

Oxford Nanopore Technologies Limited
Annual report and financial statements
for the year ended 31 December 2020

Registered number: 05386273



OXFORD NANOPORE TECHNOLOGIES LIMITED

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COMPANY INFORMATION

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Company secretary	H L Coote
Company lawyer	Slaughter & May
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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').

Oxford Nanopore's long-term goal is to enable the **analysis of anything, by anyone, anywhere**.

Introduction

The principal activities of the Group are to research, develop, manufacture and commercialise a nanopore-based technology platform that allows the real-time analysis of a range of molecules. The first products are designed to sequence deoxyribonucleic acid (DNA) or ribonucleic acid (RNA). This enables our customers to perform scientific research in a range of areas, including human genetics, cancer research, outbreak surveillance and pathogen/antimicrobial resistance analysis, microbiome analysis environmental analyses and plant or food analysis. Additional emerging uses beyond scientific research may potentially include applications in healthcare, agriculture, biopharma production, food/water supply chain surveillance, and education or consumer markets; anywhere where DNA or RNA information can tell a user about a sample; for example its identity, whether it is changing, healthy, or diseased.

Oxford Nanopore makes a range of nanopore sequencing devices based on one core technology. The platform technology offers a combination of features that is unique to the sequencing market, including the ability to analyse data in real time (for rapid results), the ability to sequence a range of lengths of fragments of DNA from short to ultra-long (providing rich biological insights) and the ability to scale from handheld to ultra-high output devices using the same technology platform.

To disrupt the traditional 'mainframe-like sequencing technologies, 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 at the end of 2020 had been featured in more than 1400 scientific publications across a diverse range of scientific disciplines.

Nanopore sequencing is also scalable to very high-throughput applications. Our largest device, the PromethION 48, has a theoretical maximum output of 14 Terabases of nanopore sequencing data, and is positioned to address markets that require larger volumes of data or larger sample numbers, for example population-scale human genomics projects or plant genomes.

Highlights

Even allowing for the impact of the global pandemic this has been another successful year for the Group, with continued growth in revenue. A summary of our 2020 highlights is set out below:

- Overall revenue has grown by 119% to £113.9 million (2019: £52.1 million) comprising:
 - £65.6 million from our core Life Science Research business (a growth of 26%); and
 - £48.3 million related to COVID-19 testing, which we do not expect to continue substantially beyond early 2021.
- Gross profit of £46.9 million (2019: £25.6 million), an increase of 83%;
- Continued investment in Research and Development activities of £59.3 million in 2020 (2019: £52.3 million);
- A significant contribution was made to the global fight against COVID-19, as the Company's technology supported international epidemiology and research, and the Company performed rapid development, approval and delivery of a new high-performance COVID-19 test, LamPORE;
- New funding received of £162.1 million via a private placement of ordinary shares;
- Cash balance of £80.9 million (2019: £13.1 million) at 31 December 2020; and
- Positive outlook to 2021 and beyond.

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STRATEGIC REPORT (CONTINUED)

The effect of COVID-19 on the business

The year brought operational challenges for Oxford Nanopore due to COVID-19, but the business responded strongly, driven by the dedication of our people to deliver our sequencing technology to both our existing and new customers, and the strength and agility of our business model. The opportunity to provide technology that supported those fighting the pandemic was motivational for our teams in an otherwise difficult year for many.

Many companies providing life science tools were affected by the closure of a large number of life science research laboratories during COVID lockdowns. This included some of our customers and so we believe that the growth that we experienced in our life science research business may have been tempered by these closures. However, our operations continued uninterrupted throughout this difficult period. We prioritised the safety of our employees during the pandemic, with many working from home and for those on site in our laboratories and manufacturing sites, robust measures were taken to ensure our work environment was and continues to be safe.

Our Markets

DNA/RNA sequencing is a growing global market; sales of devices and consumables are expected to grow from \$4.2 billion in 2020 to \$5.7 billion in 2021 (DeciBio 2020 market estimate¹). This existing market can broadly be divided into research, making up just over half of the 2020 market, and the remainder for clinical use. Oxford Nanopore is an emerging participant in the sequencing market and at this time the majority of our customers are using the technology for the purposes of scientific research. The Company believes that there remain opportunities to grow the use of its technology beyond the existing parameters of the market, into broader opportunities in applied markets, where molecular analyses may be used in larger-scale health or industrial-related opportunities, as nanopore may meet unmet needs for low-cost, rapid, near-sample solutions. In addition, with the potential to adapt nanopore sensing for the analysis of proteins rather than DNA/RNA, there are also opportunities to enter the proteomics market, which has been estimated to be valued at more than \$21 billion (Allied Health, 2019²).

In 2020 our customers were divided into two segments:

- **Life Science Research Tools (LSRT) market:** where customers are typically situated in University, Industrial or Government research laboratories, or commercial laboratories that provide sequencing as a service to other scientists. The Group considered population genomics and public health to be within this category in 2020. In 2020 the global spend on sequencing with the research segment was \$2.2 billion (from Biomedical Research \$1.2 billion and Non-medical Research \$0.9m). Oxford Nanopore seeks to reshape this market; and
- **COVID testing:** products supplied to customers to facilitate testing for the detection of the SARS-Cov-2 virus. The Group does not consider COVID testing to be a recurring opportunity beyond early 2021, however its sequencing products continue to be used for the purposes of COVID genomic surveillance, including variant identification.

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 to scientific researchers:

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.

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.

¹ DeciBio 2020 NGS report

² Allied Market Research: Proteomics estimated market size, revenue 2019 for instruments, reagents and services.

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STRATEGIC REPORT (CONTINUED)

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

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

...to ultra-high throughput devices

- Sequencing shorter fragments means the technology is also capable of addressing markets like amplicon sequencing or cell-free DNA, where the starting material is shorter.
- Direct analysis provides richer biological information, including real-time methylation.
- Taking the sequencer to the sample in any location or being used as a personal sequencer for every scientist in the laboratory.
- Providing rich biological data at large scale, for projects such as population sequencing, large human genomics or plant genomics projects.

Our Business Model

The long-term goal of the Group is to enable the analysis of anything, by anyone, anywhere.

Our business model is to grow the user base of our unique range of devices by providing a differentiated, high performance technology that is made accessible through low-cost starter packs to reduce barriers to entry. This scales from the hand-held MinION which enables personal or portable sequencing for scientists, to the PromethION, which provides cost effective high output sequencing and is used for example in high throughput human genomics projects.

Revenue is generated from the sale or lease of a range of products and services that users require to perform nanopore sequencing. The products are split into consumables, which consist of flowcells and kits, and devices. Typically, devices are made available, and new customers are acquired by offering a range of 'Starter Packs'. To encourage early adoption, a Starter Pack consists of the use of a device, together with the supply of consumables to run experiments, and access to services to support successful analysis. Starter packs are designed to be accessible to the customers revenue budgets, and in most cases do not require access to capital funds. Alternatively, customers can choose to purchase the device through capital budgets using the CAPEX option. Following the completion of the Starter Pack phase, the Group continues to sell consumables and services to customers.

To complement our innovation powerhouse, Oxford Nanopore has developed and implemented a number of commercial strategies through the design of the product as well as pricing and distribution approaches. A key theme is accessibility and transparency, deploying 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:

- **Investment in continuous Research & Development:** 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. This includes: fundamental research; pipeline programmes to develop new technologies; programmes to improve the performance of the existing platform that have over recent years delivered substantial improvements in product performance and manufacturing innovation programmes
- **Commercial:** our commercial strategy is designed to break the historical high barriers to entry to the sequencing market, created by the expensive 'mainframe-like' traditional sequencing technologies. Strong digital infrastructure means that a community of users can be supported efficiently and support each other. In-field sales and support teams can focus on complex users and regional dynamics. The Company has been growing our commercial teams to reflect further progression of the technology and to drive growth; and
- **Operational:** Oxford Nanopore has invested in expansion of production capacity and commercial operations.

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STRATEGIC REPORT (CONTINUED)

Financial review

Year ended 31 December:	2020	2019	2018
Revenue (£m)	£113.9	£52.1	£32.5
Revenue growth (%)	119%	60%	136%
Gross profit (£m)	£46.9	£25.6	£16.5
Gross margin (%)	41.2%	49.2%	49.2%
Total R&D spend (£m)	£59.3	£52.3	£43.7
Loss after tax GBP (£m)	£61.2	£72.2	£53.1
Net fund raising (£m)	£161.3	£0.2	£98.8
Cash and cash equivalents at period end (£m)	£80.9	£13.1	£35.3
Net assets at period end (£m)	£185.9	£109.5	£142.9
Average headcount (Number)	527	466	405

Oxford Nanopore generated revenues of £113.9million in 2020, representing a year-on-year growth of 119%. This was driven by:

- Continued growth in our core market, LSRT, where revenue grew to £65.5million (an increase of 26% on 2019) despite market conditions. Laboratory closures due to COVID-19 reduced the size of the sequencing market from an estimated \$4.5 billion to an estimated \$4.2 billion between 2019 and 2020, with an estimated 'bounceback' size of \$5.7 billion in 2021 according to DeciBio³; and
- COVID-19 testing revenue of £48.3million. Oxford Nanopore sold testing products primarily to governments as part of the fight against COVID-19. This included the sale of the Company's new LamPORE product.

Gross profit increased to £46.9million (2019: £25.6million), a direct result of increased revenues. The gross margin percentage fell to 41.2% (2019: 49%) as a result of the different product mix, through a combination of: supply of novel testing COVID-19 testing products at lower margins; and the rapid scaling of PromethION consumables during 2020, that occurred whilst the manufacturing processes were being refined.

Oxford Nanopore continues to invest in Research and Development as part of the commitment to our innovation strategy – in 2020 £59.3million (2019: £52.3million) was spent on Research and Development activities, of which £10.7million of development costs have been capitalised (2019: £11.8million) – see note 15.

