expansion - smaller experiments/tests:** Flongle is our smallest and lowest entry cost sequencing flow cell and was launched in March 2019. This sequencing adapter for MinION and GridION enables Oxford Nanopore to expand into markets where users require a rapid answer and

OXFORD NANOPORE TECHNOLOGIES LIMITED

STRATEGIC REPORT (CONTINUED)

on-demand sequencing. Studies have demonstrated the utility of Flongle for rapid identification of genomic variants in cancer samples and real-time pathogen detection.

- **Improving mid-range offering:** Launched in July 2019, the GridION Mk1 provides a significant boost in performance over the original GridION X5, enabling basecalling and, importantly, on board data analysis in real-time. GridION devices allow the use of 1-5 MinION or Flongle Flow Cells, ideal for high-throughput labs. In December 2019, we announced that we will be pursuing a development path for a 'Q line' GridION, for use in regulated markets; this was rolled out in Q2 2020.
- **Market expansion - high-throughput:** In January 2019, the new PromethION P24 and P48 platforms were launched, offering the ability to run up to 24 or 48 flow cells concurrently. Oxford Nanopore has generated 7Tb of sequence data on the PromethION P48. The P24 and P48 will be key for market expansion into ultra-high throughput sequencing, including population genomics.
- **Increased breadth of applications:** a number of kit releases were achieved in 2019 including:
 - **Field sequencing kit** – eliminating the requirement for cold-storage and supporting nanopore sequencing in remote and resource-limited environments, this makes the nanopore sequencing system even more accessible;
 - **Flow cell wash kit** – increase the number of nanopores available for sequencing. This step can at least double the output of a flow cell, delivering more data and further reducing sequencing costs;
 - **Updated cDNA sequencing kits** – combining lower sample input requirements with increased yields of full-length cDNA;
 - **Sample multiplexing kits** – generate more data from a single flow cell while reducing costs per sample; and
 - **Automation compatible kits** – larger, easy to automate kit formats as researchers scale up to population-scale studies on GridION and PromethION.

Commercial Progress in 2019:

- In 2019, Oxford Nanopore increased its sales team, to reflect the increasing commercial presence across global markets that include Asia Pacific/China, the US and Europe. We also work with distributors in certain territories either to enhance our own presence or as an alternative to having local operations; we now work with distributors in China, Japan, Russia, Turkey, India, the Gulf, South Korea, and in early 2020 started working with a new distributor to supply multiple countries across Africa.
- During 2019, more than 330 publications (2.5-fold increase year on year) described the use of nanopore sequencing in a range of application areas, and by October 2020 this had exceeded 1,200 publications in total. Publications and applications in 2019 included:
 - **Human genetics:** throughout 2019, the gaps in the **human genome** were steadily disappearing as researchers demonstrated how long nanopore sequencing reads can accurately characterise previously hidden genomic variation, inaccessible to other technologies². Full-length telomere-to-telomere assemblies for the human X chromosome³ and chromosome 8 were also presented. From these initial single genome studies, researchers are now scaling up their work using the high-throughput GridION and PromethION platforms to study human genomic variation at the population level. In April, PromethION delivered >7 Tb in a single sequencing run – equivalent to 144 human genomes at 15x coverage. Researchers at UC Santa Cruz, USA, sequenced and assembled 11 human genomes in just nine days, announcing '*in terms of contemporary long-read sequencing platforms, this throughput is unmatched*'⁴. In November, Amgen's deCODE genetics published initial data from the sequencing of 1,817 Icelanders, discovering over 23,000 structural variants per individual – up to 3-fold more than possible using other technologies⁵.

² <https://nanoporetech.com/resource-centre/systematic-analysis-dark-and-camouflaged-genes-reveals-disease-relevant-genes>

³ <https://nanoporetech.com/resource-centre/telomere-telomere-assembly-complete-human-x-chromosome-0>

⁴ <https://nanoporetech.com/resource-centre/efficient-de-novo-assembly-eleven-human-genomes-using-promethion-sequencing-and>

⁵ <https://nanoporetech.com/resource-centre/long-read-sequencing-1817-icelanders-provides-insight-role-structural-variants>

OXFORD NANOPORE TECHNOLOGIES LIMITED

STRATEGIC REPORT (CONTINUED)

- **Pathogen translational research:** making use of real-time analysis for rapid insights and portable formats for easy access and decentralised usage, researchers analysed a range of **infectious diseases** and **pathogens**, including lower respiratory infections (LRI)⁶, bacterial meningitis, and multi-drug resistant bacteria.
- **Healthcare in regulated environments:** nanopore technology is moving closer to the clinic, and 2019 saw the first diagnostic accreditations by nanopore users, including the detection of infectious disease⁷ (University of Bern, Switzerland) and Huntingdon's disease⁸ (Viapath and Guy's and St Thomas' Hospital, UK). The first Flongle publications demonstrated its potential utility for comprehensive targeted analysis of cancer samples⁹ and the characterisation of enterovirus infections¹⁰. Other **clinical research** included, the rapid identification of chronic lymphocytic leukaemia (CLL), tissue typing, and IVF screening.
- **Outbreaks and COVID-19:** Oxford Nanopore's technology continued to make decisive contributions to outbreak surveillance throughout the world. At the very end of 2019, the Company's technology started to contribute to the management of the COVID-19 epidemic. Notably, the first publications detailing the initial outbreak in Wuhan, China, utilised nanopore technology^{11,12} and since then, scientists and public health professionals all over the world have been using the MinION and GridION to sequence the SARS-CoV-2 genome (that causes COVID-19), sharing these data rapidly to support authorities' and public health professionals' understanding of the transmission of the disease. More complete information about COVID-19 can be found at www.nanoporetech.com/covid19. Real-time outbreak analysis was also demonstrated for African swine fever virus, Lassa fever, mumps virus, and influenza virus.
- **Plant genomes** are large and complex and well suited to high-throughput, long read sequencing by nanopore technology. In 2019, the massive genomes of the giant sequoia and coast redwood, two of the largest organisms on the planet, were sequenced with nanopore technology¹³. The redwood genome is >8 times larger than that of humans, emphasising the scale of this achievement. Nanopore technology was also used in a range of other analyses of plants and their pathogens, including identification of unanticipated genomic changes in genetically modified plants¹⁴.
- Delivering full-length RNA reads, nanopore sequencing provided new insights into gene expression. **Direct RNA** sequencing, which uniquely retains base modification information, enabled comprehensive analysis of the human transcriptome, with 53% of transcripts being previously undiscovered¹⁵. Full-length cDNA sequencing of single cells delivered precise insights into cell development and function¹⁶.

⁶ <https://nanoporetech.com/ogradypublication>

⁷ https://www.uniaktuell.unibe.ch/2019/first-accredited-laboratory-worldwide-to-offer-nanopore-sequencing-of-bacteria/index_eng.html

⁸ <https://www.guysandstthomas.nhs.uk/news-and-events/2019-news/may/New-technology-could-speed-up-diagnosis-for-Huntingtons-disease.aspx>

⁹ <https://nanoporetech.com/resource-centre/targeted-nanopore-sequencing-cas9-guided-adaptor-ligation>

¹⁰ <https://www.mdpi.com/2073-4425/10/9/659>

¹¹ <https://www.nejm.org/doi/full/10.1056/NEJMoa2001017>

¹² [https://www.thelancet.com/journals/lancet/article/PIIS0140-6736\(20\)30154-9/fulltext](https://www.thelancet.com/journals/lancet/article/PIIS0140-6736(20)30154-9/fulltext)

¹³ <https://nanoporetech.com/resource-centre/sequencing-and-assembling-mega-genomes-mega-trees-giant-sequoia-and-coast-redwood-0>

¹⁴ <https://nanoporetech.com/resource-centre/complex-architecture-and-epigenomic-impact-plant-t-dna-insertions>

¹⁵ <https://nanoporetech.com/resource-centre/nanopore-native-rna-sequencing-human-polya-transcriptome>

¹⁶ <https://nanoporetech.com/resource-centre/high-throughput-error-corrected-nanopore-single-cell-transcriptome-sequencing>

OXFORD NANOPORE TECHNOLOGIES LIMITED

STRATEGIC REPORT (CONTINUED)

Key performance indicators

Year ended 31 December	2017	2018	2019
Revenue USD (\$m) based on an average rate of \$1.30 to £1.00	\$17.9	\$42.3	\$67.7
Revenue USD growth	202%	136%	60%
Gross Margin (%)	48.8%	49.2%	49.2%
EBITDA (£m)	£(64.1)	£(56.4)	£(66.0)
Cash (£m)	£57.8	£35.3	£13.1
DSO (Days Sales Outstanding)	118.2	118.7	99.0
Number of Employees (FTE)	343	405	466
Staff attrition rate (%)	5.5%	6.2%	5.4%

- Revenue growth:** Management monitors revenues in US Dollars, as this is the principal currency used in pricing the products. Management is targeting significant year on year growth in revenue.
- Gross margin percentage*:** Management is looking to achieve improvements in the Group's gross margin percentage as:
 - products move from Beta products to Production ready products and production yields improve; and
 - the product mix changes with an increase in flow cells sales to device sales.
- EBITDA*:** EBITDA is calculated by adding back the cost of depreciation and amortisation to the Loss from operations shown in the Consolidated Income Statement. The Group is looking to reduce losses year on year with the short-term target to reach break-even point.
- Cash:** Monitoring the levels of cash held is key, as we aim to maximise the use of funds received from investors.
- Day Sales Outstanding (DSO)*:** The DSO has reduced over the last three years and we are targeting to reduce the DSO year on year.
- Number of employees:** Management keeps a close control over staff numbers and ensures they are in line with the Budget. Staff numbers increased significantly in 2019 as the Group continued to expand, in particular with the global Sales & Marketing team.
- Staff attrition rates*:** The Group has targeted an Attrition rate of less than 10%. Staff retention is a key mission of the Group.

*a reconciliation of these numbers is provided in note 36.

Principal risks and uncertainties

The principal risks and uncertainties facing the Group relate to whether the Group will be successful in fully developing its technology and whether the technology will be commercially successful.

