22 March 2016

Xeros Technology Group plc

Progress on all fronts

Xeros Technology Group plc (AIM: XSG, 'the Group', 'Xeros'), the innovative developer of patented polymer bead systems with multiple identified commercial applications, today publishes its interim results for the five months to 31 December 2015. As previously set out, the Group has changed its accounting reference date to the calendar year and its next full financial statements will report on a 17 month accounting period to 31 December 2016.

Highlights

- Delivering on strategy laid out at fundraising in November 2015
- Group earned income increased to £744,000 in the five months ended 31 December 2015 (prior period 2014: £95,000)
- Accelerating roll out in Commercial Laundry
  - 56 commercial washing machine installations for the five months ended 31st December 2015
  - 94 for the seven months ended 29 February 2016
  - Installed fleet totalled 200 at end of February 2016
- Developing Leather Processing
  - Full scale leather processing trials continuing in leading European leather tannery, as part of joint development agreement with LANXESS
- Increasing scope and scale of polymer science platform
  - Detailed studies underway to analyse potential further applications of our polymer science in global industries

Mark Nichols, Chief Executive of Xeros, said:

"Our business development activities have continued in line with the plans laid out during our £40m fundraising in November last year.

"The roll out of Commercial Laundry continues at a good pace. We are now installing machines at an approximate rate of one per working day and expect this rate to progressively increase.

"In Leather Processing, our full scale trials are on track and are scheduled to be completed around the middle of the year. We anticipate that these trials will show that our polymer beads, which were specifically designed for this application, deliver economic, operational and sustainability improvements.

"Studies to identify new potential applications are also progressing on schedule and are providing further evidence that we possess a platform technology."

Notes to Editors

Xeros Technology Group plc (LN: XSG) is a platform technology company that is reinventing water intensive industrial and commercial processes by replacing water with polymer bead technologies. Its patented technologies have the capacity to provide material economic, operational and sustainability improvements that are unachievable with traditional processes. The Group is well established in the commercial laundry market where immediate opportunities exist for substantial growth and is currently in various stages of development to apply its technology across a range of water intensive industrial and commercial markets. The Group joined AIM in 2014 and in November 2015 raised gross proceeds of £40m by way of a placing to accelerate the commercialisation of its innovative technology across global laundry markets and to further develop its patented technology for other identified industrial and domestic processes.

For more information, please visit - http://www.xeroscleaning.com/

Operational review: progress and plans

We continue to implement successfully the strategy we set out at the time of our fundraising in November 2015: to build and apply our polymer bead science platform to reduce dramatically the consumption of both water and energy in major global industrial and consumer processes, whilst simultaneously improving the quality and sustainability of their outcomes. In so doing, we seek to derive high quality earnings for the Group based upon the savings and performance improvements delivered.

The fundraising is enabling us to accelerate the execution of this strategy, in building out our Commercial Laundry business, in driving progress towards commercialisation in the leather processing business and in rapidly progressing the development of additional attractive applications.

Commercial Laundry

Growth in the machine installation rate continued at a good pace. We are now installing machines at an approximate rate of one per working day, with sales and service margins in line with our expectations. We expect the installation rate to increase progressively. We anticipate broadly equal demand between "Perform" (machine sale) and "Complete" (machine lease) over time, but currently weighted towards "Complete"

We continue to increase the numbers and the accreditation level of our Forward Channel Partners ('FCPs') in the US whilst simultaneously increasing customer satisfaction levels, which have consistently exceeded 90% in 2016 to date. FCPs have also generated 50% of our sales since the beginning of the year.

We are also making progress on the strengthening of our supply chain. Our second source manufacturer for 25kg washing machines is now producing and shipping units. 16kg machines, which allow us to address a larger share of the commercial laundry market as a whole, are now also being produced for field trials as a complement to our 25kg machines.

Our Sbeadycare® integrated customer proposition covering polymer beads, chemistry and service is now being supplemented with our industry changing information technology systems, "Pulse 3.0" and "Connect". These systems which are now being introduced to all of our customer sites, monitor and help manage machines in customers' laundries and provide information on cleaning performance, energy/water saving and maintenance requirements. The information received is highly valuable in enhancing laundry operations and their sustainability and also enables us to improve the performance of the entire value chain including our FCPs.

Domestic Laundry

Discussions continue with major machine OEMs, who have shown an encouraging level of interest in working with Xeros. Alongside such discussions, we are developing a washing machine for the US market with which to conduct consumer field trials in due course.