Loss after tax reduced by £11.0million to £61.2million (2019: loss of £72.2million), as gross profit increased by £21.3m, offset primarily by increased operating expenditure of £11.4million (an increase of 11%). The increased operating expenditure supported the investment in commercial/operational growth and the opening of a new high tech manufacturing facility, as the Company transitions from a predominantly R&D business to an international, commercial business. Marketing costs were lower in 2020 due to COVID-19. Our main annual conferences – London Calling and Nanopore Community Meeting - were held virtually, as were most other conferences in 2020. This naturally resulted in cost savings, with travel costs also substantially lower in the year.

The Company had a £10.9million R&D tax credit receivable in the period (2019: £9.0 million). This is the last year that the Company will be eligible to claim Research & Development (R&D) tax relief as a small and medium sized enterprise (SME). The Company will now be eligible to claim R&D tax reliefs under the R&D expenditure credit (RDEC) scheme, which does not have the same cash inflow benefit as under the SME scheme.

Cash and cash equivalents as at 31st December 2020 were £80.9m (2019: £13.2m). During the year the Company received £162.1m in funding: £29.3m in Quarter1 2020 from a private placement of ordinary shares in the Company recorded in December 2019 and a further £132.8m of funds raised via a private

³ DeciBio 2020 NGS report,

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STRATEGIC REPORT (CONTINUED)

placement of ordinary shares in the Company in new capital: £48.4m in May 2020 and a further £84.4m in September 2020. These funds have been utilised to expand global commercial activities, including:

- the growth of the commercial team, which already serves more than 100 countries;
- the support of the Group's R&D to expand its suite of nanopore analysis devices; and
- the scale-up of the Company's Biologics manufacturing capabilities

Headcount increased by 13% to 527 (2019: 466), as the Group continued to expand, in particular the global Commercial team.

In preparation for the new arrangements and new relationship with the EU coming into effect on 31 December 2020, the Company made a number of strategic decisions in preparation for, including: increasing stock holding levels to ensure no shortage of supply post Brexit and setting up a new entities within the EU capable of servicing our EU customers if required.

Key Performance Indicators

Performance is measured against the strategy through five key performance indicators:

1. LSRT Revenue growth

Definition: The LSRT revenue this year compared to the LSRT revenue in the previous year, expressed as a percentage.

Target: Our products are sold in a number of currencies including US Dollars, GB Pounds, Euros and Japanese Yen, however management monitors revenues in GB pounds, as this is the Group's reporting currency. Management is targeting a minimum 30% year-on-year growth in revenue over the next three years in LSRT.

Year ended 31 December (£m)	2020	2019	2018
Revenue	£65.5	£52.1	£32.5
Revenue growth	26%	60%	136%

FY 2020 performance: Revenue rose by 26% in FY 2020. The global pandemic impacted a number of our customers, particularly in Q2 and Q3, when a number were forced to shut down operations, which directly impacted our revenue in this period. Even allowing this impact we are very pleased to have achieved this revenue growth in 2020, where growth was seen across all our devices and consumables.

2. LSRT Gross margin percentage

Definition: Gross margin percentage is the gross profit expressed as a percentage of revenue.

Target: Management is targeting a 55% gross margin as:

- products move from Early access to fully released products;
- production processes improve; and
- the product mix changes with an increase in repeat consumables to starter pack sales.

Year ended 31 December (£m)	2020	2019	2018
Revenue	65.5	52.1	32.5
Gross Margin	28.1	25.6	16.0
Gross Margin (%)	42.9%	49.2%	49.2%

FY 2020 performance: The underlying gross margin of our LSRT segment was 42.9% (2019: 49.2%), due primarily to the manufacture of PromethION flowcells at volume whilst the product manufacturing process was being refined. These scale-up challenges were resolved in Q4 2020 and margins have subsequently improved.

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STRATEGIC REPORT (CONTINUED)

3. Adjusted EBITDA:

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

Target: The Group is looking to reduce losses year on year with the target of reaching break-even point within the next 5 years.

Year ended 31 December (£m)	2020	2019	2018
Loss for the year after tax	(61.2)	(72.2)	(53.1)
Tax credit	(11.9)	(8.3)	(8.9)
Other gains	(0.6)	(0.6)	-
Finance income	(0.1)	(0.5)	(1.1)
Loan interest	0.3	0.2	0.4
Interest on lease	0.5	0.4	-
Exchange losses	2.1	0.1	-
Loss from operations	(70.9)	(80.9)	(62.7)
Depreciation of property, plant and equipment	10.1	11.1	6.1
Depreciation of right-of-use Assets	2.3	2.0	-
Amortisation of internally generated intangible assets	4.8	1.7	0.2
Adjusted EBITDA (£m)	(53.7)	(66.1)	(56.4)

FY 2020 performance: Adjusted EBITDA losses were reduced in the 2020 (by £12.4million) as revenues increased generating additional gross margin.

4. Number of publications

Definition: The number of scientific publications that include nanopore sequencing, as publicly available in online resources, including PubMed and BioRxiv. All efforts are made to avoid duplication of pre-print versus peer review publications, and to count these publications accurately.

Target: Publications are an indicator of the breadth and diversity of the use of nanopore sequencing in the scientific community. We aim to drive growth of nanopore usage in the scientific community, such that the number and breadth of publication consistently increase year on year.

Year ended 31 December	2020	2019	2018
Number of publications	821	325	134

FY 2020 performance: The number of publications increased by 496 in 2020, indicating both a traction of nanopore sequencing in the scientific community and expanding customer communities.

5. Staff attrition rates:

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

Target: Staff retention is a key mission of the Group. Management has targeted an attrition rate of less than 10%. The Group recognises that some attrition is normal, and in fact productive for growth companies.

Year ended 31 December	2020	2019	2018
Number of Employees (FTE)	527	466	405
Number of Leavers	19	25	25
Staff attrition rate (%)	3.6%	5.4%	6.2%

FY 2020 performance: Attrition rates have fallen in 2020.

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STRATEGIC REPORT (CONTINUED)

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.

i) ii)	What is the risk, and What does it mean for Oxford Nanopore?	What are we doing to manage the risk?
Intellectual property: <i>i.</i> Not protecting the Group's intellectual property, allowing competitors access to our technology <i>ii.</i> Patent litigation could have a significant impact on the organisation and lead to reputational issues	As the Group continues to expand its R&D and commercial activities, we must continue to develop and protect our patent portfolio to protect our intellectual property. 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 37).	
Failure to attract, engage and retain key talent: <i>i.</i> Not recruiting and retaining the best quality human resource available. <i>ii.</i> This will impact the ability to be at the forefront of technological advances, critical to the development and growth of Oxford Nanopore	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. 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.	
Major information security breach of cyber-attack: <i>i.</i> Loss of data and website inaccessibility. <i>ii.</i> Operations would be severely restricted.	The Group continues to invest heavily in: • Operating and protecting its technological assets, • awareness training for employees and • regular testing for vulnerabilities.	
Commercial: <i>i.</i> Breach in export controls. <i>ii.</i> Operations would be severely restricted.	The Group has a robust Export Control policy in place. Training is provided to employees to ensure the policy is adhered to. External advice is sought where applicable.	
Competition: <i>i.</i> Oxford Nanopore's competitors are considerably larger with more commercial and financial resources, as well as lobbying power, <i>ii.</i> Restrict the growth of the business.	The Group continues to monitor the activities of competitors, and to present the advantages of our technology over incumbent 'traditional' technology. The Group aims to stay ahead by: • producing novel products that offer new properties that will compete with more traditional performance metrics, • ambitious innovation and • maintaining a close and authentic relationship with its customer community.	
Financial: <i>i.</i> The business is not funded sufficiently to meet liabilities as they fall due. <i>ii.</i> Operations would be severely restricted.	We must ensure that sufficient liquidity is available to meet the financial commitments. We continue to invest in the expansion of the business, both pushing innovation and building commercial infrastructure. As such, the Company is loss-making at present and requires continued financial resources to increase commercial and operational activities to achieve profitability. We have managed our cash resources carefully and ensured that additional cash is raised on a timely basis. In May 2020, £48.4 million in new capital was raised followed by a further £84.4 million in September 2020. In April and May 2021, a further £202.0 million of new capital was raised. The Directors believe that the current financial resources are sufficient to fund operations for the foreseeable future.	

