20 April 2017

Xeros Technology Group plc

Executing strategy

Xeros Technology Group plc (AIM:XSG, 'the Group', 'Xeros'), the developer and provider of polymer based technologies with multiple commercial applications, today publishes its final results for the 17 months ended 31 December 2016.

Group highlights

- Proven platform technology to be commercialised across three global scale industries: cleaning, tanning and textiles
- Meaningful discussions with commercial development partners underway across divisions
- Strengthened operational structure aligned to commercialising applications
- Seven new patents filed since the beginning of 2017
- Group earned income increased to £2.5m (year ended 31 July 2015: £480,000)
- Cash resources on 31 March 2017 of £23.6m

Cleaning Technologies

- 140 Commercial Laundry machines commissioned (year ended 31 July 2015: 48)
- Total machine estate and order backlog totalling 438 at the end of March 2017
- 'Symphony Project' launched to share Xeros' technology on an 'open source' basis for incorporation within any brand of commercial laundry machine – see separate release
- Multiple successful customer trials in high added value performance workwear market
- Fourth prototype in development which targets simple changes for the incorporation of Xeros' technology within any domestic washing machine.

Tanning Technologies

- Successful completion of multiple scale trials in retanning and dyeing
- Heads of terms signed with Wollsdorf Leder, a leading European tannery
- Scale trials planned with four additional European tanneries

Textile Technologies

- Laboratory scale testing has demonstrated that Xeros technology can deliver quantum benefits in garment manufacture and colouration
- Intellectual property filed and in development to underpin opportunity

Mark Nichols, Chief Executive of Xeros, said:

"Over the past 17 months, we have achieved major milestones in our technology development and its commercialisation. We now have strong evidence that we have the capacity to deliver sustainability, performance and economic benefits across three world scale industries: cleaning, tanning and textiles.

"Technical validation and increasing market endorsement show that we possess a platform technology that can transform these industries.

"The long-term value of our technology in each of the selected markets is substantial, given their scale, the environmental and economic pressures on them, and the quantum of the improvements we deliver in these areas. These benefits are now increasingly being recognised

and we are in active discussions with a number of partners with the objective of further accelerating our commercial development.

"Our scope and strategy is now fixed. 2017 will be a year of execution, in which we significantly progress the commercialisation of our highly disruptive, innovative technology."

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Notes to Editors

Xeros Technology Group plc (LN: XSG) is a platform technology company that is reinventing water intensive industrial and commercial processes by reducing water and chemistry usage with its polymer technologies. Its patented technologies have the capacity to provide material economic, operational and sustainability improvements that are unattainable with traditional processes. The Group is currently exploiting its intellectual property in three areas: Cleaning Technologies, Tanning Technologies and Textile Technologies. Xeros has a number of agreements in place with such international organisations as BASF, Hilton and Wollsdorf Leder.

For more information, please visit – http://www.xerostech.com/

Operating Review

Cleaning Technologies

<u>Commercial Laundry</u>

Our objective within the Commercial Laundry market is to establish and then progressively build a profitable position in the “On Premise” hotel segment in the US and beyond. Initially, we will do this with our own brand of washing machines but over time we seek to supplement these with those of other third party manufacturers which incorporate our proprietary technology.

Our model is based on Xeros and branded manufacturers supplying machines directly to approved ‘Forward Channel Partners’ who have responsibility for their installation, commissioning and the delivery of lifetime services and consumables to customers under our proprietary Sbeadycare® programme.

The total number of commissioned machines grew by 140 during the period commencing 1st August 2015 to a total of 212 at the end of December 2016 and by 195 to 267 at the end of March 2017. In addition, there were installations awaiting commissioning of 74 machines and letters of agreements for further installations of 97 machines at the end of March 2017. This growth in demand has been supported by an increasing body of evidence that Xeros’ technology delivers sustainability, performance and economic benefits.

These figures compare to an estimated market size of 10,000 machines installed annually in the hotel “On Premise” Laundry segment in the US. We therefore see significant opportunity for growth, given the benefits and competitive differentiation that our technology delivers.