In addition, we are studying potential models whereby Xeros could share appropriately in the ongoing benefits which would accrue to end consumers from the use of our technology in the form of reduced utilities and detergent.

Leather Processing

Full scale trials as provided for in our Joint Development Agreement with LANXESS, are proceeding within a leading European leather tannery and are scheduled for completion around the middle of the year.

Results so far have been encouraging and we anticipate that these trials will show that our polymer beads, which were specifically designed for this application, deliver economic, operational and sustainability improvements. We are actively working to optimise a number of dependent variables in these trials to produce the best results from both a quality and an economic perspective.

Bead management systems for use within the industry are now being engineered in our Technology Centre in Sheffield with a view to selecting and producing an optimised system toward the end of the year.

Further applications development

Studies to identify future potential applications are now close to completion and we are about to commence detailed reviews of areas which we have identified as being potentially high in opportunity.

Our expectation is that, over the medium term, we will increase our intellectual property estate and ultimately create additional revenue opportunities.

Organisation

We have continued to build capability in our Commercial Laundry organisation to support its future growth. Our Science and Engineering teams have also been increased and are aligned to opportunity areas in multi-disciplinary teams.

We are in the process of integrating all Commercial Laundry engineering in the US into our new Engineering Centre in Seekonk, Massachusetts. This integration will both speed up the development of our washing machine platforms and also create capacity in our Technology Centre in Sheffield to undertake applications engineering in Leather Processing and beyond.

Summary

It has been a busy four months since we raised £40 million to accelerate our strategy, and we are making good progress on all fronts.

Looking ahead: in Commercial Laundry we are on course to grow from our current installation rate of one machine per working day. In Leather Processing, our full scale trials are also progressing on track and are scheduled to be completed around the middle of the year. Studies to identify new potential applications are on schedule and early signs indicate that we possess a platform technology which can be successfully applied to a number of global industries.

We look forward to the future with confidence.

Financial review

Group earned income was generated as follows:

	Unaudited 5 months ended 31 December 2015	*Unaudited 5 months ended 31 December 2014*	*Year ended 31 July 2015*
	£'000	*£'000*	*£'000*
Machine sales	**564**	45	289
Service income	**170**	45	177
Lease interest income	**10**	5	14
Total earned income	**744**	95	480

Group earned income increased by 683% to £744,000 in the five months ended 31 December 2015 when compared to the prior period (2014: £95,000).

Notably, service income from the installed base of Commercial Laundry machines has increased significantly during the five months ended 31 December 2015, to nearly 4 times the service income generated in the comparative period.

The point at which revenue and costs from machine sales can be recognised is dependent on the completion of a number of stages. These include the installation of the machine, commissioning of the machine, acceptance of the machine by the customer, completion of utility incentive formalities, where applicable, and then, in the case of lease sales, finalisation of the lease agreement. The Group does not recognise revenue and costs from a machine sale until all of these aspects are complete.

The number of machines installed in the period is as follows:

	5 months ended 31 December 2015	*5 months ended 31 December 2014*	*Year ended 31 July 2015*
	No.	*No.*	*No.*
Machines sold – revenue and costs taken to P&L statement	**27**	2	16
Machines commissioned and generating service revenue, but machine sale revenues and costs not yet recognised	**10**	5	32
Machines installed but not yet commissioned	**19**	6	34
Machines installed in the period	**56**	13	82

As at 31 December 2015 contracted future revenues amount to £2.1m (2014: £0.7m) and average contract length remaining is 77 months (2014: 68 months).

Adjusted gross margin improved to £60,000 (8.1%) from £28,000 (29.5%) in the five months ended 31 December 2014. Sales and service margins continue to be in line with expectations.

The Group has continued to invest in its R&D programme. The Group spent £1.9m on R&D including staff and patent costs (2014: £0.8m) alongside the Commercial Laundry working capital and start-up costs, in line with the Board's expectations. This has resulted in an Adjusted EBITDA loss of £5.4m (2014: loss £3.7m).

The continuing strength of the US$ means that working capital and start-up costs in the US Commercial Laundry business are proportionally more expensive when translated into Sterling, the Group's functional currency. However, a strong US$ will benefit the Group financial statements as the US business grows to generate cash and become profitable.

The Group reported a loss after tax of £5.6m (2014: £3.8m). The loss per share increased from 5.9p in 2014 to 8.4p in 2015.