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STRATEGIC REPORT (CONTINUED)

i) <i>What is the risk, and</i> ii) <i>What does it mean for Oxford Nanopore?</i>	<i>What are we doing to manage the risk?</i>
Impact of COVID-19: i. The operational capacity of our laboratory-based customers is reduced by social distancing measures resulting from COVID-19 and the manufacturing capacity is reduced by supply issues and also social distancing measures in our facilities including our manufacturing facilities. ii. Reduction in revenue growth and reduction in volume of product made impacting revenue growth.	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 developed a novel COVID test, LamPORE. Both of these factors ensured that revenue growth of the Group was achieved in the year. 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. We have managed the employee base carefully to protect the health of our staff, enabling working from home procedures for a large proportion of our staff, and deploying stringent safety procedures for laboratory and production staff.
Technological: i. Loss of competitive advantage through technological advances made by competitors. ii. Reduction in revenue growth.	Oxford Nanopore will continue with its research and development activities to ensure that new technologies are being brought to the market, either as upgrades to existing products or new products. This will drive further expansion of markets and to further penetrate existing ones. Oxford Nanopore has a strong history of technology improvement and evolution and plans to continue to innovate, is a major factor of driving growth. The Group sets ambitious targets for its technology development and aims to recruit and develop the best employees to fulfil these targets. The culture of innovation is core to the success of the Group. The Group's strategy in the LSRT market 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.
Expansion of manufacturing activity: i. The manufacturing capacity is insufficient to meet future demand. ii. Inability to meet sales demand leading to a slower growth in revenue.	As the Group continues to increase the volume of product manufactured as well as expand the product range, it will require additional manufacturing capacity to meet this demand. In 2019, a new 35,000 square foot manufacturing plant was built in Oxfordshire. This plant has sufficient capacity to manage future growth for the medium term.
Failure of business critical supplier: i. Reliance on a key supplier. ii. If supply was disrupted it would cause significant production issues.	Due to the complexity and diversity of our products the Group relies on a number of key suppliers across the world. The Group is continuously working towards mitigating these risks: • with dual sources of supply wherever possible • Forecasting of requirements • Holding buffer stock • Know your supply chain (KYSC) procedures in place
UK exit from European Union ("Brexit"): i. The impact of the UK leaving the EU. ii. Leaving the EU may impact on supply of materials into the UK and the export of goods from the UK.	The UK left the EU on 31 January 2020 and the Transition period ended on 31 December 2020 with a Trade and Cooperation Agreement (TCA) in place between the UK and EU. The full impact on the fiscal, monetary and regulatory landscape in the UK is not fully known. The Group's priority has been to maintain continuity of supply of materials to keep production running and ensure we can deliver products to our customers. No material issues have arisen in the period since the year end.
Environmental sustainability: i. Regulators and other stakeholders increasingly expect companies to understand and reduce the environmental impacts across their business and mitigate the impacts climate change could have on their operations and supply chains ii. These changes may disrupt our operations and/or reduce consumer demand for our products.	The Group continues to monitor trends in physical, reputational and regulatory risks from climate change impacts.

The Group's processes to manage their principal financial risks are outlined in note 34.

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STRATEGIC REPORT (CONTINUED)

Future developments

The Directors are focused on driving growth of the Company, through ongoing innovation, and operational and commercial expansion. The general level of activity in 2021 is expected to increase compared to 2020. Revenue growth in our core LSRT business has been strong and accelerating in the first six months of 2021, compared to the same period in 2020, with indicative growth of greater than 80%. In addition, the value of contracts in hand indicates further growth in revenue to be received over the course of the next 18 months.

Innovation

The Company continues to invest in innovation, with the goal of driving forward a differentiated, competitive and high-performance technology portfolio, including:

- **Fundamental research** as a foundation for all our innovation activities, for example programmes to aid the discovery and development of new types of nanopores that may either improve current DNA/RNA sequencing or support the future analysis of other molecules on the nanopore sensing platform, such as proteins.
- **Pipeline:** New product or technology development to deliver technologies that can offer new capabilities to the market. For example, the Company is currently developing a new device, PromethION P2, to enable high output nanopore sequencing in a compact, accessible format. The Company also has R&D programmes to support easier end to end usage of nanopore sequencing, such as Ubik, a sample extraction and preparation device and further EPI2ME analysis workflows. The Company is also developing a 'voltage chip' designed to deliver denser sensor arrays that have the potential to drive significant increases in data output per mm².
- **Continuous improvement of the existing sequencing platform**, to aim to further progression in technology performance. For example, the Company has in summer 2021 started to release the newest "Q20+ kits" to Early Access customers. These kits have generated >99% single molecule accuracy, and with the novel Duplex method can achieve single molecule accuracies approaching Q30 or 99.9%, a highly competitive performance. The Company is also developing versions of its consumables that replace silicon with polymers to drive down costs. The Company will provide further updates as these technologies are rolled out further to the user community.
- **Manufacturing innovation.** The Company continues to optimise its manufacturing process through innovation of processes and materials.

Commercial development

The Company continues to invest in the expansion of its commercial organisation, having built commercial teams that include sales, market development, marketing, technical and customer support and digital operations such as ecommerce. Reflecting recent improvements in the technology the Company intends to approximately double these teams in the coming 18 months, to drive further sales and increase geographical coverage.

Commercial traction is demonstrated by the ongoing usage of the Company's technology in a number of areas including:

- **Broad genomics research**, across areas that include human biomedical and cancer research, plant, pathogen, animal and environmental analyses. During H1 2021, 537 publications were issued by the nanopore user community, compared to 1483 between 2014 and the end of 2020.
- **Genomic epidemiology:** As the COVID-19 pandemic continues during 2021, the use of nanopore sequencing has continued globally, with ~315,000 COVID-19 genomes using nanopore sequencing appearing in the international GISAID database at 14 July 2021, >350k genomes, from more than 85 countries. The Company is supporting customers who are seeking to expand the use of sequencing to perform surveillance of a broader range of pathogens that include seasonal or novel viruses as well as drug resistance in bacteria, and sees this as a fundamental shift in public health policy brought about by learnings from the pandemic.
- **High throughput human genome sequencing:** The use of nanopore sequencing in this area is increasing, as it is used to provide rich genomic insights (through a combination of the ability to sequence long reads, the ability to perform methylation analysis during the experiment), in a uniquely scalable format with the PromethION device. For example, during 2021, the Company has

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STRATEGIC REPORT (CONTINUED)

been pleased to support the scaleup of the ambitious Emirati Genome Programme, a high-throughput neurology programme with NIH in the USA, and a cancer genomics programme with Genomics England in the UK.

- The Company continues to build teams to approach future potential markets that include clinical genomics, industrial applied markets such as food safety or agriculture, and has established a subsidiary Oxford Nanopore Diagnostics.

Going concern

As at 31 December 2020, the consolidated balance sheet reflects a net asset position of £185.9 million, with cash reserves of £80.9 million. Subsequent to the year-end Oxford Nanopore received £202.0 million in April and May 2021, relating to a private placement of ordinary shares in the Company.

As part of the directors' consideration of the appropriateness of adopting the going concern basis in preparing the financial statements, a range of severe scenarios have been reviewed, including the potential impact of any further 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.

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.

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.

Climate change

One of the United Nations' Sustainable Development Goals (SDGs), is to "take urgent action to combat climate change and its impacts".

It is widely recognised that continued emission of greenhouse gases will cause further warming of the planet which could have damaging social and economic consequences. During 2020, we have continued to consider and mitigate against the potential impact of climate change on our business operations.

Our Board of Directors is supportive of implementing the Task Force on Climate related Financial Disclosures (TCFD) recommendations over time. In 2021 we will conduct a review of our current state and capture related business risks in our risk register. We plan to conduct scenario analyses and use the data to inform our decisions and prioritise actions.

We also plan to assess our business activities against the sustainability disclosure topics and accounting metrics included in the Sustainability Accounting Standards Board (SASB) framework for our sector.

OXFORD NANOPORE TECHNOLOGIES LIMITED

STRATEGIC REPORT (CONTINUED)

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			
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. 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. 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.	• Owners of the business receive regular updates in addition to trading updates on a twice-yearly call and annual full-year results reports. • We issue regular updates on our website and on social media, where stakeholders can follow progress of the business and our users. This includes the fortnightly 'digest' email.	• 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.	• The Board and management maintain a regular, fair and balanced dialogue with shareholders and their 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			
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. Stakeholder engagement – engaging with our People 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.	• 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.	• 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.	• 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			
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. 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. Stakeholder views 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. This requires us to have both deep understanding of their scientific needs, as well as understanding how to deliver this to them.	• The Chief Executive and senior leadership regularly meet 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.	• 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.	• 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 2020-21. • 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			
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. 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. Stakeholder concerns 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.	• 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.	• Due diligence processes. • Supplier relationships. • Supply chain management. • Fair payment practices.	• 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			
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. 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. 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. 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.	• 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.	• 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.	• 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

22 July 2021

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 2020.

Future developments

Details of future developments can be found in the Strategic Report, on pages 12 and 13, form part of this report by cross-reference.

Events after the balance sheet date

Trading

In July 2020, the Company entered into a contract with the Department of Health and Social Care (DHSC) to deliver LamPORE kits for the testing of the SARS-Cov-2 virus, as part of the UK Governments Test and Trace strategy. A number of kits were sold to the DHSC in 2020 (and paid for in 2021), but in April 2021, the DHSC determined that they no longer had a requirement for our product and terminated the contract before taking the maximum quantity allowable under the contract. This is a non-adjusting event, there is no financial effect on the net assets or any individual financial statement line item as at 31 December 2020. We do not expect to suffer any liability as a result of this contract termination.

Equity

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

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

On 9 June 2021, the shareholders approved (a) a conditional retention equity award of up to 6.5% of the company's equity to the Executive Directors. The grant is subject to achievement of performance conditions tied to revenue and share price and is subject to holding periods and (b) a limited anti-takeover non-voting share of £1.00 in the capital of the Company (a "LAT Share"). The latter was granted to help ensure the Company has time to realise the opportunity it believes is available to it with its new generation of sensing technology and to maximise long-term shareholder value, the Board is hereby proposing that, conditional on completion of the IPO, Dr. Gordon Sanghera, who is the co-founder of the Company and has been its chief executive officer since its foundation in 2005, will be issued a LAT Share. To provide for continuity of protection, and as described below, each of Dr. James Willcocks and Mr. Clive Brown would also be issued a LAT Share, conditional on completion of the IPO. However, no rights would attach to Dr. James Willcocks' or Mr. Clive Brown's LAT Shares for so long as Dr. Gordon Sanghera is a director or employee of the Company (or a group company). The LAT Shares are effectively only a single set of share rights, with the rights transferring between the holders in the order of priority set out below when there is a Disqualifying Event (as defined below) in respect of the preceding holder. The LAT Shares have been structured this way to ensure that there are no issues at a critical time with respect to delay (including as a consequence of the probate process) in the rights attaching to any LAT Share being transferred to the right person upon the holder of such LAT Share being subject to a Disqualifying Event. The rights attaching to each LAT Share will cease automatically upon the holder ceasing to be a director or employee of the Company (or any group company) (or, if earlier, upon such holder giving or being given notice of termination of such appointment or engagement) (a "Disqualifying Event").