Risk and/or uncertainty	Mitigation
Impact of COVID-19: Financial markets have become more uncertain and the operational capacity of many of our laboratory-based customers has been interrupted by social distancing measures during COVID-19.	<p>During 2020, Oxford Nanopore's sequencing technology has been used extensively and internationally for epidemiology and scientific research in the COVID pandemic, and in addition the Company has developed a novel COVID test, LamPORE.</p> <p>Working intensively with our suppliers has ensured a smooth supply into our production processes, and in onward distribution to our customers thereafter, where we have been given priority passage due to the nature of our goods.</p> <p>We have managed the employee base carefully to protect the health of our staff, enabling expected working from home procedures for a large proportion of our staff, and deploying stringent safety procedures for staff involved in developing rapid scientific solutions for COVID-19.</p>
Financial: the Group continues to invest in the expansion of the business, both pushing innovation and building commercial infrastructure. As such, it is loss-making at present and requires continued financial resources to increase its commercial and operational activities in order to achieve profitability.	<p>The Group manages its cash resources carefully and ensures that additional cash is raised on a timely basis.</p> <p>On 2 January 2020, the Group announced that it had raised £29.3m (\$38.6m) on 31 December 2019.</p>

OXFORD NANOPORE TECHNOLOGIES LIMITED

STRATEGIC REPORT (CONTINUED)

<u>Risk and/or uncertainty</u>	<u>Mitigation</u>
	<p>The Group achieved two further fund raising in 2020:</p> <ul style="list-style-type: none"> • in May 2020 - £48.4m (\$59.2m); and • in September 2020 - £84.4m (\$107.5m). <p>This new capital is to fund commercial expansion and continued development of new innovative products.</p> <p>The Directors believe that the current financial resources are sufficient to fund operations for the foreseeable future.</p>
Technological: the Group must further expand and improve its technology offering to the market, in order to drive further expansion of the market and to further penetrate existing ones.	<p>The Company has a strong history of technology improvement and evolution, and plans to continue to innovate, as one factor of driving growth.</p> <p>The Group sets ambitious targets for its technology development and aims to recruit and develop the best employees to fulfil these targets.</p> <p>Technological advances are substantial and described in the Strategic Report.</p> <p>The continued culture of innovation is core to the success of the Group.</p> <p>The Group's strategy is to engage early with users of the technology to ensure that the technology is closest to what is needed by customers and to accelerate the debugging and adoption of technology iterations.</p>
Commercial: in order to continue to increase its revenues and the number of customers, the Group must continue to expand its direct or indirect commercial presence and to deploy efficient commercial strategies to reach its target customers.	<p>The Group is currently investing in increased commercial resources across more markets and territories, as well as spending more time developing applied solutions and putting in place more long-term relationships with larger customers, in different application areas. The Group will increasingly explore partnership options to increase market access.</p>
Intellectual property: as the Group continues to expand its R&D and commercial activities, it must continue to develop and protect its patent portfolio in order to protect its intellectual property.	<p>The Group treats intellectual property as a priority for the business. As well as expanding its collaborations with a number of leading academic institutions, the Group has invested considerable resources in protecting its current IP portfolio from litigation and lawsuits (see note 34).</p>
Expansion of manufacturing activity: as the Group expands usage of its current products, as well as increasing its range and volume of products, it will require additional manufacturing capacity to meet this demand.	<p>The Group has built a new 35,000 square foot manufacturing plant in Oxfordshire, which came online in 2019.</p> <p>As with all high tech, complex manufacturing, the Group is precise about the nature of this manufacturing expansion. The nature and processes adopted by the Group will continue to evolve over time.</p>
Reliance on suppliers: due to the complexity and diversity of its products, the Group works with a number of key suppliers across a broad range of items.	<p>The Group is working towards mitigating these risks with alternative sources of supply, together with a culture of continuous improvement across all products.</p>
Retention of and reliance on key employees: The Group has been developing its technologies since 2005 and aims to recruit the best possible employees across a range of disciplines that can be highly specialised.	<p>The Group strives to provide a stable and motivating environment for all employees, with excellent employment packages designed to attract and retain key employees across all parts of the Group.</p>
Regulation: The Group operates in a number of countries and sectors, some of which are highly regulated.	<p>The Group's products are currently sold into the life science research tools market. Oxford Nanopore's customers may pursue the development of laboratory-developed tests to offer from their own laboratories, with the required regulatory approvals for their markets.</p> <p>However, Oxford Nanopore has developed LamPORE, an assay for the detection of SARS-CoV-2, which will be commercially available in Q4 2020. This is the first product that the Company has submitted for regulatory approval for use as an in vitro diagnostic. CE-IVD Marking was achieved in October 2020.</p> <p>In 2019, the new MinION Building manufacturing facility was added to the ISO 9001 and ISO 27001 certificates, and the Company successfully recertified for ISO 27001.</p>

OXFORD NANOPORE TECHNOLOGIES LIMITED

STRATEGIC REPORT (CONTINUED)

<i>Risk and/or uncertainty</i>	<i>Mitigation</i>
Competitors: Many of the Group's competitors are considerably larger than the Group and have considerably more commercial and financial resources, as well as lobbying power.	The Group continues to monitor the activities of the competitors, and to present the advantages of our technology over incumbent technology. The Group aims to stay ahead by producing novel products that offer new properties and will compete on more traditional performance metrics, ambitious innovation and maintaining a close and authentic relationship with its customer community.
Cyber Security risks: including loss of data and website inaccessibility.	The Group continues to invest heavily in operating and protecting its technological assets, awareness training for employees and regular testing for vulnerabilities.
UK exit from European Union ("Brexit"): The impact of the UK's decision to leave the EU is not yet clear and could significantly affect the fiscal, monetary and regulatory landscape in the UK.	The Group has made contingency plans for a number of eventualities as a result of current negotiations which aim to reduce the impact on the business as far as possible. However, due to the uncertainty surrounding this issue, it is difficult to fully understand the impact it will eventually have on the business.
Climate changes and governmental actions to reduce such changes may disrupt our operations and/or reduce consumer demand for our products.	The Group monitors governmental developments around actions to combat climate change and acts to minimise the impact on our operations.

The Group's processes to manage their principal financial risks are outlined in note 31.

Future developments

The Directors expect the general level of activity to increase compared to 2019 in the forthcoming year.

Pipeline: innovation for future markets

To progress closer to the goal of enabling any person to use our technology to analyse any living thing, in any environment, we need to make the entire process of sample-to-result quick, easy and effective. To achieve this, not all of the Group's innovation is focused on sequencing. The steps of DNA extraction from the sample, preparation of that sample for sequencing and subsequent data analysis are also key parts of our R&D programme. We believe that investment in these areas is critical to open up new broad markets for potentially substantial long-term investor return.

The Company continues to invest in the development/improvement of:

- VolTRAX, our innovative, programmable, automated, rapid preparation device, that is powered by USB; and
- Ubik: This R&D project is focused on producing a very low-cost consumable device that does not rely on a power supply. The device will be designed to perform sample extraction from liquid media and prepare that sample for nanopore sequencing. Such a device could, we believe, open up true anyone/anywhere analyses, particularly for rural and remote settings. Development continues on this technology, which will also support further decentralisation of sequencing applications, for example with the pipeline device SmidgION.

Data analysis - EPI2ME: many current nanopore customers are 'wet lab' scientists who would normally collaborate with bioinformaticians in order to interpret their results. Oxford Nanopore aims to provide analytical workflows that open up sequencing to scientists with little bioinformatics resource or skills. The EPI2ME platform has been developed in order to enable real-time analysis of nanopore data. In 2019, a new workflow was introduced, enabling customers to rapidly detect structural variants in human genome sequence. Existing workflows include real-time microbial species identification, antimicrobial resistance profiling, and custom reference alignment. In early 2020, EPI2ME Labs was released, a bioinformatics solution to give more control and capabilities to researchers.

Sequencing - MinION Mk1C: combining the power and portability of MinION with fully integrated compute, a high-resolution touch screen, and comprehensive connectivity, the MinION Mk1C offers a complete, go-anywhere solution for DNA and RNA sequencing. The device entered early access in 2019 and has been commercially released in 2020.

Sequencing - SmidgION: Oxford Nanopore is currently developing SmidgION, a DNA/RNA sequencer, based on the same nanopore technology in current devices, that will work when connected to a smartphone.

OXFORD NANOPORE TECHNOLOGIES LIMITED

STRATEGIC REPORT (CONTINUED)

The Group is currently developing bespoke electronics to enable SmidgION, including a new, low power ASIC. Example uses could potentially include: analysis of blood/sputum/saliva at home or at the point of care; industrial testing in food, environment, or industrial settings; citizen science; diagnostics for pets and veterinary uses as well as for humans.

LamPORE: In May 2020, Oxford Nanopore announced that the Company is in advanced development of a new assay, LamPORE, for the detection of SARS-CoV-2, the virus that causes COVID-19. The assay is also in development for a range of respiratory viruses including influenza A and B.

This is the first product that the Company has submitted for regulatory approval for use as an in vitro diagnostic. CE-IVD Marking was achieved in October 2020. LamPORE represents a major inflexion point for the Company; it has the potential to be the first large-scale applied market use of nanopore sequencing technology and has accelerated the Company's progression into regulated markets.

More information and updates can be found at <https://nanoporetech.com/covid-19/lampore>

Going concern

In 2020, subsequent to the year-end Oxford Nanopore has:

- received £29.3m in Quarter 1 2020, relating to the private placement of ordinary shares in the Group on 31 December 2019.
- received £48.4m (\$59.2m) in May 2020 to expand global commercial activities. This includes the growth of the commercial team, which already serves more than 80 countries, and the support of the Group's R&D to expand its suite of nanopore analysis devices; and
- a further £84.4m (\$107.5m) was closed in September 2020, to fund the scaleup plan for the Company's new LamPORE technology for COVID-19 (note 33).

In addition, there has been a large increase in revenue growth in 2020 to date, and the value of contracts in hand indicates further growth in revenue to be received over the course of the next 18 months.

As part of the directors' consideration of the appropriateness of adopting the going concern basis in preparing the financial statements, a range of severe scenarios have been reviewed, including the potential impact of Covid-19 restrictions and regulations. In particular, the effect on our customers budgets and resources, along with our proposed responses over the course of the next 18 months.