Additional measures taken to increase penetration of the market included completing the development of our smaller 16kg machine as a complement to our 25kg washing machine, with the first units being delivered to customers in the US in late 2016.

We announced two new add-on products: SbeadyCare® Xtend and Assure which are designed to reduce linen replacement and compliance related costs for hotels by leveraging new polymer technology and our information technology respectively.

Having market tested our commercial offers against the needs of different types of customers, we added an operating lease package called “Excel” to complement our capital leasing (“Complete”) and outright machine purchase (“Perform”) propositions. We now believe we have a suite of offerings that comprehensively addresses the spectrum of customer requirements both financially and contractually.

We took a number of actions to increase the capacity of our supply chain to meet market demand. To serve the western US and Central America, we opened a regional office in Corona, California to complement our established sales, warehousing and training facilities located on the East Coast of the United States. Over time, this facility will reduce supply chain related expenses and serve as a hub for sales support and operations activities in the region.

We integrated all Commercial Laundry engineering in the US into our new Engineering Centre located in Seekonk, Massachusetts. In doing so we have accelerated acceptance and life testing of our new 16kg machine. Additionally, we have developed engineering solutions to advance our strategy of making Xeros’ technology increasingly compatible with a wider range of commercial laundry washing machines.

Whilst our early market penetration in the US was necessarily geographically diverse to promote ourselves as a new market entrant, we have since started to concentrate our efforts towards defined areas where we can create network density. We continue to upgrade our Forward Channel Partners in these areas and we now have five “Platinum” members on the East and West coasts of the United States who are qualified to sell, commission and service our installations.

As previously announced, we reduced the installation and commissioning rates in Q4 2016 in order to work on improving our commissioning capacity to meet demand. The above improvements have been instrumental in significantly increasing the rate at which we can now commission machines; achieving a commissioning rate of 31 machines in March 2017 with high levels of customer satisfaction being recorded. We intend to broadly maintain these rates during 2017 with a further increase supported by additional fully certified FCP's later in the year.

Outside of North America, we have continued to expand using Forward Channel Partners. Post period end, we signed Heads of Terms with Richard Jay Pty Ltd who will serve three major metropolitan markets in Australia where drought conditions are experienced on a regular basis. We also entered the Spanish market with installations in the Canary Islands where two thirds of the population of 1.7 million people and 5 million annual tourists rely on desalinated water.

By the end of April 2017, 16 of our customers in the Americas will have joined our "Million Gallons Saved Club", providing further evidence of the benefits our technology delivers to customers and the environment. Also by the end of April 2017, we estimate that our technology will have saved approximately 300 million litres of water on a global basis and an equivalent amount of effluent.

Our enterprise sales team secured Approved Supplier Status with Hilton Americas Supply Management which represents over 4,300 hotels across Canada, the USA and South America. We are now in discussions with other hotel chains with a view to achieving a similar status with them.

Through our Symphony Project, announced on 20 April 2017, we are making freely available to all machine manufacturers a relatively simple means of incorporating our technology at the end of their production lines. In so doing, we are enabling them to sell their products into the market place and to receive a share of the long-term savings that Xeros' technology generates. We anticipate greatly accelerating the adoption rate of our technology. Under this model, our targeted gross contribution for a 100-month Sbeadycare® contract for a 25kg machine is expected to be approximately $47,000.

Our total machine installation target remains one per working hour in 2020. Our ambition is that this demand will be met by commercial laundry machine manufacturers selling their Xeros enabled machines to certified Forward Channel Partners who in turn deliver our differentiated Sbeadycare® proposition. This strategy is expected to enable Xeros to make a financial return on its intellectual property and know-how with relatively low capital intensity.

High Performance Workwear

We have trialed our cleaning technology in 12 separate installations in the High Performance Workwear market, which covers personal protective clothing including that used by emergency services and other regulated end markets. Results indicated that we have the potential to become the de facto standard for cleaning high-value and often life-protecting workwear.

There is little additional technical development and cost required for Xeros to enter this market which spans many sub-segments including petrochemicals and the armed services, all of which are becoming increasingly aware of the adverse and potentially dangerous effects of incorrectly or insufficiently cleaned workwear. Each of the sub-segments can be addressed with our existing machine technology using bespoke cleaning cycles developed by our in-house specialists downloaded onto machines from our databases.