Employer social security taxes on Unapproved share options

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

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

OXFORD NANOPORE TECHNOLOGIES LIMITED

DIRECTORS' REPORT (CONTINUED)

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

Research and development

During 2020 the Company continued to invest in developing its products as well as developing new products as set out on page 12 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.

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 (2019: £nil).

OXFORD NANOPORE TECHNOLOGIES LIMITED

DIRECTORS' REPORT (CONTINUED)

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
G Harmelin (appointed 17 September 2020)
A Hennah (appointed 24 June 2021)
W Becker (appointed 24 June 2021)
G S Sanghera
J P Willcocks
T Cowper
C G Brown

Directors' indemnities

The company indemnifies the Directors and Officers of the company and any Group subsidiary to the extent permitted by s236 of CA 2006 in respect of the legal defence costs for claims against them and third-party liabilities. The indemnity would not provide cover for a Director or Officer if that individual was found to have acted fraudulently or dishonestly. The Directors' and Officers' liability insurance cover was maintained throughout the year ended 31 December 2020 at the company's expense.

Political contributions

The Group did not make any contributions to political organisations during the year (2019: £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.

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.

During the course of 2020, the board were provided with high level HR updates to ensure they were informed of the current status of ONT's workforce. This would include;

- High level slide referring to ONT's people demographics informing the board of our current headcount and open positions, geographical location of our people to gender split and attrition rate.
- High level summary capturing strategic focus and progress affecting the current status and planning of ONT's workforce from Strategic hiring priorities, COVID-19 Business Continuity Plans and Communication to Organisational Development matters

At the end of 2020 the Board / Remuneration Committee were provided with an executive summary and performance report of ONT's business progress and impact for the year.

OXFORD NANOPORE TECHNOLOGIES LIMITED

DIRECTORS' REPORT (CONTINUED)

In 2021, the ONT management will be recommending the appointment of a designated NED on the board to support employee engagement along with other planned organisational development initiatives.

The employee share scheme has been running successfully since 2006. It is open to all employees and further details are provided in note 30.

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 14 to 17.

Energy and carbon reporting

The directors have reported on all sources of Green House Gases (GHG) emissions and energy usage as required under *The Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008* as amended in the table below.

GHG emissions and energy usage data for period 1 January 2020 to 31 December 2020

	UK and offshore - 2020
Emissions from combustion of gas (Scope 1 – tonnes of CO ₂ e) (Total Net CV)	359.16
Emissions from combustion of fuel for transport purposes (Scope 1 – tonnes of CO ₂ e)	-
Emissions from electricity purchased for own use, including for the purposes of transport (Scope 2 – tonnes of CO ₂ e)	1,091.73
Emissions from business travel in rental cars or employee-owned vehicles where company is responsible for purchasing the fuel (Scope 3 - tonnes of CO ₂ e)	11.88
Total gross CO₂e (tonnes) based on above	1,462.77
Energy consumption used to calculate emissions – kwh (Gas / Electric / Transport)	6,494,544
Tonnes of CO ₂ e per £m revenue	12.85

The Company's aims to reduce the Tonnes of CO₂e per £m revenue to by 2.5% in 2021.

Given the global nature of the business and the fact that Oxford Nanopore has shared occupancy in a number of locations, consumption data is a mix of direct readings, monthly leasing agreement charges and percentage occupancy:

- 84% of the data is derived directly from meter readings that the Company has access to through an energy management company, the Utility Team;
- When calculating kWh and related CO₂e emissions for leased occupancy units, data in most cases has been calculated on a total meter reading x percentage occupancy by the lease holder of ft² estimates; and
- For transport, the UK government guidance has been used, however due to the fact that fuel type is not available, we have assumed UK averages and used the CO₂ and kWh figures for an Upper medium vehicle running diesel. Employee business transport only accounts for <1% of our carbon emissions.

Reporting of usage of renewable energy and carbon offsets:

- 69% of our energy purchased is sourced from renewables and is certified (Renewable Energy Guarantees of Origin (REGO)). This accounts for 85% of our electricity purchased.

OXFORD NANOPORE TECHNOLOGIES LIMITED

DIRECTORS' REPORT (CONTINUED)

The BEIS Environmental Reporting Guidelines recommend that omissions do not exceed 2-5% of overall emissions or energy. Every effort has been made to collate the data accurately, or where estimates have been made appropriate sources have been used.

The Company does not currently record its Scope 3 emissions, but it is in our Sustainability Plan to do so within the next 18 months.

All measurable consumption data has been included along with known sources, whether through direct bills, percentage occupation of a leased unit, energy usage standards per ft² or fuel conversion standards from the government.

Reporting boundary and methodology

We have followed the 2019 UK Government environmental reporting guidance. We have used the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) and emission factors from the UK Government's GHG Conversion Factors for Company Reporting 2019 to calculate the above disclosures.

Energy efficiency actions taken

We have taken a number of steps to improve energy efficiency. These include:

- the continued implementation of LED lighting upgrades as site modifications occur;
- agreeing a Sustainability strategic plan, that will include the assessment of Scope 1, 2 and 3 emissions; and
- an energy audit of sites we have autonomy for, increase submetering (permanent or intermittent to allow us to define specific area usage (beyond buildings) and therefore allow us to target a reduction in consumption where feasible.

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

22 July 2021

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 are required to prepare the group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. The financial statements also comply with International Financial Reporting Standards (IFRSs) as issued by the IASB. 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

22 July 2021

22 July 2021

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 2020 and of the group's loss for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- 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 statements of financial position;
- the consolidated and parent company statements of changes in equity;
- the consolidated and parent company statements of cash flows; and
- the related notes 1 to 38.

The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006.

Basis for opinion

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

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the 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

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

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

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

Other information

The other information comprises the information included in the directors' and strategic reports, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information

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

and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

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.

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the group's industry and its control environment, and reviewed the group's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory frameworks that the group operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty. These included UK Companies Act 2006 and taxation legislation.

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

We discussed among the audit engagement team and with relevant internal specialists such as tax, valuations, IT and industry specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud or non-compliance with laws and regulations in revenue recognition, particularly in relation to the timing of recognition of revenue, and our specific procedures performed to address them are described below:

- A sample of transactions recorded in revenue was selected, with a particular focus on transactions around year end. We confirmed that revenue had been recognised appropriately in respect of these transactions, at the appropriate price and in the correct period; and
- We challenged key judgements made by Management in applying IFRS 15 and validated, on a sample basis, the appropriateness of contract assets and liabilities.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance.

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.

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

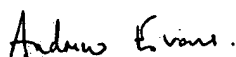
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF OXFORD NANOPORE TECHNOLOGIES LIMITED

- 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

London, United Kingdom

22 July 2021

OXFORD NANOPORE TECHNOLOGIES LIMITED

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2020

	<i>Notes</i>	2020 £000's	2019 £000's
Revenue	5	113,860	52,061
Cost of sales		(66,981)	(26,442)
Gross profit		46,879	25,619
Operating expenses			
Research & development expenses		(48,551)	(40,456)
Selling, general & administrative expenses		(71,388)	(66,056)
Total operating expenses		(119,939)	(106,512)
Loss from operations		(73,060)	(80,893)
Finance income	12	91	518
Finance costs	12	(747)	(709)
Other gains	13	563	600
Loss before tax	7	(73,153)	(80,484)
Tax credit	14	11,909	8,268
Loss for the year		(61,244)	(72,216)
Loss per share	8	(0.0020)	(0.0025)

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

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

OXFORD NANOPORE TECHNOLOGIES LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION As at 31 December 2020

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

The financial statements of Oxford Nanopore Technologies Limited (Registered number 05386273) were approved by the board of directors and authorised for issue on 22 July 2021. They were signed on its behalf by:

G Sanghera

Director



OXFORD NANOPORE TECHNOLOGIES LIMITED

COMPANY STATEMENT OF FINANCIAL POSITION As at 31 December 2020

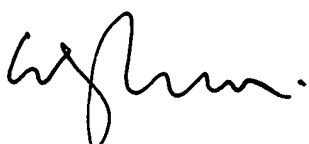
	<i>Notes</i>	2020 £000's	2019 £000's
Non-current assets			
Intangible assets	15	22,867	16,521
Property, plant and equipment	16	36,612	32,277
Right-of-use Assets	17	11,656	7,868
Investments in subsidiary undertakings	18	5,901	3,476
Investments in associates	19	548	-
		<u>77,584</u>	<u>60,142</u>
Current assets			
Inventory	20	34,736	19,422
Trade and other receivables	21	61,328	50,200
R&D tax credit recoverable	14	20,696	17,479
Derivative financial instruments	23	62	600
Cash and cash equivalents	31	77,614	10,729
		<u>194,436</u>	<u>98,430</u>
Total assets		<u>272,020</u>	<u>158,572</u>
Current liabilities			
Trade and other payables	22	(65,200)	(30,422)
Lease liabilities	24	(1,296)	(1,279)
		<u>(66,496)</u>	<u>(31,701)</u>
Net current assets		<u>127,940</u>	<u>66,729</u>
Non-current liabilities			
Lease liabilities	24	(10,742)	(6,673)
Loan	25	(9,500)	(9,500)
Provisions	25	(1,355)	(1,355)
		<u>(21,597)</u>	<u>(17,528)</u>
Total liabilities		<u>(88,093)</u>	<u>(49,229)</u>
Net assets		<u>183,927</u>	<u>109,343</u>
Equity			
Share capital	26	36	33
Share premium reserve	27	610,544	479,332
Share based payment reserve	30	35,079	28,215
Accumulated deficit	28	(461,732)	(398,237)
Total equity		<u>183,927</u>	<u>109,343</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 £63.5m (2019: £71.9m).