The directors have sensitised the revenue, profit and cash flow impact of reduced trading activity based on the following assumptions:

- continuing the Company's rapid scale up of production;
- maintaining revenues at the current level; and
- the impact of reduced availability of raw materials, pushing out revenues to later in the period under review.

The cash flows are most sensitive to the impact of reduced research activity in our customer base due to Covid-19.

The key judgements under these scenarios, involve mitigating actions within management control and do not impact the ability to meet demand. These actions include reduced headcount expansion and redeployment of existing resources into other parts of the business.

We have assumed no significant structural changes to the business will be needed in any of the scenarios modelled.

As at 31 December 2019, the consolidated balance sheet reflects a net asset position of £109.5m, with cash reserves of £13.2m.

OXFORD NANOPORE TECHNOLOGIES LIMITED

STRATEGIC REPORT (CONTINUED)

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 these financial statements.

Overall revenues to date are in line with expectations, as the Company made a significant contribution to the fight against COVID-19, supporting international epidemiology and research.

Section 172(1) Statement

Board Engagement with Stakeholders

The Board is committed to enhancing engagement with all our stakeholders. In addition to the methods of engagement described over the following pages, the interests of our stakeholder groups are considered by the Board through a combination of:

- Regular reports and presentations at scheduled Board and Committee meetings, including operational reports presented by the Chief Executive and updates from senior management on health and safety, general governance matters, HR and investor feedback.
- A rolling agenda of matters to be considered by the Board and Committees throughout the year, including a strategy review which considers the purpose of the Company and strategy to be followed by the Group, which is supported by a budget for the following year and a medium-term financial plan.
- Formal consideration of R&D projects, large contracts and other matters, including any factors which are relevant to major decisions taken by the Board through the year in line with the regularly reviewed Delegation of Authority and Terms of Reference for each Board Committee.
- The risk management process and other routine Audit Committee and Remuneration Committee agenda items.

The Directors fulfil their duties partly through a governance framework that delegates day-to-day decision-making to the Executive Directors. The Board recognises that such delegation needs to be much more than simple financial authorities.

Oxford Nanopore's technology is being used by scientists around the world to make a positive impact on society, and we have designed our technology and our operations to make our technology accessible for those who need it, whether in developed markets or more resource limited settings. Our broader approach to sustainability includes contributing to a circular economy by recycling of our consumables, a longer-range plan on sustainability of our supply chain and premises, and our approach to good business practice. For more information, visit: <https://nanoporetech.com/sustainability>.

The following disclosure describes how the Board has had regard to the matters set out in section 172(1) (a) to (f), and forms the Directors' statement required under section 414CZA of the Companies Act 2006.

OXFORD NANOPORE TECHNOLOGIES LIMITED

STRATEGIC REPORT (CONTINUED)

Stakeholder group	How the Board engages with stakeholders	Key topics of engagement	How stakeholder interest influence Board discussions and principal decisions
Our Owners			
<p>Shareholders, including our own employees. Engagement with and an aligned vision with our shareholders is key to our success. We aim to be transparent about our vision and roadmap for reaching our goals.</p> <p>Stakeholder concerns Our owners are concerned with a broad range of issues, including operational and financial performance, product development, the execution and delivery of our strategy, the sustainability of our business, and the impact Oxford Nanopore has on the communities we serve and the environment in which we operate.</p> <p>Our performance developments are comprehensively assessed in this Annual Report, including the Key Performance Indicators section and the broader discussion and analysis in the Strategic Report, Directors' Report and Financial Statements.</p>	<ul style="list-style-type: none"> • Owners of the business receive regular updates in addition to trading updates on a twice-yearly call and annual full-year results reports. • Regular (bi-annual) online shareholder updates (March cancelled due to COVID, October scheduled) provide an update of the business progress and roadmap. • We issue regular updates at our website and on social media, where stakeholders can follow progress of the business and our users. This includes the fortnightly 'digest' email. 	<ul style="list-style-type: none"> • Oxford Nanopore's progress, from a technology, operational, commercial and financial perspective. • Technology and disruption roadmap. • Developments in our customer markets and the competitive landscape. • Capital allocation considerations. • Implementation of the Remuneration Policy. 	<ul style="list-style-type: none"> • Shareholders' opinions were, and continue to be, taken into consideration when developing and reviewing the Company's strategy and performance, Directors' remuneration policy, and our capital structure and dividend policy.

Stakeholder group	How the Board engages with stakeholders	Key topics of engagement	How stakeholder interest influence Board discussions and principal decisions
Our People			
<p>Our people share in the vision of the Company, we work together to achieve our goal with everyone contributing to our successes. Open communication aligns employees with our culture and core values, ensuring we are all working towards our shared vision. We regularly communicate with our employees on goals, progress, challenges and opportunities for the business.</p> <p>Stakeholder engagement – engaging with our People</p> <p>We engage with our people regularly, using formal and informal communication routes. These include regular all-employee meetings, and employee intranet, customer news bulletins, Customer talks to employees, waterfall communications that include core business operational meetings, local team meetings, one to ones, complemented by social events to ensure team bonding and effectiveness.</p>	<ul style="list-style-type: none"> • Our Board has a wealth of experience, gathered across many industries, which helps support and shape our Company as we continue to develop. The Board meets regularly and receives detailed reports on our people, which include KPI's around headcount, attrition and diversity. • The Board is invested in the success of our employees and in retaining key talent within the organisation. 	<ul style="list-style-type: none"> • We communicate regularly with our employees, giving updates on technological and commercial goals and sharing stories around the positive impact our technology is having globally. Celebrating our successes together motivates our people and strengthens alignment with our vision, culture and core values. • More broadly, we focus on key topic areas which are important to our employees which include training and development, diversity and inclusion and reward / benefit structures. 	<ul style="list-style-type: none"> • Discussions at the Board have been better informed due to the deeper understanding of the work undertaken by our employees. • The ability to recruit and retain the right people, as well as motivating the teams towards a common goal, is a priority for the Board in its decision making.

OXFORD NANOPORE TECHNOLOGIES LIMITED

STRATEGIC REPORT (CONTINUED)

Stakeholder group	How the Board engages with stakeholders	Key topics of engagement	How stakeholder interest influence Board discussions and principal decisions
Our Customers			
<p>Oxford Nanopore considers itself part of a broader scientific community of users of our technology. We collaborate deeply with our customers, as well as supporting them from a technical and customer services perspective.</p> <p>Our business is built on our ability to retain existing and win new customers. As such, understanding, engaging with and responding to customer needs is a critical priority. We have several mechanisms for gathering feedback so that we can use that to improve our products and services.</p> <p>Stakeholder views</p> <p>Our customers seek to procure from us innovative sequencing technology that can enable the science they are doing, or wish to do, on a newer type of sequencing platform.</p> <p>This requires us to have both deep understanding of their scientific needs, as well as understanding how to deliver this to them.</p>	<ul style="list-style-type: none"> • The Chief Executive and senior leadership regularly meets with customers to understand their views and needs. • Our regular board reports give updates and feedback on our markets, customers, and operational performance to the Board at every meeting. • Our regular Strategy Planning processes are bottom-up exercises including every part of the business, taking into account both existing and future customer needs and trends over the next 5 years. 	<ul style="list-style-type: none"> • Technology vision and progress, and how this relates to the market opportunities. • Customer and Oxford Nanopore strategy and operational performance. • Market development: the range of applications that our customers are performing using our technology, and how we are supporting new application development through our technology pathway. • The overall performance of the sector, in relation to Oxford Nanopore's disruptive approach to the market. 	<ul style="list-style-type: none"> • Following customer engagement and insight gathered from ongoing market intelligence and customer relationships, the Board reviews and provides input on our strategy, as well as resource allocation, and prioritisation across our markets and customers in 2019-20. • The Board continued to drive the Executive Directors to deliver disruptive, high performing technology into existing markets and to create new markets, and utilising good business practice with all stakeholders.

Stakeholder group	How the Board engages with stakeholders	Key topics of engagement	How stakeholder interest influence Board discussions and principal decisions
Our Suppliers			
<p>Oxford Nanopore has a complex and robust supply chain, where our suppliers contribute to our innovative processes by developing their own products and services according to our own goals.</p> <p>We aim to build honest, respectful and transparent relationships with suppliers who follow regulatory compliance and share our commitment to high standards through the supply chain.</p> <p>Stakeholder concerns</p> <p>Our suppliers are concerned with the ease of doing business with Oxford Nanopore, responsible business practices, conduct and ethics, driving innovation, building long-term relationships, fair business terms, and receiving prompt payment.</p>	<ul style="list-style-type: none"> • Regular reporting from Executive team on key matters concerning suppliers, including key procurement review. • Regular reports from the VP Finance, including top 10 suppliers and creditor payable days. 	<ul style="list-style-type: none"> • Due diligence processes. • Supplier relationships. • Supply chain management. • Fair payment practices. 	<ul style="list-style-type: none"> • The management of suppliers is discussed at the Executive team meetings. • Key risks in relation to the supply chain were considered when approving the approach to due diligence of suppliers. • Feedback on the performance of key financial suppliers was considered periodically during the year.

OXFORD NANOPORE TECHNOLOGIES LIMITED

STRATEGIC REPORT (CONTINUED)

Stakeholder group	How the Board engages with stakeholders	Key topics of engagement	How stakeholder interest influence Board discussions and principal decisions
Our Communities and Environment			
<p>Our communities comprise those living and working in close geographic proximity to our operations, those with whom we do business, and more broadly the broad members of society whose lives we aim to positively impact with our technology.</p> <p>Our products and operations are designed to enable access to sequencing technology for the public good, whether this is in rapid pathogen analysis in outbreak situations, in human genetics or in crop science, in developed countries or those with lower incomes.</p> <p>We are also committed to limiting the impact of our operations on the environment through more sustainable business practices for our customers and stakeholders, including our communities.</p> <p>Stakeholder concerns Our communities are primarily concerned with the impact of our technology in multiple areas, and that our business practices are good and reflect our global desire to make a positive impact.</p>	<ul style="list-style-type: none"> • Regular operational reports from the Chief Executive on the impact of our customers work, in areas across science and society. • Reports concerning operational matters from senior management on good business practices. 	<ul style="list-style-type: none"> • Ensuring that our vision of accessible sequencing technology for the good of society is adhered to, and supported by general good business practices. • As our technology has developed further, engagement on problem solving where genomics may be a solution is at increasingly strategic levels, for example with governments and senior corporate leadership. 	<ul style="list-style-type: none"> • Understanding of the impact of Oxford Nanopore's sequencing technology on specific communities informs the Board's decision-making and support of the Company's operations.