The market size for the cleaning of high performance workwear is extremely large. In the firefighting segment alone, there are over one million registered firefighters in the US and over 50,000 fire houses with increasingly prescriptive maintenance and cleaning regimes for their gear.

We are currently refining our business model and plans to enter this market and once our proposition is proven to an appropriate degree, we will seek to work with partners to generate a return on our intellectual property and know how.

Consumer Cleaning

Similar to high performance workwear, we have established that we have a highly differentiated technology for cleaning and extending the life of a number of high value, but hard to clean garments owned by consumers.

Following extensive market research and process design, we have evaluated an internet-enabled on-demand outsourcing approach as the best model to bring our technology to this market. We have designed and are now ready to test our proposition within a limited number of zip codes in the US for a single garment type.

Given the nature of this model, we believe that we should partner from the outset with businesses and investors experienced in this type of service model and we are currently profiling suitable partners.

We continue to actively work on bringing Xeros' technology to the home and we have developed three further domestic washing machine prototypes. The latest design is planned to be very simple to manufacture, service and operate. As a result, we believe that it has the potential to substantially reduce the barriers to bringing the sustainability and economic benefits of Xeros' technology to the consumer cleaning market.

Smart Xeros Machines

We have continued to develop the "smart" features in all our machine designs. In our Commercial Laundry business, we have continuous data flows which enable remote management and ongoing performance improvement in each of the constituents in our value chain. We now have a relatively low financial investment compared with the value that is being created.

Our "Gateway" communication hubs, which we install in each of our customers' laundries are now transmitting multiple data points from each cycle. The data collected resides centrally in our Cloud storage and is configured into actionable information which is made available online to customers to improve their operations.

We believe our approach to information technology is unique within the broader industry and represents another sustainable competitive advantage for all our cleaning applications.

In overall terms, it has been a period of great progress for Cleaning Technologies. Commercial Laundry is now becoming established and we have a business model and routes to market which we believe will support profitable revenues. We have taken the first steps towards working with major industry incumbents to participate in our value chain with the objective of accelerating growth whilst reducing our capital intensity. Our entry into the High Performance Workwear market represents another global scale opportunity where Xeros has the potential to become the de facto cleaning standard. Finally, we have plans to serve the consumer market, through an outsourced model in the first instance, and, in due course, through placing Xeros technology in the home.

Tanning Technologies

In Cleaning Technologies, our polymer technology gently removes unwanted molecules and contaminants from materials. In contrast, our tanning technology is highly effective in pushing molecules into hides during leather processing. As in Cleaning Technologies, deployment of Xeros' technology and processes substantially reduces water, chemistry and effluent.

There are significant growth opportunities in the leather industry. A number of tanneries are becoming output-constrained due to shortages of water and legal limits on effluent emissions. Xeros is uniquely positioned to help address these issues and expand capacity in those tanneries.

Whilst the polymers are different, the process within which they are used, via deployment in rotating drums, is similar – albeit on a significantly larger scale. Our Cleaning Technologies currently use 30kg to 50kg of polymer in a cycle whereas Tanning Technologies may use as much as five tonnes.

We have chosen to focus initially on the Retanning and Dyeing stage in the tanning process, which uses large volumes of water to apply specialty chemicals. In due course, we believe we can also move upstream to the Tanning stage which typically uses proportionately more water to apply bulk chemicals.

We conducted six production scale trials in Retanning and Dyeing during the period, during which over 1,000 hides were processed. The trials were conducted with our development partner, Wollsdorf Leder Schmidt & Co. Ges.m.b.h. in Austria. Strong evidence was produced to show that Xeros' technology is effective in reducing water, chemistry and effluent in the production process without impacting the quality of the leather produced.

We have since signed heads of terms with Wollsdorf Leder to convert their Retanning and Dyeing operations to incorporate Xeros' technology and are currently determining the final engineering and commissioning requirements before entering into a binding contract.

Our business model for this industry is one of sharing gains with customers under 10 year contracts with the capital required to add Xeros' technology into the production process, paid for by the tannery from their share of the savings generated.