The Group expects cash utilisation to continue to accelerate over the coming years, as we continue to fund our R&D programme alongside the roll-out in Commercial Laundry. The increase in net cash outflow from operations to £5.7m (2014: £4.3m) for the five months ended 31 December 2015 reflects these activities and was in line with the Board's expectations. In November 2015 the Group raised £40m, before expenses, from new and existing shareholders. As a consequence the Group had existing cash resources as at 31 December 2015 of £49.5m (2014: £25.3m) and remains debt free.

The Group has tax losses of approximately £24.1m to offset against future taxable profits (31 December 2014: £12.6m, 31 July 2015: £18.7m).

Accounting reference date change

Historically the Group was predominantly a research and development business with strong university and academic links. A 31 July year end was therefore consistent with the business as it then was. The Group has changed its accounting reference date to 31 December, primarily to bring it into line with a more conventional commercial company reporting timeframe, consistent with the development of its commercial operations, in order to provide ease of reference for investors, customers, managers and employees.

The effect of the change to the accounting reference date is to extend the current accounting period to 31 December 2016, a period of more than 15 months. In accordance with Rule 18 of the AIM Rules, therefore, the Company has prepared these unaudited results for the five months to 31 December 2015 and will have the following subsequent reporting dates:

- Unaudited results for the six months to 30 June 2016 – to be announced by 30 September 2016
- Audited results for the 17 month period to 31 December 2016 – to be announced no later than 18 May 2017

The Group will subsequently publish its half-yearly reports to 30 June and annual audited accounts to 31 December in accordance with the AIM Rules for Companies.

Consolidated statement of profit or loss and other comprehensive income

For the five months ended 31 December 2015

	Note	**Unaudited Five months ended 31 December 2015 £'000**	Unaudited Five months ended 31 December 2014 £'000	Year ended 31 July 2015 £'000
Earned income		**744**	95	480
Less: lease interest income		**(10)**	(5)	(14)
Revenue		**734**	90	466
Cost of sales		**(684)**	(67)	(399)
Gross profit		**50**	23	67
Lease interest income		**10**	5	14
Adjusted gross margin		**60**	28	81
Administrative expenses		**(5,735)**	(3,944)	(11,102)
Other operating income		**-**	1	174
Adjusted EBITDA*		**(5,386)**	(3,701)	(9,868)
Share-based payment expense		**(140)**	(189)	(916)
Non-operating exceptional costs **		**(87)**	-	-
Depreciation of tangible fixed assets		**(72)**	(30)	(77)
Operating loss		**(5,685)**	(3,920)	(10,861)
Finance income		**78**	84	192
Loss before taxation		**(5,607)**	(3,836)	(10,669)
Taxation	**3**	**(6)**	(1)	464
Loss after tax		**(5,613)**	(3,837)	(10,205)
Other comprehensive income				
Items that are or maybe reclassified to profit or loss:				
Foreign currency translation differences - foreign operations		**(71)**	(37)	16
Total comprehensive expense for the period		**(5,684)**	(3,874)	(10,189)
Loss per ordinary share				
Basic and diluted on loss from continuing operations	**5**	**(8.38)p**	(5.89)p	(15.62)p

* Adjusted EBITDA comprises loss on ordinary activities before interest, tax, share-based payment expense, non-operating exceptional costs, depreciation and amortisation.

** Non-operating exceptional costs are the costs of the fundraising in November 2015 which were not charged against Share premium

Consolidated statement of changes in equity

For the five months ended 31 December 2015

	Share capital £'000	Share premium £'000	Merger reserve £'000	Foreign currency translation reserve £'000	Retained earnings deficit £'000	Total £'000
At 31 July 2014	**98**	**28,132**	**15,443**	**(38)**	**(13,137)**	**30,498**
Loss for the period	-	-	-	-	(3,837)	(3,837)
Other comprehensive expense	-	-	-	(37)	-	(37)
Loss and total comprehensive expense for the period	-	-	-	(37)	(3,837)	(3,874)
Transactions with owners of the Company:						
Share based payment expense	-	-	-	-	189	189
At 31 December 2014	**98**	**28,132**	**15,443**	**(75)**	**(16,785)**	**26,813**
Loss for the period	-	-	-	-	(6,368)	(6,368)
Other comprehensive expense	-	-	-	53	-	53
Loss and total comprehensive expense for the period	-	-	-	53	(6,368)	(6,315)
Transactions with owners of the Company:						
Issue of shares	-	46	-	-	-	46
Share based payment expense	-	-	-	-	727	727
At 31 July 2015	**98**	**28,178**	**15,443**	**(22)**	**(22,426)**	**21,271**
Loss for the period	-	-	-	-	(5,613)	(5,613)
Other comprehensive expense	-	-	-	(71)	-	(71)
Loss and total comprehensive expense for the period	-	-	-	(71)	(5,613)	(5,684)
Transactions with owners of the Company:						
Issue of shares	27	39,992	-	-	-	40,019
Costs of share issues	-	(2,153)	-	-	-	(2,153)
Share based payment expense	-	-	-	-	141	141
At 31 December 2015	**125**	**66,017**	**15,443**	**(93)**	**(27,898)**	**53,594**