Approved by the Board and signed on its behalf by:



G Sanghera, Director

9 October 2020

OXFORD NANOPORE TECHNOLOGIES LIMITED

DIRECTORS' REPORT

OXFORD NANOPORE TECHNOLOGIES LIMITED DIRECTORS' REPORT

The Directors present their annual report on the affairs of the Group together with the financial statements and auditor's report for the year ended 31 December 2019.

Future developments

Details of future developments can be found in the Strategic Report, on pages 11 and 12, form part of this report by cross-reference.

Events after the balance sheet date

Trading

The COVID-19 pandemic represents a challenge, unprecedented in modern times. Some of our customers were less active during the first half of 2020, as their businesses were either closed or showed a reduced level of activity. However overall, the Company's revenues were in line with expectations, as the Company made a significant contribution to the fight against COVID-19 in 2020, supporting international epidemiology and research.

Furthermore, the Company has also developed a novel COVID-19 test, LamPORE, which will be commercially available in Q4 2020.

The directors believe that there has been no material impact on these financial statements due to the impact of COVID-19 in 2020, key reasons include:

- The Company has not experienced a higher than normal default rate from customers;
- The carrying value of leases has not been affected; and
- The carrying value of the right-of-use assets has not been affected.

Funding

Oxford Nanopore has received £144m of funding in 2020 to date:

- In Quarter 1 2020, the Group received in cash the £29.3m (\$38.6m) from the new funding via a private placement of ordinary shares in the Group recorded in December 2019, this was shown in debtors at the year-end;
- in May 2020, £48.4m (\$59.2m) was received; and
- across September and October 2020 a further £66.5m (\$84.7m) was received.

Research and development

During 2019 the Company continued to invest in developing its products as well as developing new products as set out on page 11 of the Strategic Report.

Financial risk management objectives and policies

The Group's activities expose it to a number of financial risks including credit risk, cash flow risk and liquidity risk. The use of financial derivatives is governed by the Group's policies approved by the board of directors, which provide written principles on the use of financial derivatives to manage these risks. The Group does not use derivative financial instruments for speculative purposes.

Cash flow risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. The Group uses foreign exchange forward contracts to hedge these exposures.

Interest bearing assets and liabilities are held at fixed rates to ensure certainty of cash flows.

OXFORD NANOPORE TECHNOLOGIES LIMITED

DIRECTORS' REPORT (CONTINUED)

Credit risk

The Group's principal financial assets are bank balances and cash, trade and other receivables, and investments.

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

Liquidity risk

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the company uses a mixture of long-term and short-term debt finance.

Further details regarding liquidity risk can be found in the Statement of accounting policies in the financial statements.

Dividends

The directors do not recommend the payment of a dividend (2018: £nil).

Directors

The directors of the Company during the period, and up to the date of signing the financial statements were as follows:

P V Allen (Chairman)
A J Aubrey
S L Gordon-Wild
J E O'Higgins (appointed 19 September 2019)
G Harmelin (appointed 17 September 2020)
G S Sanghera
J P Willcocks
T Cowper
C G Brown (appointed 19 September 2019)

Directors' indemnities

The Company has made qualifying third-party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

Political contributions

The Group did not make any contributions to political organisations during the year (2018: £nil).

Disabled employees

Oxford Nanopore is an equal opportunities employer and ensures that applications for employment from people with disabilities and other under-represented groups are always fully considered, bearing in mind the abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

OXFORD NANOPORE TECHNOLOGIES LIMITED

DIRECTORS' REPORT (CONTINUED)

Engagement with employees

The Group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. This is achieved through formal and informal meetings. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests.

The employee share scheme has been running successfully since 2006. It is open to all employees and further details are provided in note 27 to the accounts on page 57.

Engagement with suppliers, customers and others

The directors have had regard to the need to foster the Company's business relationships with suppliers, customers and others, and the effect of that regard on the principal decisions taken by the Company during the financial year. For more details see the section 172(1) statement in the Strategic Report on pages 13 to 16.

Auditor

Each of the persons who is a director at the date of approval of this annual report confirms that:

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

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditor. A resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board and signed on its behalf by:



G Sanghera,
Director
9 October 2020

OXFORD NANOPORE TECHNOLOGIES LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board



Director
G Sanghera



Director
T Cowper

9 October 2020

9 October 2020

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF OXFORD NANOPORE TECHNOLOGIES LIMITED

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements of Oxford Nanopore Technologies Limited (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2019 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated statement of cash flows; and
- the related Notes 1 to 36.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern.

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or parent company's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF OXFORD NANOPORE TECHNOLOGIES LIMITED (CONTINUED)

Other information

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

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

We have nothing to report in respect of these matters.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF OXFORD NANOPORE TECHNOLOGIES LIMITED (CONTINUED)

Report on other legal and regulatory requirements (continued)

In the light of the knowledge and understanding of the group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

Use of our report

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



Andrew Evans, FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Reading, United Kingdom
9 October 2020

OXFORD NANOPORE TECHNOLOGIES LIMITED

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2019

	Notes	2019 £000's	2018 £000's
Revenue	5	52,061	32,521
Cost of Sales		(26,442)	(16,506)
Gross Profit		25,619	16,015
Operating expenses			
Direct research & development expenses		(40,456)	(37,102)
Selling, General & Administrative expenses		(66,052)	(41,639)
Other Operating Income and Expenditure		(4)	(19)
Total operating expenses		(106,512)	(78,760)
Loss from operations		(80,893)	(62,745)
Finance income	10	518	1,143
Finance costs	10	(709)	(423)
Other gains and losses	11	600	-
Loss before tax	6	(80,484)	(62,025)
Tax credit	12	8,268	8,906
Loss for the year after tax		(72,216)	(53,119)

The results of the Group are all derived from continuing operations.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	2019 £000's	2018 £000's
Attributable to: Equity shareholders of the parent.		
Loss for the year	(72,216)	(53,119)
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	(133)	118
Total comprehensive loss	(72,349)	(53,001)

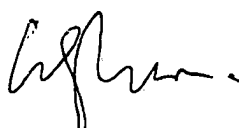
OXFORD NANOPORE TECHNOLOGIES LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION As at 31 December 2019

	Notes	2019 £000's	2018 £000's
Non-current assets			
Intangible assets	13	16,521	6,405
Property, plant and equipment	14	33,788	26,464
Right-of-use assets	15	9,567	-
Deferred tax asset	12	348	-
		<u>60,224</u>	<u>32,869</u>
Current assets			
Inventory	17	20,034	18,603
Trade and other receivables	18	53,306	21,816
R&D tax credit recoverable	12	17,479	8,579
Other financial assets	31	-	58,000
Derivative financial instruments	20	600	-
Cash and cash equivalents	28	13,092	35,321
		<u>104,511</u>	<u>142,319</u>
Total assets		<u>164,735</u>	<u>175,188</u>
Current liabilities			
Trade and other payables	19	(34,719)	(21,790)
Lease liabilities	21	(2,015)	-
		<u>(36,734)</u>	<u>(21,790)</u>
Net current assets		<u>67,777</u>	<u>120,529</u>
Non-current liabilities			
Lease liabilities	21	(7,566)	-
Loan	22	(9,500)	(9,500)
Provisions	22	(1,407)	(1,005)
		<u>(18,473)</u>	<u>(10,505)</u>
Total liabilities		<u>(55,207)</u>	<u>(32,295)</u>
Net assets		<u>109,528</u>	<u>142,893</u>
Equity			
Share capital	23	33	33
Share premium reserve	24	479,332	450,231
Retained earnings	25	(369,564)	(307,231)
Translation reserve	26	(273)	(140)
Total equity		<u>109,528</u>	<u>142,893</u>

The financial statements of Oxford Nanopore Technologies Limited (Registered number 05386273) were approved by the board of directors and authorised for issue on 9 October 2020. They were signed on its behalf by:

G Sanghera



Director

OXFORD NANOPORE TECHNOLOGIES LIMITED

COMPANY STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Note	2019 £000's	2018 £000's
Non-current assets			
Intangible assets	13	16,521	6,405
Property, plant and equipment	14	32,277	25,209
Right-of-use Assets	15	7,868	-
Investments in subsidiary undertakings	16	3,476	25
		<u>60,142</u>	<u>31,639</u>
Current assets			
Inventory	17	19,422	18,105
Trade and other receivables	18	50,200	20,950
R&D tax credit recoverable	12	17,479	8,579
Other financial assets	31	-	58,000
Derivative financial instruments	20	600	-
Cash and cash equivalents	28	10,729	34,368
		<u>98,430</u>	<u>140,002</u>
Total assets		<u>158,572</u>	<u>171,641</u>
Current liabilities			
Trade and other payables	19	(30,422)	(18,837)
Lease liabilities	21	(1,279)	-
		<u>(31,701)</u>	<u>(18,837)</u>
Net current assets		<u>66,729</u>	<u>121,165</u>
Non-current liabilities			
Lease liabilities	21	(6,673)	-
Loan	22	(9,500)	(9,500)
Provisions	22	(1,355)	(1,005)
		<u>(17,528)</u>	<u>(10,505)</u>
Total liabilities		<u>(49,229)</u>	<u>(29,342)</u>
Net assets		<u>109,343</u>	<u>142,299</u>
Equity			
Share capital	23	33	33
Share premium reserve	24	479,332	450,231
Retained earnings	25	(370,022)	(307,965)
Total equity		<u>109,343</u>	<u>142,299</u>

As permitted by section 408 of the Companies Act 2006, the Company's statement of comprehensive income has not been included in these financial statements. The Company's loss for the year was £71.9m (2017: £53.0m).