The size of the global bovine segment is estimated to be 300 million hides per annum. Our ambition is to achieve a percentage market share in the high teens by 2022 with typical chemistry savings of between 10% and 15% per hide for the Retanning and Dyeing stage.

We have also successfully conducted further first stage trials in Retanning and Dyeing with four other European tanneries who address the auto, shoe and garment markets. Each have indicated that they wish to proceed with scale trials. We plan to complete these trials by mid-2017 and to establish suitable commercial arrangements; thereafter, we intend to extend our presence in Europe and, in due course, the Americas.

The design of the system which delivers this technology is materially complete and Xeros has engaged with leading equipment suppliers to the tanning industry to provide key components of a Polymer Management System to include storage, transportation and cleaning of the polymers after each cycle.

We have been granted patents for our Tanning and Dyeing process in Europe and have made similar applications in all territories with major leather processing industries.

We strengthened our management team in Tanning Technologies which is exclusively focused on its successful commercialisation. We will continue to add more resource as we look to scale this exciting application.

Textile Technologies

In mid-2016, we extensively evaluated major water-intensive markets and identified garment and fabric manufacturing as market sectors with significant potential. 22.7 million tonnes of natural fibres are processed annually for the clothing and textiles industries which are seeking to improve their environmental performance without compromising on cost or quality. We see this as a substantial opportunity, and the research we have conducted so far supports this view.

Xeros' technology has the capacity to deliver water, chemistry and energy reductions with commensurate improvements in effluent whilst improving performance outcomes in a number of textile applications. In so doing, we believe we have the ability to support manufacturers, brands and retailers in delivering their sustainability objectives without compromising cost or quality.

We anticipate significant intellectual property being created in this area and have filed four patent applications to date with further filings anticipated.

Polymer Technologies

Our polymer technology is protected by extensive patent approvals and our R&D team is constantly developing and evolving our Intellectual Property.

Our Generation One polymers cover the optimal shape, size and density of the polymers used in each application. During the period, we supplemented these with Generation Two, which incorporate performance enhancing additives.

For our cleaning applications, both Generations One and Two were developed in a partnership with BASF with whom we signed a five year supply agreement in November 2016.

We are now actively developing Generation Three polymers which use novel surface effects to deliver further reductions in chemistry, or performance improvements for the markets we are addressing. We anticipate these improvements being introduced in a two to three-year timeframe.

All our novel polymer and engineering developments are underpinned by Intellectual Property and we have further increased our coverage and at the end of March 2017 we have a total of 48 patent families "pending" or "granted" to protect our portfolio, with more anticipated to follow. A number of the patent filings have the benefit of significantly extending the time horizon of our protection.

To deliver our development goals, we increased our polymer science team to eight people by the end of the period. The team is directly aligned to the three application areas and their successful commercialisation. As at the end of March 2017, our development teams possessed a total of 12 PhDs.

Summary and Outlook

Over the past 17 months, we have achieved major milestones in our technology development and its commercialisation. We now have strong evidence that we have the capacity to deliver sustainability, performance and economic benefits across three world scale industries: cleaning, tanning and textiles.

Technical validation and increasing market endorsement show that we possess a platform technology that can transform these industries.

The long-term value of our technology in each of the selected markets is substantial, given their scale, the environmental and economic pressures on them, and the quantum of the improvements we deliver in these areas. These benefits are now increasingly being recognised and we are in active discussions with a number of partners with the objective of further accelerating our commercial development.

Our scope and strategy is now fixed. 2017 will be a year of execution, in which we significantly progress the commercialisation of our highly disruptive, innovative technology.

Financial review

Group earned income was generated as follows:

	17-month period ended 31 December 2016 £'000	*Year ended 31 July 2015 £'000*
Machine sales	**1,540**	289
Service income	**837**	177
Consumables	**16**	-
Lease interest income	**73**	14
Total earned income	**2,466**	480

Group earned income increased to £2,466,000 in the 17-month period ended 31 December 2016 when compared to the prior year (year ended 31 July 2015: £480,000).