Consolidated statement of financial position

As at 31 December 2015

	Unaudited 31 December 2015 £'000	Unaudited 31 December 2014 £'000	31 July 2015 £'000
Assets			
Non-current assets			
Property, plant and equipment	720	165	577
Trade and other receivables	849	192	363
	1,569	357	940
Current assets			
Inventories	4,632	1,977	2,909
Trade and other receivables	840	492	578
Current tax asset	-	-	477
Investments – bank deposits	31,545	1,531	1,539
Cash and cash equivalents	17,961	23,733	15,913
	54,978	27,733	21,416
Total assets	56,547	28,090	22,356
Liabilities			
Non-current liabilities			
Deferred tax	(22)	(17)	(22)
Current liabilities			
Trade and other payables	(2,931)	(1,260)	(1,063)
Total liabilities	(2,953)	(1,277)	(1,085)
Net assets	53,594	26,813	21,271
Equity			
Share capital	125	98	98
Share premium	66,017	28,132	28,178
Merger reserve	15,443	15,443	15,443
Foreign currency translation reserve	(93)	(75)	(22)
Accumulated losses	(27,898)	(16,785)	(22,426)
Total equity	53,594	26,813	21,271

Consolidated statement of cash flows

For the five months ended 31 December 2015

	Unaudited 5 months ended 31 December 2015 £'000	Unaudited 5 months ended 31 December 2014 £'000	Year ended 31 July 2015 £'000
Operating activities			
Loss before tax	**(5,607)**	(3,836)	(10,669)
Adjustment for non-cash items:			
Depreciation of property, plant and equipment	**72**	30	77
Share based payment	**141**	189	916
Increase in inventories	**(1,582)**	(1,175)	(2,110)
(Increase)/decrease in trade and other receivables	**(724)**	167	(90)
Increase in trade and other payables	**1,616**	430	288
Finance income	**(68)**	(84)	(192)
Cash used in operations	**(6,152)**	(4,279)	(11,780)
Taxes refunded/(paid)	**471**	(1)	(8)
Net cash outflow from operations	**(5,681)**	(4,280)	(11,788)
Investing activities			
Finance income	**68**	84	192
Cash placed on deposits with more than 3 months maturity	**(30,006)**	(5)	(13)
Purchases of property, plant and equipment	**(209)**	(74)	(532)
Net cash (outflow)/inflow from investing activities	**(30,147)**	5	(353)
Financing activities			
Proceeds from issue of share capital, net of costs	**37,866**	-	46
Net cash inflow from financing activities	**37,866**	-	46
Increase/(decrease) in cash and cash equivalents	**2,038**	(4,275)	(12,095)
Cash and cash equivalents at start of year	**15,913**	27,999	27,999
Effect of exchange rate fluctuations on cash held	**10**	9	9
Cash and cash equivalents at end of the period	**17,961**	23,733	15,913

Notes to the financial statements
for the five months ended 31 December 2015

1. General information

The principal activity of Xeros Technology Group plc ("the Company") and its subsidiary companies (together "Xeros" or the "Group") is the development and commercialisation of patented polymer bead systems with multiple potential commercial applications.

Xeros Technology Group plc is domiciled in the UK and incorporated in England and Wales (registered number 8684474), and its registered office address is Unit 2, Evolution, Advanced Manufacturing Park, Whittle Way, Catcliffe, Rotherham, S60 5BL. The Company's principal activity is that of a holding company.

The interim financial information was approved for issue on 21 March 2016.

2. Basis of preparation

The interim financial information has been prepared under the historical cost convention and in accordance with the recognition and measurement requirements of International Financial Reporting Standards ("IFRS") as adopted by the European Union, IFRIC interpretations, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The interim financial information has been prepared on a going concern basis and is presented in Sterling to the nearest £'000.

The accounting policies used in the preparation of the interim financial information are consistent with those set out in the audited financial statements for the year ended 31 July 2015. Further IFRS standards or interpretations may be issued that could apply to the Group's financial statements for the period ending 31 December 2016. If any such amendments, new standards or interpretations are issued then these may require the financial information provided in this report to be changed. The Group will continue to review its accounting policies in the light of emerging industry consensus on the practical application of IFRS.