The financial statements of Oxford Nanopore Technologies Limited (Registered number 05386273) were approved by the board of directors and authorised for issue on 9 October 2020. They were signed on its behalf by:

G Sanghera



Director

OXFORD NANOPORE TECHNOLOGIES LIMITED

STATEMENTS OF CHANGES IN EQUITY for the year ended 31 December 2019

Consolidated

	Share Capital £000's	Share Premium Account £000's	Retained Earnings £000's	Translation Reserve £000's	Total £000's
Balance at 1 January 2018	31	351,409	(257,618)	(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	(307,231)	(140)	142,893
Loss for the year	-	-	(72,216)	-	(72,216)
Exchange loss 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	(369,564)	(273)	109,528

Company

	Share Capital £000's	Share Premium Account £000's	Retained Earnings £000's	Total £000's
Balance at 1 January 2018	31	351,409	(258,409)	93,031
Loss for the year	-	-	(53,042)	(53,042)
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	(307,965)	142,299
Loss for the year	-	-	(71,940)	(71,940)
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	(370,022)	109,343

OXFORD NANOPORE TECHNOLOGIES LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS for the year ended 31 December 2019

	Note	2019 £000's	2018 £000's
Net cash outflow from operating activities	28	<u>(48,679)</u>	<u>(56,078)</u>
Investing activities			
Purchases of property, plant and equipment		(18,462)	(11,184)
Capitalisation of Research & Development costs		(11,829)	(6,619)
Finance costs net of exchange loss		(263)	148
Interest received		814	383
Interest paid on leases		(238)	-
Net cash used in investing activities		<u>(29,978)</u>	<u>(17,272)</u>
Financing activities			
Proceeds from issue of shares		276	100,326
Costs of share issue		(55)	(1,502)
Principal elements of lease payments		(1,708)	-
Amounts transferred from/(to) other financial assets	31	58,000	(48,000)
Net cash from financing activities		<u>56,513</u>	<u>50,824</u>
Net reduction in cash and cash equivalents before foreign exchange movements		<u>(22,144)</u>	<u>(22,526)</u>
Effect of foreign exchange rate changes (loss)/gain		(85)	50
Cash and cash equivalents at beginning of period		<u>35,321</u>	<u>57,797</u>
Cash and cash equivalents at end of period		<u><u>13,092</u></u>	<u><u>35,321</u></u>

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

1. PRESENTATION OF THE FINANCIAL STATEMENTS

General Information

Oxford Nanopore Technologies Limited 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 given on page 3.

The principal activities of the Company and its subsidiaries ('the Group' or 'Oxford Nanopore') and the nature of the Group's operations are set out in the Strategic Report on page 4 and the Directors' Report on page 17.

These financial statements are 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

New and amended IFRS standards adopted by the Group

Impact of initial application of IFRS 16 Leases

This note explains the impact of the adoption of IFRS 16 Leases on the Group's financial statements.

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 in note 3.

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 15.

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) For the year ended 31 December 2019

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

iii) Measurement of lease liabilities

	Group £000's	Company £000's
Operating lease commitments disclosed as at 31 December 2018	3,160	2,552
Discounted using the lessee's incremental borrowing rate of 2.7% at the date of initial application	3,040	2,450
Adjustments as a result of a different treatment of extension and termination options	1,936	605
Lease liability recognised as at 1 January 2019	4,976	3,055
Of which are:		
Current lease liabilities	1,663	1,026
Non-current lease liabilities	3,313	2,029
	4,976	3,055

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	Company £000's
Right-of-use assets (increase)	4,912	2,966
Prepayments (decrease)	(177)	(152)
Accruals (decrease)	241	241
Lease liabilities (increase)	(4,976)	(3,055)
Net impact on retained earnings on 1 January 2019	-	-

v) Lessor accounting

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.

New and revised IFRS standards in issue but not yet effective

At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective, and in some cases had not yet been adopted by the EU:

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>Definition of a business</i>
Amendments to IAS 1 and IAS 8	<i>Definition of material</i>
<i>Conceptual Framework</i>	<i>Amendments to References to the Conceptual Framework in IFRS Standards</i>

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

IFRS 17 Insurance Contracts

IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 *Insurance Contracts*.

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) For the year ended 31 December 2019

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

IFRS 17 outlines a general model, which is modified for insurance contracts with direct participation features, described as the variable fee approach. The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using the premium allocation approach.

The general model uses current assumptions to estimate the amount, timing and uncertainty of future cash flows and it explicitly measures the cost of that uncertainty. It takes into account market interest rates and the impact of policyholders' options and guarantees.

The Standard is effective for annual reporting periods beginning on or after 1 January 2021, with early application permitted. It is applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied. An exposure draft Amendments to IFRS 17 addresses concerns and implementation challenges that were identified after IFRS 17 was published. One of the main changes proposed is the deferral of the date of initial application of IFRS 17 by one year to annual periods beginning on or after 1 January 2022.

For the purpose of the transition requirements, the date of initial application is the start of the annual reporting period in which the entity first applies the Standard, and the transition date is the beginning of the period immediately preceding the date of initial application.

IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the Board; however, earlier application of the amendments is permitted. The directors of the Company anticipate that the application of these amendments may have an impact on the Group's consolidated financial statements in future periods should such transactions arise.

Amendments to IFRS 3 Definition of a business

The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

Additional guidance is provided that helps to determine whether a substantive process has been acquired.

The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets.

The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after 1 January 2020, with early application permitted.

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) For the year ended 31 December 2019

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

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.

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 IASC *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.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs). The financial statements have also been prepared in accordance with IFRS Standards adopted by the European Union and therefore the Group financial statements comply with Article 4 of the EU IAS Regulation.

These financial statements have 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 fair value of 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 these consolidated financial statements 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.

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Going concern

In 2020, subsequent to the year-end Oxford Nanopore has raised:

- £48.4m (\$59.2m) in May 2020 to expand global commercial activities. This includes the growth of the commercial team, which already serves more than 80 countries, and the support of the Group's R&D to expand its suite of nanopore analysis devices; and
- a further £84.4m (\$107.5m) in September 2020, to fund the scaleup plan for the Company's new LamPORE technology for COVID-19 (note 33).

In addition, there has been a large increase in revenue growth in 2020 to date, and the value of contracts in hand indicates further growth in revenue to be received over the course of the next 18 months.

As part of the directors' consideration of the appropriateness of adopting the going concern basis in preparing the financial statements, a range of severe scenarios have been reviewed, including the potential impact of Covid-19 restrictions and regulations. In particular, the effect on our customers budgets and resources, along with our proposed responses over the course of the next 18 months.

The directors have sensitised the revenue, profit and cash flow impact of reduced trading activity based on the following assumptions:

- continuing the Company's rapid scale up of production;
- maintaining revenues at the current level; and
- the impact of reduced availability of raw materials, pushing out revenues to later in the period under review

The cash flows are most sensitive to the impact of reduced research activity in our customer base due to Covid-19.

The key judgements under these scenarios, involve mitigating actions within management control and do not impact the ability to meet demand. These actions include reduced headcount expansion and redeployment of existing resources into other parts of the business.

We have assumed no significant structural changes to the business will be needed in any of the scenarios modelled.

As at 31 December 2019, the consolidated balance sheet reflects a net asset position of £109.5m, with cash reserves of £13.2m. Since the year end, the Company has received approximately £162m from three fund raisings.

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 these financial statements.

Overall, revenues in 2020 were in line with expectations, as the Company made a significant contribution to the fight against COVID-19, supporting international epidemiology and research.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company:

- has the power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affects 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.

When the Company has less than a majority of the voting rights of an investee, it considers that it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, the results of subsidiaries acquired or disposed of during the year are included in profit or loss from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Where necessary, adjustments are made to the financial statements 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.

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.

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 licenses 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 license, recognised over the period to which they relate.

Leased assets

The Group as a lessee

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) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). 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:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- 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:

- 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.
- 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).

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- 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 Group did not make any such adjustments during the periods presented.

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 life 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.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has not used this practical expedient. For contracts that contain a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group as lessor

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 5 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.

Foreign currencies

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purposes of the consolidated financial statements, 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 financial statements.

In preparing the financial statements 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.

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

For the purpose of presenting consolidated financial statements, 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).

Retirement costs

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

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.

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 research and development 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 financial statements 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.

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

Freehold land is not depreciated.

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

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:

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	- 3 to 10 years straight-line
Office equipment	- 3 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 useful life 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.

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.

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 research and 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:

Development of Core Technology Platform	-	3 years
Development of Sequencing Kits	-	2 years

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 sale or until being sold. 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.

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 useful life 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.

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

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion.

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.

Cash flow hedges

The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of cash flow hedging reserve, limited to the cumulative change in fair value of the hedged item from inception of the hedge. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss and is included in the 'other gains and losses' line item.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are removed from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability. This transfer does not affect other comprehensive income. Furthermore, if the Group expects that some or all

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

of the loss accumulated in the cash flow hedging reserve will not be recovered in the future, that amount is immediately reclassified to profit or loss.

The Group discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. Any gain or loss recognised in other comprehensive income and accumulated in cash flow hedge reserve at that time remains in equity and is reclassified to profit or loss when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in the cash flow hedge reserve is reclassified immediately to profit or loss.

Investment

Investments in subsidiaries are initially measured at cost and subsequently measured at cost less any accumulated impairment losses. Investments in subsidiaries are assessed for impairment at each reporting date. Any impairment losses or reversals of impairment losses are recognised immediately in the Income Statement.

Trade and other receivables

Trade receivables (excluding derivative financial assets) are recognised at cost less allowances for estimated irrecoverable amounts to align their cost to fair value. The provision is based on the Group's expected credit loss.

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.

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.

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), but also incorporate other types of contractual monetary asset. They are carried at cost less any provision for impairment.

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

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.

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

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 financial statements.

Judgements:

i. 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 the year and accordingly all amounts in relation to those projects have been capitalised as an intangible asset during the year. All other spend on research and development projects has been recognised within research and development expenses in the income statement during the period.