Notably both machine sales income and service income from the installed base of Commercial Laundry machines have increased significantly. Machine sales income has increased to more than five times the income generated in the year to 31 July 2015 and service income has increased to more than four times the income generated in the prior year.

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 are as follows:

	17 month period ended 31 December 2016 No.	*Year ended 31 July 2015 No.*
Machines sold – revenue and costs taken to P&L statement	**76**	16
Machines commissioned and generating service revenue, but machine sale revenues and costs not yet recognised	**64**	32
Machines installed but not yet commissioned	**70**	34
Machines installed in the period	**210**	82

As at 31 December 2016, contracted future revenues amount to £3.8m (31 July 2015: £1.6m) and average contract length is 59 months (31 July 2015: 74 months). As the Group's commercial activities have expanded this average contract period reflects normal trading terms.

Gross profit was £290,000 compared to £67,000 in the year ended 31 July 2015. Adjusted gross margin, defined as gross profit plus lease interest income, was £363,000 (15%) compared to £81,000 (17%) in the year ended 31 July 2015. Adjusted gross margin and adjusted EBITDA are considered the key financial performance measures of the Group as they reflect the true nature our continuing trading activities.

The Group has continued to invest in its R&D programme. The Group spent £7.6m on R&D including staff and patent costs (year ended 31 July 2015: £3.6m) alongside the Commercial Laundry working capital and start-up costs, in line with the Board's expectations. Total administrative expenses (which include the R&D expenses detailed above) increased to £22.6m in the period (year ended 31 July 2015: £11.1m). This reflects the expanded headcount and increased commercial activities of the Group during the period. The figure of £22.6m also includes a foreign exchange gain of £3.8m resulting from movements in the US dollar rate during the period. This has resulted in an Adjusted EBITDA loss of £20.7m (year ended 31 July 2015: loss £9.9m). Adjusted EBITDA is defined as the loss on ordinary activities before interest, tax, share-based payment expense, non-operating exceptional costs, depreciation and amortisation. Non-operating exceptional costs are the professional advisory costs related to the November 2015 fundraising.

The recent strength of the US$ means that working capital and operating 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 an operating loss of £22.4m (year ended 31 July 2015: loss £10.9m). The loss per share was 25.04p (year ended 31 July 2015: loss 15.62p).

The Group expects cash utilisation to continue to accelerate over the coming years, as we continue to fund our R&D programmes alongside the roll-out in Commercial Laundry. The increase in net cash outflow from operations to £26.4m (year ended 31 July 2015: £11.8m) reflects these activities and was in line with the Board's expectations.

The Group had existing cash resources as at 31 December 2016 of £28.9 million, comprised of cash and cash equivalents of £19.0m and investments of £9.9m (31 July 2015: £17.5m, comprised of cash and cash equivalents of £15.9m and investments of £1.5m) and remains debt free.

The Group has tax losses of approximately £42.4m to offset against future taxable profits (31 July 2015: £19.8m).

Accounting reference date change

As previously reported in the financial statements for the prior period, the Group has changed its accounting reference date to 31 December. Consequently, these financial statements have been prepared for the 17-month period ended 31 December 2016. The comparative figures are presented for the year ended 31 July 2015.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	**17 months ended 31 December 2016 £000**	Year ended 31 July 2015 £000
Earned income		**2,466**	480
Less: lease interest income		**(73)**	(14)
REVENUE		**2,393**	466
Cost of sales		**(2,103)**	(399)
GROSS PROFIT		**290**	67
Lease interest income		**73**	14
Adjusted gross margin*		**363**	81
Administrative expenses		**(22,640)**	(11,102)
Other operating income		**-**	174
Adjusted EBITDA*		**(20,659)**	(9,868)
Share based payment expense		**(1,232)**	(916)
Non operating exceptional costs		**(87)**	-
Depreciation of tangible fixed assets		**(372)**	(77)
OPERATING LOSS		**(22,350)**	(10,861)
Finance income		**1,225**	192
LOSS BEFORE TAXATION		**(21,125)**	(10,669)
Taxation	5	**886**	464
LOSS AFTER TAX		**(20,239)**	(10,205)
OTHER COMPREHENSIVE INCOME:			
Items that are or may be reclassified to profit or loss:			
Foreign currency translation differences – foreign operations		**(1,720)**	16
TOTAL COMPREHENSIVE EXPENSE FOR THE PERIOD		**(21,959)**	(10,189)
LOSS PER SHARE			
Basic and diluted on loss from continuing operations	6	**(25.04)p**	(15.62)p