The preparation of financial information in conformity with the recognition and measurement requirements of IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual events ultimately may differ from those estimates.

The interim financial information does not include all financial risk management information and disclosures required in annual financial statements. There have been no significant changes in any risk or risk management policies since 31 July 2015. The principal risks and uncertainties are largely unchanged and are as disclosed in the Annual Report for the year ended 31 July 2015.

The interim financial information for the five months ended 31 December 2015 and for the five months ended 31 December 2014 do not constitute statutory financial statements as defined in Section 434 of the Companies Act 2006 and is unaudited. The comparative figures for the financial year ended 31 July 2015 are not the Group's consolidated statutory accounts for that financial year. Those accounts have been reported on by the Group's auditor and delivered to the Registrar of Companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under Sections 498(2) or 498(3) of the Companies Act 2006.

3. Taxation

	Unaudited 5 months ended 31 December 2015 £'000	Unaudited 5 months ended 31 December 2014 £'000	Year ended 31 July 2015 £'000
Current tax:			
Foreign taxes paid	**6**	1	8
R & D tax credits	**-**	-	(477)
Deferred tax charge	**-**	-	5
Total tax charge/(credit)	**6**	1	(464)

As at 31 December 2015 the Group had tax losses of approximately £24.1m to offset against future taxable profits (31 December 2014: £12.6m, 31 July 2015: £18.7m). The Group has not recognised these losses as a deferred tax asset in the consolidated statement of financial position due to the uncertainty in the timing of its crystallisation.

4. Segmental analysis

The Group currently has one operating segment. Revenue and losses arising from that segment are the same as presented on the face of the consolidated statement of profit or loss and other comprehensive income.

5. Loss per share

Basic loss per share is calculated by dividing the loss attributable to equity holders by the weighted average number of shares in issue during the period. The Group was loss-making for the periods ended 31 December 2015 and 31 December 2014 and also for the year ended 31 July 2015. Therefore, the dilutive effect of share options has not been taken account of in the calculation of diluted earnings per share, since this would decrease the loss per share reported for each of the periods reported.

The calculation of basic and diluted loss per ordinary share is based on the loss for the period, as set out below.

	Loss for the period £'000	Weighted average number of shares in issue	Loss per share (pence)
Five months ended 31 December 2015	**(5,613)**	**67,015,596**	**(8.38)p**
Five months ended 31 December 2014	(3,837)	65,173,549	(5.89)p
Year ended 31 July 2015	(10,205)	65,336,459	(15.62)p

The weighted average number of shares in issue throughout the period is as follows:

	5 months ended 31 December 2015 Number of shares	5 months ended 31 December 2014 Number of shares	Year ended 31 July 2015 Number of shares
Issued ordinary shares at beginning of period	**65,504,879**	65,173,549	65,173,549
Effect of shares issued for cash during the period	**1,510,717**	-	162,910
Weighted average number of shares for the period	**67,015,596**	65,173,549	65,336,459

6. Details of events occurring after the reporting period
There were no events occurring after the reporting period.

7. Seasonality

The Group experiences no material variations due to seasonality.

8. Availability of interim statement

This interim statement will be available on Xeros' website at www.xeroscleaning.com.

Forward-looking statements

This announcement may include certain forward-looking statements, beliefs or opinions, including statements with respect to Xeros' business, financial condition and results of operations. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "plans", "anticipates", "targets", "aims", "continues", "expects", "intends", "hopes", "may", "will", "would", "could" or "should" or, in each case, their negative or other various or comparable terminology. These statements are made by the Xeros Directors in good faith based on the information available to them at the date of this announcement and reflect the Xeros Directors' beliefs and expectations. By their nature these statements involve risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future. A number of factors could cause actual results and developments to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, developments in the global economy, changes in government policies, spending and procurement methodologies, and failure in health, safety or environmental policies.

No representation or warranty is made that any of these statements or forecasts will come to pass or that any forecast results will be achieved. Forward-looking statements speak only as at the date of this announcement and Xeros and its advisers expressly disclaim any obligations or undertaking to release any update of, or revisions to, any forward-looking statements in this announcement. No statement in the announcement is intended to be, or intended to be construed as, a profit forecast or to be interpreted to mean that earnings per Xeros share for the current or future financial years will necessarily match or exceed the historical earnings. As a result, you are cautioned not to place any undue reliance on such forward-looking statements.