Critical judgement is required in consideration of the Useful Economic Life (UEL) of those assets capitalised during the year. 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 the year ended 31 December 2019, was £1,713,000, based on the following assessments for UEL:

Development of Core Technology Platform	-	3 years
Development of Sequencing Kits	-	2 years

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

4. CRITICAL ACCOUNTING JUDGEMENTS AND SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

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

Development of Core Technology Platform	-	4 years
Development of Sequencing Kits	-	3 years

Then the cumulative amortisation would have been £1,202,000, £724,000 less than included in the financial statements.

ii. *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. Contract bundles which include the lease or purchase of a PromethION or GridION sequencing device require management to exercise judgement in estimating the stand-alone selling prices of the devices. This is because these particular sequencing devices are not sold separately and hence do not have a directly observable stand-alone selling price. Changes to these estimates are not expected to have a material impact on the revenue recognised by the Group because any fluctuation of the device price is compensated by the transaction price allocated to other items in the bundle. As the business continues to grow, the introduction of new pricing structures could cause the assumptions on which the allocation of the transaction price and estimation of the stand-alone selling prices to change which could materially affect the results of the Group.

Estimates

i. *Share-based payments*

Details of the share-based payment schemes operated by the Group and share option valuation methods used are disclosed in Note 27. During the year, 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 judgements taken by Management at the grant date and cannot subsequently be revised. The estimated expected vesting period for these particular awards is approximately 4 years. If the vesting period were to decrease to 2 years, the Group recognised total expenses of £9.9 million relating to equity-settled share-based payment transactions in 2019 would increase by £2.4 million.

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

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:

	2019 £000's	2018 £000's
Geographical region		
USA	14,613	10,246
Europe	14,341	7,921
China	8,740	4,144
UK	3,691	2,953
Japan	3,228	2,250
Rest of World	7,448	5,007
	<u>52,061</u>	<u>32,521</u>

	2019 £000's	2018 £000's
Category		
Sale of goods	46,620	29,762
Rendering of services	3,391	514
Lease income	2,050	2,245
	<u>52,061</u>	<u>32,521</u>

Total revenue from contracts with customers

	2019 £000's	2018 £000's
Timing of revenue recognition		
At a point in time	46,620	29,762
Over time	5,441	2,759
	<u>52,061</u>	<u>32,521</u>

Note 18 and 19 discloses assets and liabilities the Group has recognised in relation to contracts with customers.

Revenue recognised in relation to contract liabilities:

	2019 £000's	2018 £000's
Revenue recognised that was included in the contract liability balance at the beginning of the period	<u>3,081</u>	<u>1,616</u>
	<u>3,081</u>	<u>1,616</u>

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) For the year ended 31 December 2019

6. LOSS BEFORE TAX

	Notes	2019 £000's	2018 £000's
<i>This is after charging / (crediting):</i>			
Direct non-staff research and development costs		19,042	19,018
Amortisation of internally generated intangible assets	13	1,713	214
Depreciation of property, plant and equipment	14	11,118	6,142
Depreciation of right-of-use assets	15	2,014	-
Loss on disposal of property, plant and equipment		4	20
Cost of inventories		17,427	22,011
Write-down of inventories		1,196	1,232
Net foreign exchange loss/(gain)		95	(569)

All amounts relate to continuing operations.

7. AUDITOR'S REMUNERATION

The analysis of auditor's remuneration is as follows:

	2019 £000's	2018 £000's
Fees payable to the Group's auditor for the audit of the Group's annual accounts	190	122
Fees payable to the Group's auditor for other services to the Group	2	-
Total fees payable to the Group's auditor	192	122

8. STAFF COSTS

The average monthly number of employees (including Executive Directors) was:

	2019 No.	2018 No.
Research and Development	214	201
Production	97	95
Sales, General & Administration	155	109
	466	405

Their aggregate remuneration comprised:

	2019 £000's	2018 £000's
Wages and salaries	33,763	27,236
Pension costs	684	562
Social security costs	3,588	2,858
Share-based payments (Note 27)	9,883	3,486
	47,918	34,142

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

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) For the year ended 31 December 2019

9. DIRECTORS' AND KEY MANAGEMENT COMPENSATION

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

In 2019, the directors were granted 193,000 share options (2018: nil) but no share options were exercised during the period (2018: nil). The total number of share options held by directors is 301,004 (2018: 108,004).

Executive directors receive medical insurance for themselves as a non-monetary benefit. Total premiums in respect of this cover amounted to £18,951 (2018: £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:

	2019 £000's	2018 £000's
Short-term employee benefits	<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 £2,386,831 (2018: £16,474).

10. FINANCE INCOME AND COSTS

	2019 £000's	2018 £000's
Finance income		
Bank interest receivable	518	574
Exchange gains	-	569
	<u>518</u>	<u>1,143</u>
Finance costs		
Bank interest payable	(263)	(423)
Lease finance costs	(351)	-
Exchange losses	(95)	-
	<u>(709)</u>	<u>(423)</u>

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

11. OTHER GAINS AND LOSSES

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

12. TAX ON LOSS ON ORDINARY ACTIVITIES

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

A deferred tax asset of £348,000 (2018: £nil) has been recognised in relation to future share option exercises in Oxford Technologies Inc, because it is probable that the asset will be utilised in the foreseeable future.

The remaining deferred tax asset of £51,545,000 (2018: £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 as the Group has yet to obtain significant sources of income. The unrecognised deferred tax asset includes those in relation to tax losses of £299,212,000 (2018: £250,907,000).

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 profit is 10.3% (2018: 14.4%) of the estimated taxable profit for the year in the income statement for the Group, which at 31 December 2019 was resident for tax purposes in England and Wales (2018: England and Wales). 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 (substantively enacted on 17 March 2020). Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

12. TAX ON LOSS ON ORDINARY ACTIVITIES (CONTINUED)

The differences between the rate of corporate tax in the UK of 19% (2018: 19%) and the tax credit for the year are explained below:

	2019 £000's	2018 £000's
Loss before taxation	(80,484)	(62,025)
Tax rate in the UK for period as a percentage of losses at 19% (2018: 19%)	(15,292)	(11,785)
Adjustment in respect of overseas tax rates	30	-
R&D tax relief	(3,872)	(3,698)
Expenses not deductible	133	179
Adjustments to tax charge in respect of previous periods	100	(470)
Origination of unrecognised tax losses	9,223	6,895
Impact of share options	1,410	(27)
	<u>(8,268)</u>	<u>(8,906)</u>

R&D tax credit recoverable

Group and Company

	2019 £000's	2018 £000's
Balance at 1 January	8,579	14,786
Adjustment to R&D tax credit in respect of previous periods	(100)	472
Cash receipt	-	(15,258)
R&D tax credit for the period	9,000	8,579
Balance at 31 December	<u>17,479</u>	<u>8,579</u>

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

13. INTANGIBLE ASSETS

Group & Company	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
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)
Carrying amount		
At 31 December 2018	6,405	6,405
At 31 December 2019	16,521	16,521

Development costs have been capitalised in accordance with IAS 38 Intangible Assets and are therefore not treated for dividend purposes, as a realised loss.

The amortisation periods for internally generated assets incurred by the Group are:

Development of Core Technology Platform	-	3 years
Development of Sequencing Kits	-	2 years.

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) **For the year ended 31 December 2019**

14. 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 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
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)
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

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company	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	7,496	-	4,276	29,326
Additions	49	34	1,695	6,238	1,432	9,448
Disposals	-	-	(156)	-	(5)	(161)
At 31 December 2018	16,243	1,394	9,035	6,238	5,703	38,613
Additions	-	4,767	3,859	5,035	1,938	15,599
Disposals	-	-	(50)	(1,356)	(5)	(1,411)
Transfer	-	340	(340)	-	-	-
At 31 December 2019	16,243	6,501	12,504	9,917	7,636	52,801
Accumulated depreciation						
At 1 January 2018	(51)	(1,258)	(4,174)	-	(2,557)	(8,040)
Charge for the year	(409)	(94)	(1,403)	(2,607)	(991)	(5,504)
Eliminated on disposals	-	-	135	-	5	140
At 31 December 2018	(460)	(1,352)	(5,442)	(2,607)	(3,543)	(13,404)
Charge for the year	(416)	(120)	(1,394)	(5,094)	(1,504)	(8,528)
Eliminated on disposals	-	-	49	1,356	3	1,408
At 31 December 2019	(876)	(1,472)	(6,787)	(6,345)	(5,044)	(20,524)
Carrying amount						
At 31 December 2018	15,783	42	3,593	3,631	2,160	25,209
At 31 December 2019	15,367	5,029	5,717	3,572	2,592	32,277

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 135 years and 9 months.

At 31 December 2019 and 2018, the Group did not enter into contractual commitments for the acquisition of property, plant and equipment.

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) For the year ended 31 December 2019

15. RIGHT-OF-USE ASSETS

	Buildings £000's	Total £000's
Group		
Cost		
As at 1 January 2019	-	-
Recognised on adoption of IFRS 16	11,581	11,581
At 31 December 2019	<u>11,581</u>	<u>11,581</u>
Accumulated Depreciation		
As at 1 January 2019	-	-
Charge for the year	(2,014)	(2,014)
At 31 December 2019	<u>(2,014)</u>	<u>(2,014)</u>
Carrying amount		
As at 1 January 2019	-	-
At 31 December 2019	<u>9,567</u>	<u>9,567</u>
	Buildings £000's	Total £000's
Company		
Cost		
As at 1 January 2019	-	-
Recognised on adoption of IFRS 16	9,149	9,149
At 31 December 2019	<u>9,149</u>	<u>9,149</u>
Depreciation		
As at 1 January 2019	-	-
Charge for the year	(1,281)	(1,281)
At 31 December 2019	<u>(1,281)</u>	<u>(1,281)</u>
Carrying amount		
As at 1 January 2019	-	-
At 31 December 2019	<u>7,868</u>	<u>7,868</u>

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) For the year ended 31 December 2019

16. INVESTMENT IN SUBSIDIARIES

The principal subsidiaries of Oxford Nanopore Technologies Limited are as follows:

Name	Registered address	Country of Incorporation	Proportion of ownership interest	
			31 December 2019	31 December 2018
Oxford Nanopore Technologies, Inc.	One Kendall Square, Building 200 Suite B2005 Cambridge, MA 02139	USA	100%	100%
Oxford Nanolabs Limited	Gosling Building, Edmund Halley Road, Oxford Science Park, OX4 4DQ	UK	100%	100%
The Genome Foundry Limited	Gosling Building, Edmund Halley Road, Oxford Science Park, OX4 4DQ	UK	100%	100%
Metrichor Limited	Gosling Building, Edmund Halley Road, Oxford Science Park, OX4 4DQ	UK	100%	100%
KK Oxford Nanopore Technologies	Tokyo Club Building 11F 3-2-6 Kasumigaseki, Chiyoda-ku, Tokyo 100-0013	Japan	100%	100%
Oxford Nanopore Diagnostics Limited	Gosling Building, Edmund Halley Road, Oxford Science Park, OX4 4DQ	UK	100%	100%
Nanopore Technologies Hong Kong Limited	Room 1901, 19/F, Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong	Hong Kong	100%	100%
Nanopore Technologies (Shanghai) Co. Limited*	Room 2208, Tower 1, Grand Gateway 66, No. 1 Hongqiao Road, Xuhui District, Shanghai	China	100%	100%
Oxford Nanopore Technologies Singapore PTE Ltd	38 Beach Road, #29-11, South Beach Tower, Singapore (189767)	Singapore	100%	100%
Oxford Nanopore Technologies BV	Gustav Mahlerplein 2, 1082 MA Amsterdam	The Netherlands	100%	n/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.
- Oxford Nanolabs Limited was set up on 20 March 2008, has never traded and is a dormant company.
- 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 financial statements 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.
- The Genome Foundry Limited was set up on 7 September 2015, has never traded and is a dormant company.
- KK Oxford Nanopore Technologies was set up on 25 May 2016 to provide services to Oxford Nanopore Technologies Limited in Japan.
- Nanopore Technologies Hong Kong Limited was set up on 26 March 2018.