The financial statements of Oxford Nanopore Technologies Limited (Registered number 05386273) were approved by the board of directors and authorised for issue on 22 July 2021. 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 2020

Consolidated	Share Capital	Share Premium Account	Employee share- based payments	Accum Deficit	Translation Reserve	Total
	£000's	£000's	£000's	£000's	£000's	£000's
Balance at 1 January 2019	33	450,231	18,332	(325,563)	(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	28,215	(397,779)	(273)	109,528
Loss for the year	-	-	-	(61,244)	-	(61,244)
Exchange loss on translation of subsidiary	-	-	-	-	(429)	(429)
Issue of share capital	3	135,061	-	-	-	135,064
Cost of share issue	-	(3,849)	-	-	-	(3,849)
Employee share-based payments	-	-	6,864	-	-	6,864
Balance at 31 December 2020	36	610,544	35,079	(459,023)	(702)	185,934

Company	Share Capital	Share Premium Account	Share Based Payment	Accum Deficit	Total
	£000's	£000's	£000's	£000's	£000's
Balance at 1 January 2019	33	450,231	18,332	(326,297)	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	28,215	(398,237)	109,343
Loss for the year	-	-	-	(63,495)	(63,495)
Issue of share capital	3	135,061	-	-	135,064
Cost of share issue	-	(3,849)	-	-	(3,849)
Employee share-based payments	-	-	6,864	-	6,864
Balance at 31 December 2020	36	610,544	35,079	(461,732)	183,927

OXFORD NANOPORE TECHNOLOGIES LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS for the year ended 31 December 2020

Group	Notes	2020 £000's	2019 £000's (restated)
Net cash outflow from operating activities	31	(63,806)	(48,679)
Investing activities			
Purchases of property, plant and equipment		(15,737)	(18,462)
Cash expenditures for development costs		(10,735)	(11,829)
Investment in associate	19	(548)	-
Interest received		81	814
Proceeds from maturities of short-term investments*	34	-	58,000
Net cash (outflow)/inflow in investing activities		(26,939)	28,523
Financing activities			
Proceeds from issue of shares		163,955	276
Costs of share issue		(2,676)	(55)
Principal elements of lease payments		(2,058)	(1,708)
Interest paid		(229)	(263)
Interest paid on leases		(415)	(238)
Net cash inflow/(outflow) from financing activities		158,577	(1,988)
Net increase / (reduction) in cash and cash equivalents before foreign exchange movements		67,832	(22,144)
Effect of foreign exchange rate losses		(61)	(85)
Cash and cash equivalents at beginning of period		13,092	35,321
Cash and cash equivalents at end of period		80,863	13,092

* See note 3 for details of the restatement proceeds from maturities of short-term investments.

OXFORD NANOPORE TECHNOLOGIES LIMITED

COMPANY STATEMENT OF CASH FLOWS for the year ended 31 December 2020

Company	Notes	2020 £000's	2019 £000's (restated)
Net cash outflow from operating activities	31	(68,065)	(53,769)
Investing activities			
Purchases of property, plant and equipment		(12,858)	(15,599)
Capitalisation of Development costs		(10,735)	(11,829)
Investment in associate	19	(548)	-
Investment in subsidiaries		(430)	-
Interest received		81	814
Proceeds from maturities of short-term investments*		-	58,000
Net cash (outflow)/inflow from investing activities		(24,490)	31,386
Financing activities			
Proceeds from issue of shares		163,955	276
Costs of share issue		(2,676)	(55)
Principal elements of lease payments		(1,253)	(1,025)
Interest paid		(229)	(258)
Interest paid on leases		(357)	(194)
Net cash inflow/(outflow) from financing activities		159,440	(1,256)
Net increase/(reduction) in cash and cash equivalents before foreign exchange movements		66,885	(23,639)
Cash and cash equivalents at beginning of period		10,729	34,368
Cash and cash equivalents at end of period		77,614	10,729

* See note 3 for details of the restatement of proceeds from maturities of short-term investments.

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the year ended 31 December 2020

1. PRESENTATION OF THE FINANCIAL STATEMENTS

General Information

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

The principal activities of the Company and its subsidiaries (‘the Group’ or ‘Oxford Nanopore’) and the nature of the Group’s operations are to research, develop, manufacture and commercialise the world’s only commercial nanopore-based sequencing platform that allows the real-time analysis of deoxyribonucleic acid (DNA) or ribonucleic acid (RNA). This enables 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.

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

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

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

(i) Amendments to References to the Conceptual Framework in IFRS Standards

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

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

(ii) 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’.

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

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

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

New and revised IFRS standards in issue but not yet effective

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

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards as issued by the IASB.

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 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.

Going concern

As at 31 December 2020, the consolidated statement of financial position reflects a net asset position of £185.9 million, with cash reserves of £80.9 million. Subsequent to the year-end Oxford Nanopore received £202.0 million in April and May 2021, relating to a private placement of ordinary shares in the Company.

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 any further 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.

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.

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.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company, entities controlled by the Company (its subsidiaries) and its interest in associates (using the equity method of accounting) made up to 31 December each year.

Control is achieved where the Company:

- 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 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

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- 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.

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

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Prior period restatement

The 2019 financial statements showed amounts transferred from/(to) other financial assets of £58m as a movement within Financing Activities in the consolidated statement of cashflows. In accordance with IAS 7 Statement of Cash Flows this should have been presented as an Investing Activities cashflow as it relates to the maturity of fixed term deposits returning to cash and cash equivalents. As the amount of this error is material, in line with IAS 8 we have restated the prior year comparative in the consolidated statement of cashflows. There is no impact on any other primary financial statements or notes.

Revenue recognition

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

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

Revenue from the sale of bundled goods and services include multiple performance obligations which are separately recognised. For example, a bundled contract might include the lease of a sequencing device, software 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.

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

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

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leased assets

The Group as a lessee

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

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

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

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

- 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).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

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

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

The right-of-use assets are presented as a separate line in the consolidated statement of financial position. The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

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

The Group as 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 4 for income from leases.

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

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.

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

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled, or the asset is realised based on tax laws and rates that have been enacted, or substantively enacted, at the reporting date.

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

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

Property, plant and equipment

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

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

Freehold land is not depreciated.

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

Leasehold Land	- over lease period straight-line
Building	- over 40 years straight-line
Leasehold improvements	- over the expected duration of the lease straight-line
Plant and machinery	- 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 UEL of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the UEL of the underlying asset.

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

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Internally-generated intangible assets – research and development expenditure

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

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

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

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

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

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

Patents and license

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

Impairment of tangible and intangible assets excluding goodwill

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

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

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

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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.

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Investments in subsidiaries

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.

Investments in associates

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

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

Under the equity method, an investment in an associate is recognised initially in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

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

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

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

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS **For the year ended 31 December 2020**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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.

Trade and Other 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.

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

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

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

Dilapidation provisions

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

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.

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the year ended 31 December 2020

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 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 2020, was £4,835,000, based on the following assessments for UEL:

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

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

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

Development of Core Technology Platform	-	2 years
Development of Sequencing Kits	-	1 year

Then the amortisation would have been £6,267,000, £1,431,000 more than included in the financial statements.

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

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.

iii. Bill-and-hold arrangement

During 2020, the Group recognised revenue amounting to £18.8 million under a bill-and-hold arrangement for the sale of goods to a customer. The customer did not have adequate storage facilities and requested the company ship the goods to a specific storage facility located on the Group's premises. Revenue was recognised as goods were shipped to this delivery location. The bill-and-hold recognition criteria requires that there is substantive evidence that the customer has requested this arrangement. This is not explicit in the signed contract, therefore there is judgement in applying this method. In addition, Management has applied significant judgement in allocating the total contract price to each performance obligation in the contract.

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 30. 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 3.3 years.

If the vesting period were to decrease to 2 years, the Group recognised total expenses of £6.8 million (2019: £9.9 million) relating to equity-settled share-based payment transactions in 2020 would increase by £4.5 million (2019: £2.4 million).

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the year ended 31 December 2020

5. REVENUE

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

	2020 £000's	2019 £000's
Geographical region		
USA	16,414	14,613
Europe	18,914	14,341
China	7,715	8,740
UK	52,879	3,691
Japan	4,162	3,228
Rest of World	13,776	7,448
	<u>113,860</u>	<u>52,061</u>

	2020 £000's	2019 £000's
Category		
Sale of goods	106,057	46,620
Rendering of services	4,884	3,391
Lease income	2,919	2,050
Total revenue from contracts with customers	<u>113,860</u>	<u>52,061</u>

	2020 £000's	2019 £000's
Timing of revenue recognition		
At a point in time	106,057	46,620
Over time	7,803	5,441
Total revenue from contracts with customers	<u>113,860</u>	<u>52,061</u>

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

Revenue recognised in relation to contract liabilities:

	2020 £000's	2019 £000's
Revenue recognised that was included in the contract liability balance at the beginning of the period	<u>4,740</u>	<u>3,081</u>

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

6. SEGMENT INFORMATION

Products and services from which reportable segments derive their revenues.

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

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

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

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

(a) Information about major customers

The Group has one major UK Government customer, which represents 42% of Group revenue. Revenues from this customer were £47.6 million (2019: £nil) and reported within the COVID Testing segment.

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

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

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

* All revenues earned in 2019 were generated from Life Science Research Tools (LSRT).

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the year ended 31 December 2020

6. SEGMENT INFORMATION (CONTINUED)

(b) Adjusted EBITDA

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

	LSRT £000's	COVID Testing £000's	2020 £000's	2019* £000's
(Loss) / Profit before tax	(87,854)	14,701	(73,153)	(80,484)
Finance income	(91)	-	(91)	(518)
Loan interest	251	-	251	263
Interest on lease	496	-	496	351
Exchange losses	2,070	-	2,070	95
Other gains	(563)	-	(563)	(600)
Depreciation and amortisation	16,839	496	17,335	14,845
Adjusted EBITDA	(68,852)	15,197	(53,655)	(66,048)

* All Adjusted EBITDA in 2019 was generated from Life Science Research Tools (LSRT).