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	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 year	-	-	-	-	(10,205)	(10,205)
Other comprehensive expense	-	-	-	16	-	16
Loss and total comprehensive expense for the year	-	-	-	16	(10,205)	(10,189)
Transactions with owners, recorded directly in equity:						
Issue of shares	-	46	-	-	-	46
Share based payment expense	-	-	-	-	916	916
Total contributions by and distributions to owners	-	46	-	-	916	962
At 31 July 2015	**98**	**28,178**	**15,443**	**(22)**	**(22,426)**	**21,271**
Loss for the period	-	-	-	-	(20,239)	(20,239)
Other comprehensive expense	-	-	-	(1,720)	-	(1,720)
Loss and total comprehensive expense for the period	-	-	-	(1,720)	(20,239)	(21,959)
Transactions with owners, recorded directly in equity:						
Issue of shares	27	39,973	-	-	-	40,000
Exercise of share options	4	281	-	-	-	285
Costs of share issues	-	(2,152)	-	-	-	(2,152)
Share based payment expense	-	-	-	-	1,232	1,232
Total contributions by and distributions to owners	31	38,102	-	-	1,232	39,365
At 31 December 2016	**129**	**66,280**	**15,443**	**(1,742)**	**(41,433)**	**38,677**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	At 31 December 2016 £000	At 31 July 2015 £000
ASSETS			
Non-current assets			
Property, plant and equipment		**1,588**	577
Trade and other receivables		**1,656**	363
TOTAL NON-CURRENT ASSETS		**3,244**	940
Current assets			
Inventories		**7,005**	2,909
Derivative financial instruments		**705**	-
Trade and other receivables		**1,830**	578
Current tax asset		**-**	477
Investments – bank deposits		**9,959**	1,539
Cash and cash equivalents		**18,975**	15,913
TOTAL CURRENT ASSETS		**38,474**	21,416
TOTAL ASSETS		**41,718**	22,356
LIABILITIES			
Non-current liabilities			
Deferred tax		**(39)**	(22)
TOTAL NON-CURRENT LIABILITIES		**(39)**	(22)
Current liabilities			
Trade and other payables		**(3,002)**	(1,063)
TOTAL CURRENT LIABILITIES		**(3,002)**	(1,063)
TOTAL LIABILITIES		**(3,041)**	(1,085)
NET ASSETS		**38,677**	21,271
EQUITY			
Share capital	7	**129**	98
Share premium		**66,280**	28,178
Merger reserve		**15,443**	15,443
Foreign currency translation reserve		**(1,742)**	(22)
Accumulated losses		**(41,433)**	(22,426)
TOTAL EQUITY		**38,677**	21,271

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	**17 months ended 31 December 2016 £000**	Year ended 31 July 2015 £000
Operating activities			
Loss before tax		**(21,125)**	(10,669)
Adjustment for non-cash items:			
Depreciation of property, plant and equipment		**372**	77
Share based payment		**1,232**	916
Increase in inventories		**(3,957)**	(2,110)
Increase in trade and other receivables		**(2,424)**	(90)
(Decrease)/increase in trade and other payables		**(663)**	288
Finance income		**(1,225)**	(192)
Cash used in operations		**(27,790)**	(11,780)
Tax receipts/(payments)		**1,380**	(8)
Net cash outflow from operations		**(26,410)**	(11,788)
INVESTING ACTIVITIES			
Finance income		**520**	192
Cash placed on deposits with more than 3 months maturity		**(8,420)**	(13)
Purchases of property, plant and equipment		**(811)**	(532)
Net cash outflow from investing activities		**(8,711)**	(353)
FINANCING ACTIVITIES			
Proceeds from issue of share capital, net of costs		**38,133**	46
Net cash inflow from financing activities		**38,133**	46
Increase/(decrease) in cash and cash equivalents		**3,012**	(12,095)
Cash and cash equivalents at start of year		**15,913**	27,999
Effect of exchange rate fluctuations on cash held		**50**	9
CASH AND CASH EQUIVALENTS AT END OF PERIOD/YEAR		**18,975**	15,913