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

16. INVESTMENT IN SUBSIDIARIES (CONTINUED)

- *Nanopore Technologies (Shanghai) Co. Limited was set up on 4 June 2018 and is a 100% subsidiary of Nanopore Technologies Hong Kong Limited.
- Oxford Nanopore Technologies Singapore PTE Ltd was set up on 14 September 2018.
- 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.
- Oxford Nanopore Technologies B.V. was set up on 31 October 2019 and has not commenced trading.

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

Company	2019 £000's	2018 £000's
Investment value at 1 January	25	25
Equity-settled instruments granted to employees of subsidiaries	3,451	-
Investment value at 31 December	3,476	25

17. INVENTORY

	Group		Company	
	2019 £000's	2018 £000's	2019 £000's	2018 £000's
Raw materials	13,078	9,490	13,078	9,487
Work in progress	3,850	5,517	3,850	5,409
Finished goods	3,106	3,596	2,494	3,209
	20,034	18,603	19,422	18,105

18. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2019 £000's	2018 £000's	2019 £000's	2018 £000's
Trade receivables	14,126	10,575	11,536	7,479
Contract assets	-	1,000	-	466
Other debtors	30,007	862	29,746	614
Accrued interest income	7	303	7	303
Other taxes	4,360	3,119	4,162	3,000
Prepayments	4,806	5,957	4,749	5,903
Inter Company	-	-	-	3,185
	53,306	21,816	50,200	20,950

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) For the year ended 31 December 2019

18. TRADE AND OTHER RECEIVABLES (CONTINUED)

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

	Trade receivables – days past due				Total
	not past due	<30 days	30 - 60 days	60+ days	
Trade receivables 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>
Trade receivables 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 Expected Credit Loss that has been recognised for trade receivables in accordance with the simplified approach set out in IFRS 9:

Group	Total £000's
Balance at 1 January 2018	173
Net charges and releases to income statement	676
Amounts written off	-
Foreign exchange gains and losses	22
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)
Balance at 31 December 2019	1,944

The contract assets relate to the Group's rights to consideration for goods and services provided but not billed at the reporting date for devices 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.

Other Debtors includes £29.3million in relation to share capital. These funds were received in the first two months of 2020.

19. CURRENT TRADE AND OTHER PAYABLES

	Group		Company	
	2019 £000's	2018 £000's	2019 £000's	2018 £000's
Trade payables and other creditors	11,952	10,530	10,787	8,820
Payroll taxation and social security	894	2,156	849	2,130
Corporation tax payable	884	-	-	-
Accruals	14,481	6,023	13,544	5,940
Inter company	-	-	181	1
Contract liabilities	6,508	3,081	5,061	1,946
	<u>34,719</u>	<u>21,790</u>	<u>30,422</u>	<u>18,837</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 41 days (2018: 39).

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

19. CURRENT TRADE AND OTHER PAYABLES (CONTINUED)

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 £1.4 million mainly due to an increase in overall contract activity.

20. DERIVATIVE FINANCIAL INSTRUMENTS

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

21. LEASE LIABILITIES

Maturity analysis – contractual undiscounted cash flows	Group		Company	
	2019 £000's	2018 £000's	2019 £000's	2018 £000's
Up to one year	2,119	-	1,342	-
One to five years	4,264	-	3,328	-
Greater than five years	8,594	-	8,594	-
Total undiscounted lease liabilities at 31 December	<u>14,977</u>	<u>-</u>	<u>13,264</u>	<u>-</u>
Current	2,015	-	1,279	-
Non-current	<u>7,566</u>	<u>-</u>	<u>6,673</u>	<u>-</u>
Lease liabilities included in the consolidated statement of financial position	<u>9,581</u>	<u>-</u>	<u>7,952</u>	<u>-</u>

22. LOANS AND PROVISIONS

Group and Company	2019 £000's	2018 £000's
Loan on Land and Building Purchase	<u>9,500</u>	<u>9,500</u>
Balance at 31 December	<u>9,500</u>	<u>9,500</u>

During 2017 the Lease of land and accompanying purchase of Gosling Building (see Note 14) was purchased for £16.2m. A Term loan facility of £9.5m was taken out with Barclays Bank plc to part fund the purchase (the balance being taken out of cash reserves). The term of the loan is 5 years. The average interest rate charged in the year was 2.72% (2018: 2.54%).

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) For the year ended 31 December 2019

22. LOANS AND PROVISIONS (CONTINUED)

Dilapidation Provision

	2019	2018
Group	£000's	£000's
Balance at 1 January	1,005	1,005
Additional provision in the year	402	-
Balance at 31 December	1,407	1,005

	2019	2018
Company	£000's	£000's
Balance at 1 January	1,005	1,005
Additional provision in the year	350	-
Balance at 31 December	1,355	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 relates to properties at the Oxford Science Park, and new properties leased in 2019 on Harwell Science Park and in China.

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 the year.

23. SHARE CAPITAL

Issued Share Capital	2019	2018
	£	£
Opening – 29,129,799 ordinary shares of £0.001 each (2018: 27,056,210)	29,130	27,056
Opening – 733,677 deferred shares of £ 0.005 each (2018: 733,677)	3,668	3,668
	<u>32,798</u>	<u>30,724</u>
Issued – 581,683 ordinary shares of £0.001 each (2018: 2,073,589)	582	2,074
	<u>32,798</u>	<u>30,724</u>
Closing – 29,711,482 ordinary shares of £0.001 each (2018: 29,129,799)	29,711	29,130
Closing – 733,677 deferred shares of £0.005 each (2018: 733,677)	3,668	3,668
	<u>33,379</u>	<u>32,798</u>
Total issued and fully paid Share Capital	33,379	32,798

On 31 December 2019, Oxford Nanopore raised £29 million through the issuance of 504,470 ordinary shares at a share price of £58 per share. During the year 77,213 ordinary shares (2018: 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.

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

24. SHARE PREMIUM

	2019 £'000s	2018 £'000s
Group and Company		
At 1 January	450,231	351,409
Premium arising on issue of equity shares	29,534	100,324
Share issue costs	(433)	(1,502)
At 31 December	479,332	450,231

25. RETAINED EARNINGS

	Group		Company	
	2019 £'000s	2018 £'000s	2019 £'000s	2018 £'000s
At 1 January	(307,231)	(257,618)	(307,965)	(258,409)
Total recognised loss for the year	(72,216)	(53,119)	(71,940)	(53,042)
Exchange gain on translation of subsidiary	-	20	-	-
Employee share-based payments	9,883	3,486	9,883	3,486
At 31 December	(369,564)	(307,231)	(370,022)	(307,965)

26. FOREIGN EXCHANGE TRANSLATION RESERVE

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

27. SHARE-BASED PAYMENTS

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:

	2019 Number	2018 Number
Scheme		
Oxford Nanopore Technologies Limited Share Option Scheme	1,825,409	1,930,567
Oxford Nanopore Technologies Limited Share Option Plan 2018	824,010	-
At 31 December	2,649,419	1,930,567

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 2019 were

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

27. SHARE-BASED PAYMENTS (CONTINUED)

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 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 2019		Year ended 31 December 2018	
	Number of share options	Weighted average exercise price (in £)	Number of share options	Weighted average exercise price (in £)
Outstanding at beginning of period	1,930,567	16.55	2,007,419	15.06
Granted during the period	831,510	24.96	107,500	27.90
Forfeited during the period	(35,445)	19.79	(43,131)	22.69
Exercised during the period	(77,213)	3.59	(141,221)	2.15
Outstanding at the end of the period	<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>1,640,503</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 (£)	2019 (Number)	2018 (Number)
Oxford Nanopore Technologies Limited Share Option Scheme	2008 - 2018	2020 - 2028	0.70 - 27.90	1,825,409	1,930,567
Oxford Nanopore Technologies Limited Share Option Plan 2018	2019	2029	20.70 - 36.23	824,010	-
				<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 the period was £51.75 (2018: £31.05).

The options outstanding at 31 December 2019 had a weighted average exercise price of £19.52 (2018: £16.55), and a weighted average remaining contractual life of 6.3 years (2018: 5.9 years).

The Group recognised total expenses of £9,883,110 (2018: £3,485,773) related to equity-settled share-based payment transactions in 2019.

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

27. SHARE-BASED PAYMENTS (CONTINUED)

Valuation models:

Oxford Nanopore Technologies Limited Share Option Plan 2018: The fair value of share options granted during the year 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 have been no options granted during the year (2018: 107,500), 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 the year:

	2019	2018
Weighted average share price	£51.75	£27.90
Weighted average exercise price	£26.60	£27.90
Expected volatility	49.92% - 51.28%	50%
Expected life	6.5 years	10 years
Risk-free rate	0.46% - 0.88%	0.73%
Expected dividend yields	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 2019, 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 the year determined using the Black Scholes model at the grant date was £34.30 per option.