(c) Supplementary information

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

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

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

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the year ended 31 December 2020

6. SEGMENT INFORMATION (CONTINUED)

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

	LSRT	COVID Testing	2020	2019
	£000's	£000's	£000's	£000's
USA	4,508		4,508	2,652
Europe	7		7	-
China	340		340	505
UK	69,558	2,125	71,683	56,664
Japan	36		36	27
Rest of world	42		42	28
	74,491	2,125	76,616	59,876

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

7. LOSS BEFORE TAX

	Notes	2020 £000's	2019 £000's
<i>This is after charging / (crediting):</i>			
Non-staff research and development costs		22,030	19,042
Amortisation of internally generated intangible assets	14	4,835	1,713
Depreciation of property, plant and equipment	15	10,125	11,118
Depreciation of right-of-use assets	16	2,375	2,014
Loss on disposal of property, plant and equipment		1	4
Cost of inventories		33,767	17,427
Write-down of inventories		1,428	1,196
Net foreign exchange loss		2,070	95

All amounts relate to continuing operations.

Amortisation of internally generated intangible assets is included within selling, general & administration expenses in the consolidated income statement. No amortisation was charged to the acquired intangible asset which was acquired as at 31 December 2020.

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the year ended 31 December 2020

8. LOSS PER SHARE

(a) Basic and diluted loss per share

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

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

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

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

	2020 (Number)	2019 (Number)
Weighted average number of ordinary shares used as the denominator in calculating basic loss per share	30,727,651	29,089,856

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

Options

Options granted to employees under the Oxford Nanopore Technologies Share Option Scheme and the Oxford Nanopore Technologies Limited Share Option Plan 2018 are considered to be potential ordinary shares. These options have not been included in the determination of basic and diluted loss per share for the year ended 31 December 2020. They could potentially dilute basic earnings per share in the future. Details relating to the options are set out in note 30.

9. AUDITOR'S REMUNERATION

The analysis of auditor's remuneration is as follows:

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

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the year ended 31 December 2020

10. STAFF COSTS

The average monthly number of employees was:

	Group		Company	
	2020	2019	2020	2019
	(Number)	(Number)	(Number)	(Number)
Research and Development	235	214	207	188
Production	106	97	106	97
Sales, General & Administration	186	155	139	117
	<u>527</u>	<u>466</u>	<u>452</u>	<u>402</u>

		Group		Company	
		2020	2019	2020	2019
		£000's	£000's	£000's	£000's
Their aggregate remuneration comprised:	<i>Notes</i>				
Wages and salaries		40,619	33,157	31,472	26,401
Pension costs		946	606	893	566
Social security costs		4,324	3,588	3,707	3,042
Other staff costs		897	684	354	271
Share based payments	30	6,864	9,883	4,869	6,433
		<u>53,650</u>	<u>47,918</u>	<u>41,295</u>	<u>36,713</u>

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

11. DIRECTORS' AND KEY MANAGEMENT COMPENSATION

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

One director is a member of a money purchase plan.

The highest paid director exercised no share options in the current period (2019: nil).

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

11. DIRECTORS' AND KEY MANAGEMENT COMPENSATION (CONTINUED)

In 2020, no share options were granted to the directors (2019: 193,000) and 18,825 share options were exercised during the year (2019: nil). The total number of share options held by directors is 282,179 (2019: 301,004).

Executive directors receive medical insurance for themselves as a non-monetary benefit. Total premiums in respect of this cover amounted to £19,852 (2019: £18,951). All the emoluments relate to short-term employee benefits. No director received any post-employment benefit, other long-term benefit or termination benefit.

Key Management Compensation

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

	2020 £000's	2019 £000's
Short-term employee benefits	3,939	2,936

In addition to the above, charges to the profit and loss account relating to share-based payments relating to options held by Directors amounted to £1,193,218 (2019: £2,386,831).

12. FINANCE INCOME AND COSTS

	2020 £000's	2019 £000's
Finance income		
Bank interest	91	518

	2020 £000's	2019 £000's
Finance costs		
Loan interest	(251)	(263)
Interest on lease	(496)	(351)
Exchange losses	-	(95)
	(747)	(709)

13. OTHER GAINS AND LOSSES

	2020 £000's	2019 £000's
Gains		
Gain on derivative financial instrument	563	600
	563	600

The derivative financial instruments are disclosed in note 23.

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

14. TAX ON LOSS ON ORDINARY ACTIVITIES

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

A deferred tax asset of £1,439,000 (2019: £348,000) has been recognised in relation to future share option exercises, and other timing differences in Oxford Nanopore Technologies Inc, because it is probable that the asset will be utilised in the foreseeable future.

The remaining deferred tax asset of £80,891,000 (2019: £51,545,000) relating to the rest of the Group has not been recognised due to uncertainty that the asset will be utilised in the foreseeable future. The unrecognised deferred tax asset in relation tax losses of £343,167,000 (2019: £299,212,000) has increased during the period. Deferred tax balances have been recognised at the rate expected to apply when the deferred tax attribute is forecast to be utilised based on substantively enacted rates at the balance sheet date.

All other current tax balances have been calculated at the rates enacted for the period. The effective rate of corporation tax applied to reported profit is 16.1% (2019: 10.3%) of the profit before tax for the Group.

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

The differences between the rate of corporate tax in the UK of 19% (2019: 19%) and the tax credit for the year are explained below:

	2020 £000's	2019 £000's
Loss before taxation	(73,153)	(80,484)
Tax rate in the UK for period as a percentage of losses at 19% (2019: 19%)	(13,900)	(15,292)
Adjustment in respect of overseas tax rates	43	30
Enhanced R&D tax relief	(4,705)	(3,872)
Expenses not deductible	716	133
Adjustments to tax charge in respect of previous periods	(376)	100
Origination of unrecognised tax losses	8,257	9,223
Impact of share options	(1,690)	1,410
Other timing differences	(254)	-
	(11,909)	(8,268)

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the year ended 31 December 2020

14. TAX ON LOSS ON ORDINARY ACTIVITIES (CONTINUED)

Group & Company

R&D tax credit recoverable	2020 £000's	2019 £000's
Balance at 1 January	17,479	8,579
Adjustment to R&D tax credit in respect of previous periods	762	(100)
Cash receipt	(8,479)	-
R&D tax credit for the period	10,934	9,000
Balance at 31 December	20,696	17,479

15. INTANGIBLE ASSETS

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

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

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the year ended 31 December 2020

15. INTANGIBLE ASSETS (CONTINUED)

The amortisation periods for intangible assets are:

Development of Core Technology Platform	-	3 years
Development of Sequencing Kits	-	2 years
Patent and License	-	over the expected duration of the patent or license

16. 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 2019	16,243	1,394	9,315	7,932	6,061	40,945
Additions	-	4,795	4,000	7,478	2,189	18,462
Disposals	-	-	(50)	(1,985)	(5)	(2,040)
Transfers	-	340	(340)	-	-	-
Foreign exchange movements	-	-	(16)	-	(25)	(41)
At 31 December 2019	16,243	6,529	12,909	13,425	8,220	57,326
Additions	158	-	3,785	8,829	2,965	15,737
Disposals	-	-	(76)	(2,241)	(18)	(2,335)
Foreign exchange movements	-	-	(7)	(11)	(31)	(49)
At 31 December 2020	16,401	6,529	16,611	20,002	11,136	70,679
Accumulated depreciation						
At 1 January 2019	(460)	(1,352)	(5,690)	(3,200)	(3,779)	(14,481)
Charge for the year	(419)	(120)	(1,413)	(7,553)	(1,613)	(11,118)
Eliminated on disposals	-	-	49	1,985	2	2,036
Foreign exchange movements	-	-	10	-	15	25
At 31 December 2019	(879)	(1,472)	(7,044)	(8,768)	(5,375)	(23,538)
Charge for the year	(1,347)	(34)	(1,653)	(4,968)	(2,123)	(10,125)
Eliminated on disposals	-	-	75	2,241	18	2,334
Foreign exchange movements	-	-	10	1	25	36
At 31 December 2020	(2,226)	(1,506)	(8,612)	(11,494)	(7,455)	(31,293)
Carrying amount						
At 31 December 2019	15,364	5,057	5,865	4,657	2,845	33,788
At 31 December 2020	14,175	5,023	7,999	8,508	3,681	39,386

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16. 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 2019	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)
Transfers	-	340	(340)	-	-	-
At 31 December 2019	16,243	6,501	12,504	9,917	7,636	52,801
Additions	158	-	3,860	6,095	2,745	12,858
Disposals	-	-	(76)	(1,861)	(18)	(1,955)
Transfers	-	-	-	-	(18)	(18)
At 31 December 2020	16,401	6,501	16,288	14,151	10,345	63,686
Accumulated depreciation						
At 1 January 2019	(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)
Charge for the year	(1,344)	(34)	(1,624)	(3,629)	(1,870)	(8,501)
Eliminated on disposals	-	-	74	1,859	18	1,951
At 31 December 2020	(2,220)	(1,506)	(8,337)	(8,115)	(6,896)	(27,074)
Carrying amount						
At 31 December 2019	15,367	5,029	5,717	3,572	2,592	32,277
At 31 December 2020	14,181	4,995	7,951	6,036	3,449	36,612

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

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

OXFORD NANOPORE TECHNOLOGIES LIMITED

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17. RIGHT-OF-USE ASSETS

Group	Buildings	Total
Cost	£000's	£000's
At 1 January 2019	-	-
Recognised on adoption of IFRS 16	11,581	11,581
At 31 December 2019	11,581	11,581
Additions	6,687	6,687
Exchange gain	(127)	(127)
At 31 December 2020	18,141	18,141
Amortisation		
At 1 January 2019	-	-
Charge for the year	(2,014)	(2,014)
At 31 December 2019	(2,014)	(2,014)
Charge for the year	(2,375)	(2,375)
Exchange loss	63	63
At 31 December 2020	(4,326)	(4,326)
Carrying amount		
At 31 December 2019	9,567	9,567
At 31 December 2020	13,815	13,815
Company	Buildings	Total
Cost	£000's	£000's
At 1 January 2019	-	-
Recognised on adoption of IFRS 16	9,149	9,149
At 31 December 2019	9,149	9,149
Additions	5,253	5,253
At 31 December 2020	14,402	14,402
Amortisation		
At 1 January 2019	-	-
Charge for the year	(1,281)	(1,281)
At 31 December 2019	(1,281)	(1,281)
Charge for the year	(1,465)	(1,465)
At 31 December 2020	(2,746)	(2,746)
Carrying amount		
At 31 December 2019	7,868	7,868
At 31 December 2020	11,656	11,656

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18. INVESTMENT IN SUBSIDIARIES

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

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

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18. INVESTMENT IN SUBSIDIARIES (CONTINUED)

- 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.
- 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 commenced trading on 1 May 2020.
- *Oxford Nanopore Technologies Australia PTY Ltd was set up on 6 January 2020 and commenced trading in November 2020.
- **Oxford Nanopore Technologies Denmark ApS was set up on 29 September 2020 and commenced trading on 1 December 2020.
- ***Oxford Nanopore Technologies SARL was set up on 1 December 2020 and not yet commenced trading.

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

	2020 £000's	2019 £000's
Company		
Investment value at 1 January	3,476	25
Equity-settled instruments granted to employees of subsidiaries	1,995	3,451
Additions in the year	430	-
Investment value at 31 December	5,901	3,476

OXFORD NANOPORE TECHNOLOGIES LIMITED

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19. INVESTMENT IN ASSOCIATES

An associate of Oxford Nanopore Technologies Limited is as follows:

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

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

- Pursuant to a shareholder agreement, the Company has the right to cast 18.5 per cent of the votes of Veiovia Limited.
- Although the Group holds less than 20 per cent of the equity shares of Veiovia Limited, and it has less than 20 per cent of the voting power at shareholder meetings, the Group exercises significant influence by virtue of its contractual right to appoint one director to the board of directors of that entity.
- For the purposes of applying the equity method of accounting, the financial statements of Veiovia Limited for the year ended 31 December 2020 have been used. Management is not aware of any indicators of impairment that may have developed and existed at the reporting year end.
- Veiovia Limited's registered office is The University of York, Biology B/A/039, Wentworth Way, York, UK, YO10 5DD.

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

20. INVENTORY

	Group		Company	
	2020 £000's	2019 £000's	2020 £000's	2019 £000's
Raw materials	11,738	13,078	11,733	13,078
Work in progress	14,363	3,850	14,203	3,850
Finished goods	9,526	3,106	8,800	2,494
	35,627	20,034	34,736	19,422

Cost of inventories recognised as an expense during the year ended 31 December 2020 amounted to £33.8 million (2019: £17.4 million). These were included in cost of sales in the Income Statement.

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

OXFORD NANOPORE TECHNOLOGIES LIMITED

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21. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2020	2019	2020	2019
	£000's	£000's	£000's	£000's
Trade receivables	49,021	14,126	45,164	11,536
Contract assets	1,873	-	1,873	-
Other debtors	1,310	30,007	666	29,746
Accrued interest income	16	7	16	7
Other taxes	2,886	4,360	2,926	4,162
Prepayments	10,800	4,806	10,683	4,749
	<u>65,906</u>	<u>53,306</u>	<u>61,328</u>	<u>50,200</u>

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

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

Group	Trade receivables – days past due				
	not past due	30-60 days	61-90 days	91+ days	Total
Trade receivables					
At 31 December 2020	34,513	5,800	3,260	7,406	50,979
Loss allowance	-	-	-	(1,958)	(1,958)
	<u>34,513</u>	<u>5,800</u>	<u>3,260</u>	<u>5,448</u>	<u>49,021</u>
At 31 December 2019	7,639	3,197	1,520	3,714	16,070
Loss allowance	-	-	-	(1,944)	(1,944)
	<u>7,639</u>	<u>3,197</u>	<u>1,520</u>	<u>1,770</u>	<u>14,126</u>

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
At 1 January 2019	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
Net charges and releases to income statement	51
Foreign exchange gains and losses	(37)
Balance at 31 December 2020	<u>1,958</u>

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the year ended 31 December 2020

21. TRADE AND OTHER RECEIVABLES (CONTINUED)

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

Company	Trade receivables – days past due				
	not past due	30-60 days	61-90 days	91+ days	Total
Trade receivables					
At 31 December 2020	32,103	5,182	2,598	6,233	46,116
Loss allowance	-	-	-	(952)	(952)
	<u>32,103</u>	<u>5,182</u>	<u>2,598</u>	<u>5,281</u>	<u>45,164</u>
At 31 December 2019	5,993	2,476	1,213	3,262	12,944
Loss allowance	-	-	-	(1,408)	(1,408)
	<u>5,993</u>	<u>2,476</u>	<u>1,213</u>	<u>1,854</u>	<u>11,536</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:

Company	Total £000's
At 1 January 2019	459
Net charges and releases to income statement	954
Amounts written off	(20)
Foreign exchange gains and losses	15
Balance at 31 December 2019	1,408
Net charges and releases to income statement	(421)
Foreign exchange gains and losses	(34)
Balance at 31 December 2020	953

22. CURRENT TRADE AND OTHER PAYABLES

	Group		Company	
	2020 £000's	2019 £000's	2020 £000's	2019 £000's
Trade payables and other creditors	31,007	11,952	30,025	10,787
Payroll taxation and social security	2,890	894	2,730	849
Corporation tax payable	570	884	-	-
Accruals	17,849	14,481	16,255	13,544
Inter company	-	-	1,059	181
Contract liabilities	17,828	6,508	15,131	5,061
	<u>70,144</u>	<u>34,719</u>	<u>65,200</u>	<u>30,422</u>

OXFORD NANOPORE TECHNOLOGIES LIMITED

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For the year ended 31 December 2020

22. CURRENT TRADE AND OTHER PAYABLES (CONTINUED)

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases by the Company and Group is 89 days (2019: 41 days).

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

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

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

23. DERIVATIVE FINANCIAL INSTRUMENTS

	Group		Company	
	2020	2019	2020	2019
Derivative financial assets	£000's	£000's	£000's	£000's
Foreign currency forward contracts	62	600	62	600
	62	600	62	600

24. LEASE LIABILITIES

	Group		Company	
	2020	2019	2020	2019
Maturity analysis – contractual undiscounted cash flows	£000's	£000's	£000's	£000's
Up to one year	2,656	2,119	1,853	1,342
One to five years	7,512	4,264	6,072	3,328
Greater than five years	9,940	8,594	9,940	8,594
Total undiscounted lease liabilities at 31 December	20,108	14,977	17,865	13,264
Current	2,039	2,015	1,296	1,279
Non-current	12,093	7,566	10,742	6,673
Lease liabilities included in the consolidated statement of financial position	14,132	9,581	12,038	7,952

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the year ended 31 December 2020

25. LOANS AND PROVISIONS

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

During 2017 the lease of land and accompanying purchase of Gosling Building (see note 16) 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). During the year, the Group has refinanced the loan with Barclays Bank for a new term starting from 5 August 2020 for 4 years. The average interest rate charged in the year was 2.63% (2019: 2.75%). Barclays Bank has a legal charge on this leasehold property as security against the loan. The financial covenant relating to this loan is for the loan outstanding to be no more than 55% of the property value. The Company continues to meet this banking covenant, with significant headroom.

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

Provisions	2020	2019
	£000's	£000's
Group		
Balance at 1 January	1,407	1,005
Additional provision in the year	97	402
Foreign exchange movements	(5)	-
Balance at 31 December	1,499	1,407
Company		
Balance at 1 January	1,355	1,005
Additional provision in the year	-	350
Balance at 31 December	1,355	1,355

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

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

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

OXFORD NANOPORE TECHNOLOGIES LIMITED

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26. SHARE CAPITAL

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

During the year, Oxford Nanopore raised £132.8 million (2019: £29.3 million) through the issuance of 2,505,915 ordinary shares (2019: 504,470) at a share price of £53 per share (2019: £58). In addition, 235,277 ordinary shares (2019: 77,213) were issued as a result of share options exercised. Transaction costs for the issue of shares are offset against the Share Premium Reserve.

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

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

27. SHARE PREMIUM

	2020 £000's	2019 £000's
Group and Company		
At 1 January	479,332	450,231
Premium arising on issue of equity shares	135,061	29,534
Share issue costs	(3,849)	(433)
At 31 December	610,544	479,332

28. ACCUMULATED DEFICIT

	Group		Company	
	2020 £000's	2019 £000's	2020 £000's	2019 £000's
At 1 January	(397,779)	(325,563)	(398,237)	(326,297)
Total recognised loss for the year	(61,244)	(72,216)	(63,495)	(71,940)
At 31 December	(459,023)	(397,779)	(461,732)	(398,237)

OXFORD NANOPORE TECHNOLOGIES LIMITED

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For the year ended 31 December 2020

29. FOREIGN EXCHANGE TRANSLATION RESERVE

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

30. 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:

	Group		Company	
	2020 £000's	2019 £000's	2020 £000's	2019 £000's
At 1 January	28,215	18,332	28,215	18,332
Employee share-based payments	6,864	9,883	6,864	9,883
At 31 December	35,079	28,215	35,079	28,215

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 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.