Monte Carlo Simulation - There were no options granted in 2018 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 the year:

	2019
Weighted average share price	£51.75
Weighted average exercise price	£23.80
Expected volatility	49.92% - 51.28%
Expected life	4.08 - 4.41 years
Risk-free rate	0.55% - 0.88%
Expected dividend yields	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 the year determined using the Monte Carlo Simulation model at the grant date was £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 2019, 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.

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) For the year ended 31 December 2019

28. NOTES TO THE CASH FLOW STATEMENT

Cash and cash equivalents

	Group		Company	
	2019 £000's	2018 £000's	2019 £000's	2018 £000's
Cash and bank balances	<u>13,092</u>	<u>35,321</u>	<u>10,729</u>	<u>34,368</u>

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.

	2019 £000's	2018 £000's
Group		
Loss before tax	<u>(80,484)</u>	<u>(62,025)</u>
Adjustments for:		
Depreciation	11,118	6,142
Depreciation on Leases	2,014	-
Amortisation	1,713	214
Loss on disposal of property, plant and equipment	4	20
Bank charges and net exchange loss	(33)	(390)
Finance cost on Leases	351	-
Net Interest income	(255)	(330)
Employee share benefit costs	9,883	3,486
Other gains and losses	<u>(600)</u>	<u>-</u>
Operating cash flows before movements in working capital	<u>(56,289)</u>	<u>(52,883)</u>
(Increase) in receivables	(3,525)	(12,726)
(Increase) in inventory	(1,432)	(12,154)
Increase in payables	<u>12,798</u>	<u>6,471</u>
Cash absorbed by operations	<u>(48,448)</u>	<u>(71,292)</u>
Income taxes – R&D tax credit received	-	15,256
Foreign tax paid	<u>(231)</u>	<u>(42)</u>
Net cash absorbed by operating activities	<u>(48,679)</u>	<u>(56,078)</u>

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

29. COMMITMENTS

As at 31 December 2019, 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:

	2019 £000's	2018 £000's
Within one year	2,021	1,797
In the second to fifth years inclusive	456	170
	<u>2,477</u>	<u>1,967</u>

The Company's commitments are not materially different from the Group as a whole.

30. 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 £606,072 (2018: £562,379) represents contributions payable to the scheme by the Group at rates specified in the rules of the scheme. As at 31 December 2019 and 31 December 2018, all contributions due in respect of the respective reporting periods had been paid over to the scheme.

31. FINANCIAL INSTRUMENTS – RISK MANAGEMENT

i). Classes and categories of financial instruments and their fair values

The following table combines information about:

- classes of financial instruments based on their nature and characteristics;
- the carrying amounts of financial instruments; and
- 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 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)
31 December 2018		
Financial assets		
Fixed rate deposits	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)

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

31. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (CONTINUED)

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

Trade receivables, trade payables 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.

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.

Cash and cash equivalents

As at the 31 December, the Group had the following treasury deposits:

	2019 £000's	2018 £000's
Floating rate assets	13,092	35,321
Fixed rate assets	-	58,000
	<u>13,092</u>	<u>93,321</u>

The weighted average interest rate on the fixed term deposits was nil (2018: 0.81%). The weighted average term of fixed interest rate deposits was nil months (2018: 5.9 months).

The Group's maximum credit risk on financial instruments at the period end is £13 million (2018: £93 million). The Group places its deposits with several reputable financial institutions to minimise its credit risk.

Derivative financial instruments

During the year, a number of fixed forward contracts were entered into. As at 31 December, only one contract remained unsettled, with a settlement date of 18 March 2020, as is included in the Balance Sheet as follows:

	Group		Company	
	2019 £000's	2018 £000's	2019 £000's	2018 £000's
Foreign currency options – cash flow hedges	600	-	600	-
	<u>600</u>	<u>-</u>	<u>600</u>	<u>-</u>

ii). 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 2020, the Group has a substantial cash balance to fund its operations.

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

31. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (CONTINUED)

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 twelve 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.

The Directors consider that 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.

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

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 research and development 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 the year. In the year ended 31 December 2019 approximately 26% (2018: 21%) of the Group's annual expenditures was denominated in US dollars and approximately 10% (2018: 13%) of the Group's expenditure was denominated in Euros. Substantially all of the Company'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	
	2019	2018	2019	2018
	£'000's	£'000's	£'000's	£'000's
Financial assets and liabilities	13,423	8,726	932	4,952

Sensitivity analysis

A 5% strengthening of the US\$ at 31 December 2019 would have resulted in changes to equity and profit or loss by the amounts shown below:

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

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

31. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (CONTINUED)

The interest rate for short-term deposits is variable dependent on the rates offered by the Group's bankers. During the year ended 31 December 2019, the short-term deposits returned an average of 0.95% (2018: 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 financial statements.

Capital management

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

- To safeguard the Group's ability to continue as a going concern, so that it can continue to strive to provide returns to investors.
- To provide an adequate return to investors based on the level of risk undertaken.
- 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.
- To maintain sufficient financial resources to mitigate against risks and unforeseen events.

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

Debt is defined as long- and short-term borrowings (excluding derivatives and financial guarantee contracts) as detailed in Note 22. Equity includes all capital and reserves of the Group that are managed as capital.

32. RELATED PARTY TRANSACTIONS

At the end of the year, there were 149,023 (2018: 164,389) unapproved options issued to non-employees including non-executive directors and consultants.

The Company continued to fund the following subsidiaries during the year: Oxford Nanopore Technologies Inc. (ONT Inc), KK Oxford Nanopore Technologies, Nanopore Technologies (Shanghai) Co. Ltd, Oxford Nanopore Technologies Singapore PTE Ltd and Metrchor Limited. During the year, the Company paid these subsidiaries £5,715,082 (2018: £4,104,274) for the R&D and other services provided to it.

In addition, the Company made sales to its US subsidiary, ONT Inc, of \$12.8m (2018: \$9.6m), our limited risk distributor in the USA.

During 2018 the company purchased material services from IP Group, of £792,794, which is related to ONT by the shared directorship of A Aubrey. No purchases from IP Group were made in 2019.

Audit exemption

Oxford Nanopore Technologies Limited has given statutory guarantees against all outstanding liabilities of Metrchor Limited (Company registration number 08534345) at 31 December 2019 under Section 479A of the Companies Act 2006, thereby allowing this subsidiary to be exempt from the annual audit requirement for the year ended 31 December 2019.

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

33. POST BALANCE SHEET EVENTS

Trading

The COVID-19 pandemic represents a challenge, unprecedented in modern times. Some customers were less active during the first half of 2020, as their businesses were either closed or showed a reduced level of activity. However overall, the Company's revenues were in line with expectations, as the Company made a significant contribution to the fight against COVID-19 in 2020, supporting international epidemiology and research.

Furthermore, the Company has also developed a novel COVID-19 test, LamPORE, which will be commercially available in Q4 2020.

The directors believe that there has been no material impact on these financial statements due to the impact of COVID-19 in 2020, for example:

- The Company has not experienced a higher than normal default rate from customers;
- The carrying value of leases has not been affected; and
- The carrying value of the right-of-use assets has not been affected.

Funding

Oxford Nanopore has received £144m of funding in 2020:

- In Quarter 1 2020, the Group received in cash the £29.3m (\$38.6m) from the new funding via a private placement of ordinary shares in the Group recorded in December 2019, this was shown in debtors at the year-end;
- in May 2020, £48.4m (\$59.2m) was received; and
- across September and October 2020, a further £66.5m (\$84.7m) was received.

34. LITIGATION AND CONTINGENT LIABILITIES

PacBio filed a complaint against Oxford Nanopore Technologies, Inc. in the United States District Court, District of Delaware on 15 March 2017, alleging infringement of US Patent No. 9,546,400. PacBio also filed a complaint against Oxford Nanopore Technologies, Inc. in the United States District Court, District of Delaware in March 2017 alleging infringement of US Patent No. 9,678,056, entitled Control of Enzyme Translocation in Nanopore Sequencing and US Patent No. 9,738,929 entitled Nucleic Acid Sequence Analysis. The latter case was consolidated with the former case. PacBio amended the complaint to add U.S. Patent No. 9,772,323. On August 23, 2018, PacBio filed a third amended complaint to add Oxford Nanopore Technologies, Ltd. as an additional defendant.

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. Final judgment was entered in favor of Oxford Nanopore on 13 August 2020. PacBio appealed the decision to the US Court of Appeals for the Federal Circuit. That appeal is pending.

35. ULTIMATE CONTROLLING PARTY

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

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) For the year ended 31 December 2019

36. NOTES TO KEY PERFORMANCE INDICATORS

Gross margin

Year ended 31 December	2017 £000's	2018 £000's	2019 £000's
Revenue	13,787	32,521	52,061
Cost of sales	7,061	16,506	26,442
Gross Profit	6,726	16,015	26,619
Gross Margin (%)	48.8%	49.2%	49.2%

Gross margin is the Gross Profit expressed as a percentage of Revenue.

EBITDA

Year ended 31 December	2017 £000's	2018 £000's	2019 £000's
Loss from operations	(65,866)	(62,745)	(80,893)
Depreciation of property, plant and equipment	1,794	6,142	11,118
Depreciation of right-of-use Assets	-	-	2,014
Amortisation of internally generated intangible assets	-	214	1,713
EBITDA	(64,072)	(56,389)	(66,048)

EBITDA is calculated by adding back depreciation and amortisation to the Loss from operations.

Days Sales Outstanding

Year ended 31 December	2017	2018	2019
Revenue (£'000)	13,787	32,521	52,061
Trade receivables (£'000)	4,464	10,575	14,126
Days sales outstanding (Days)	118.2	118.7	99.0

Days Sales Outstanding is calculated by dividing the Trade Receivables balance by the Revenue divided by 365 days

Net fund raising

Year ended 31 December	2017	2018	2019
Proceeds from issue of shares (£'000)	311	100,326	276
Costs of share issue (£'000)	(105)	(1,502)	(55)
Net Fund raising (£'000)	206	98,824	221

Staff attrition rates

Year ended 31 December	2017	2018	2019
Number of Employees (FTE)	343	405	466
Number of Leavers	19	25	25
Staff attrition rate (%)	5.5%	6.2%	5.4%

The number of leavers in the period divided by the average number of employees.