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the year ended 31 December 2020

30. SHARE-BASED PAYMENTS (CONTINUED)

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

	Year ended 31 December 2020		Year ended 31 December 2019	
	Number of share options	Weighted average exercise price (in £)	Number of share options	Weighted average exercise price (in £)
Outstanding at beginning of period	2,649,419	19.52	1,930,567	16.55
Granted during the period	144,050	24.50	831,510	24.96
Forfeited during the period	(61,147)	12.18	(35,445)	19.79
Exercised during the period	(235,277)	9.57	(77,213)	3.59
Outstanding at the end of the period	2,497,045	20.93	2,649,419	19.52
Exercisable at the end of the period	1,372,645	17.32	1,640,503	15.85

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

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

The weighted average share price at the date of exercise for share options exercised during the period was £53.00 (2019: £51.75).

The options outstanding at 31 December 2020 had a weighted average exercise price of £20.93 (2019: £19.52), and a weighted average remaining contractual life of 6.0 years (2019: 6.3 years).

The Group recognised total expenses of £6,840,682 (2019: £9,883,110) related to equity-settled share-based payment transactions in 2020.

Valuation models:

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

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For the year ended 31 December 2020

30. SHARE-BASED PAYMENTS (CONTINUED)

Oxford Nanopore Technologies Limited Share Option Scheme: There were 144,050 options granted during the year (2019: nil), all options granted in previous years were valued using the Black Scholes model.

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

	2020	2019
Weighted average share price	£ 53.00	£ 51.75
Weighted average exercise price	£ 24.50	£ 26.60
Expected volatility	47%	49.92%-51.28%
Expected life	6.5 years	6.5 years
Risk-free rate	0%	0.46% - 0.88%
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 2020, 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 £34.62 (2019: £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:

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

The Monte Carlo Simulation model has been used to value the portion of the awards which have a market performance vesting condition (achievement of a target company valuation). The model incorporates a discount factor reflecting this performance condition into the fair value of this portion of the award. The weighted average fair value of options granted during the year determined using the Monte Carlo Simulation model at the grant date was £33.72 (2019: £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 2020, 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

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31. NOTES TO THE CASH FLOW STATEMENT

Cash and cash equivalents

	Group		Company	
	2020	2019	2020	2019
	£000's	£000's	£000's	£000's
Cash and cash equivalents	80,863	13,092	77,614	10,729

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

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

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

(i) Non-cash transactions

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

Additions to right-of-use assets during the year amounting to £6.7 million were financed by new leases.

OXFORD NANOPORE TECHNOLOGIES LIMITED

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31. NOTES TO THE CASH FLOW STATEMENT (CONTINUED)

(ii) Changes in liabilities arising from financing activities

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

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

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

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

	2020 £000's	2019 £000's
Company		
Loss before tax	(75,191)	(80,840)
Adjustments for:		
Depreciation on property, plant and equipment	8,501	8,528
Depreciation on right-of-use assets	1,467	1,281
Amortisation of internally generated intangible assets	4,835	1,713
Loss on disposal of property, plant and equipment	23	3
Exchange loss	3	-
Interest on Leases	439	499
Net Interest	162	(260)
Non-cash movements on derivatives	538	(600)
Employee share benefit costs	4,869	6,432
Operating cash flows before movements in working capital	(54,354)	(63,244)
(Increase) in receivables	(40,010)	(414)
(Increase) in inventory	(15,314)	(1,317)
Increase in payables	33,134	11,206
Cash absorbed by operations	(76,544)	(53,769)
Income taxes – R&D tax credit received	8,479	-
Net cash absorbed by operating activities	(68,065)	(53,769)

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32. COMMITMENTS

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

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

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

33. RETIREMENT BENEFIT PLANS

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

The total expense recognised in the consolidated income statement of £946,000 (2019: £606,000) represents contributions payable to the scheme by the Group at rates specified in the rules of the scheme. As at 31 December 2020, contributions of £229,000 (2019: nil) due in respect of the current reporting period had not been paid over to the plans.

34. 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;
- loan on Land and Buildings is held at amortised cost;
- 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 2020		
Financial assets		
Cash and cash equivalents	80,863	80,863
Trade and other receivables	65,906	65,906
Derivative financial instruments	62	62
Financial liabilities		
Trade and other payables	(70,144)	(70,144)
Loan on Land & Buildings	(9,500)	(9,500)

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the year ended 31 December 2020

34. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (CONTINUED)

	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)

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.

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 30 September 2021, as is included in the Balance Sheet as follows:

	Group		Company	
	2020 £000's	2019 £000's	2020 £000's	2019 £000's
Foreign currency options – cash flow hedges	62	600	62	600
	62	600	62	600

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the year ended 31 December 2020

34. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (CONTINUED)

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 and financial obligations.

At 31 December 2020, the Group has the following financing arrangements:

	Group		Company	
	2020	2019	2020	2019
Maturity analysis	£000's	£000's	£000's	£000's
- Expiring within one year (undiscounted lease liabilities)	2,656	2,119	1,853	1,342
- Expiring beyond one year (undiscounted lease liabilities and bank loan)	26,952	22,358	25,512	21,422
	29,608	24,477	27,365	22,764

The bank loan facility has a term of 4 years from 5 August 2020, at an average rate of 2.65% p.a. The amounts disclosed in this table for lease liabilities are based on contractual undiscounted cash flows.

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

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

Credit risk

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

OXFORD NANOPORE TECHNOLOGIES LIMITED

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34. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (CONTINUED)

ii). Financial risk management objectives and policies (Continued)

Credit risk (Continued)

At year end, the Group placed £60 million (2019: nil) deposits with several reputable financial institutions to minimise its credit risk.

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

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

Of the trade receivables balance at the end of the year, £29.8 million (2019: nil) is due from the UK Government, the Group's largest customer.

As at 31 December 2020, an amount of £1.96 million (2019: £1.94 million) measured at an amount equal to 12-month expected credit losses has been estimated as a loss allowance in accordance with IFRS 9 (see note 21).

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

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's costs of 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 2020 approximately 33% (2019: 26%) of the Group's annual expenditures was denominated in US dollars and approximately 15% (2019: 10%) of the Group's expenditure was denominated in Euros. A significant portion of the Group's revenue is denominated in US Dollars.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the year ended 31 December 2020

34. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (CONTINUED)

ii). Financial risk management objectives and policies (Continued)

Foreign currency risk (Continued)

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

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

Sensitivity analysis

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

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

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 2020, the short-term deposits returned an average of 0.25% (2019: 0.95%).

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.

	2020	2019
	£000's	£000's
Debt	9,500	9,500
Equity	185,868	109,528
Debt to Equity Ratio	5.1%	8.7%

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

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For the year ended 31 December 2020

35. RELATED PARTY TRANSACTIONS

At the end of the year, there were 112,759 (2019: 149,023) options outstanding in respect of options granted to 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 Metrichor Limited. During the year, the Company paid these subsidiaries £10,124,000 (2019: £5,715,000) for the R&D and other services provided to it.

In addition, the Company made sales to its US subsidiary, ONT Inc, of \$14.3m (2019: \$12.8m), our limited risk distributor in the USA.

During 2020, the company paid commission fee on fund raising of £660,000 to IP Group which is related to Oxford Nanopore by the shared directorship of A Aubrey. No commission fee was paid to IP Group in 2019.

Audit exemption

Oxford Nanopore Technologies Limited has given statutory guarantees against all outstanding liabilities of Metrichor Limited (Company registration number 08534345) at 31 December 2020 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 2020.

36. POST BALANCE SHEET EVENTS

Trading

In July 2020, the Company entered into a contract with the Department of Health and Social Care (DHSC) to deliver LamPore kits for the testing of the SARS-Cov-2 virus, as part of the UK Governments Test and Trace strategy. A number of kits were sold to the DHSC in 2020, but in April 2021, the DHSC determined that they no longer had a requirement for our product and terminated the contract before taking the maximum quantity allowable under the contract. This is a non-adjusting event, there is no financial effect on the net assets or any individual financial statement line item as at 31 December 2020. We do not expect to suffer any liability as a result of this contract termination.

Equity

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

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

On 9 June 2021, the shareholders approved (a) a conditional retention equity award of up to 6.5% of the company's equity to the Executive Directors. The grant is subject to achievement of performance conditions tied to revenue and share price and is subject to holding periods and (b) a limited anti-takeover non-voting share of £1.00 in the capital of the Company (a "LAT Share"). The latter was granted to help ensure the Company has time to realise the opportunity it believes is available to it with its new generation of sensing technology and to maximise long-term shareholder value, the Board is hereby proposing that, conditional on completion of the IPO, Dr. Gordon Sanghera, who is the co-founder of the Company and has been its chief executive officer since its foundation in 2005, will be issued a LAT Share. To provide for continuity of protection, and as described below, each of Dr. James Willcocks and Mr. Clive Brown would also be issued a LAT Share, conditional on completion of the IPO. However, no rights would attach to Dr. James Willcocks' or Mr. Clive Brown's LAT Shares for so long as Dr. Gordon Sanghera is a director or employee of the Company (or a group company). The LAT Shares are effectively only a single set of share rights, with the rights transferring between the holders in the order of priority set out below when there is a Disqualifying Event (as defined below) in respect of the preceding holder. The LAT Shares have been structured this way to ensure that there are no issues at a critical time with respect to delay (including as a consequence of the probate process) in the rights attaching to any LAT Share being transferred to the right person upon the holder of such LAT Share being subject to a Disqualifying Event.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

36. POST BALANCE SHEET EVENTS (CONTINUED)

The rights attaching to each LAT Share will cease automatically upon the holder ceasing to be a director or employee of the Company (or any group company) (or, if earlier, upon such holder giving or being given notice of termination of such appointment or engagement) (a “Disqualifying Event”).

Employer social security taxes on Unapproved share options

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

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

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

37. LITIGATION AND CONTINGENT LIABILITIES

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

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

38. ULTIMATE CONTROLLING PARTY

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