NOTES TO THE FINANCAIL STATEMENTS

1) BASIS OF PREPARATION

This financial information does not constitute the company's statutory accounts for the period ended 31 December 2016 or the year ended 31 July 2015 but is derived from those accounts. Statutory accounts for 2015 have been delivered to the registrar of companies, and those for the period ended 31 December 2016 will be delivered in due course. The auditor has reported on those accounts; their reports were (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 section 498 (2) or (3) of the Companies Act 2006.

The Financial Statements for the period ended 31 December 2016 included in this announcement were authorised for issue in accordance with a resolution of the Board of Directors on 19 April 2017. The level of rounding for financial information is the nearest thousand pounds.

The Company is a limited liability company incorporated and domiciled in England & Wales and whose shares are quoted on AIM, a market operated by The London Stock Exchange.

The Company's registered office is Unit 2 Evolution, Advanced Manufacturing Park, Whittle Way, Catcliffe, Rotherham, S60 5BL.

Going Concern

At this stage in its development the company is reliant on equity share funding. When making their going concern assessment the directors assess available and committed funds against all non-discretionary expenditure, and related cash flows, as forecast for the period ended 30 April 2018. These forecasts indicate that the company is able to settle its liabilities as they fall due in the forecast period.

Accordingly the directors consider that this should enable the company to continue in operational existence for the foreseeable future and the directors believe that it remains appropriate to prepare the financial statements on a going concern basis.

2) SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost convention in accordance with International Financial Reporting Standards as adopted by the European Union (EU IFRS).

3) SEGMENTAL REPORTING

The information that is presented to the Chief Executive Officer, who is considered to be the Chief Operating Decision Maker ("CODM"), for the purposes of resource allocation and assessment of performance, is based wholly on the overall activities of the Group. Due to the current size and activities of the Group, there is a high degree of centralisation of activities. The Directors therefore consider that there is one operating, and hence one reportable segment for the purposes of presenting information under IFRS8; that of "Development and commercialisation of polymer bead cleaning technologies". There are no differences between the segment results and the consolidated statement of comprehensive income. The assets and liabilities information presented to the CODM is consistent with the consolidated statement of financial position.

The single operating segment includes revenue by category as follows:

	17 months ended 31 December 2016 £000	Year ended 31 July 2015 £000
Sale of goods	**1,556**	289
Rendering of services	**837**	177
	2,393	466

During the 17-month period ended 31 December 2016 the Group had two customers who individually generated more than 10 per cent. of revenue. Those customers accounted for 19% and 13% of revenue respectively.

During the year ended 31 July 2015 the Group had no customers who individually generated more than 10 per cent. of total revenue.

An analysis of revenues by geographic location of customers is set out below:

	17 months ended 31 December 2016 £000	Year ended 31 July 2015 £000
Europe	**259**	88
North America	**2,134**	378
	2,393	466

An analysis of non-current assets by location is set out below:

	17 months ended 31 December 2016 £000	Year ended 31 July 2015 £000
Europe	**722**	517
North America	**2,522**	423
	3,244	940

4) LOSS FROM OPERATIONS

	17 months ended 31 December 2016 £000	Year ended 31 July 2015 £000
Loss from operations is stated after crediting:		
Grant income	**410**	74
Foreign exchange gains	**3,848**	174
Loss from operations is stated after charging to administrative expenses:		
Depreciation of plant and equipment (see note 11)	**372**	77
Operating lease rentals – land and buildings	**270**	104
Staff costs (excluding share based payment charge)	**10,525**	4,334
Research and development	**3,067**	1,401

Auditors remuneration:		
- Audit of these financial statements	**12**	8
- Audit of financial statements of subsidiaries of the company	**12**	12
- all other services	**29**	6
Total auditor's remuneration	**53**	26

Other services in the current period related to interim review work, tax advice and advice in respect of the group's overseas subsidiary.

5) TAXATION

Tax on loss on ordinary activities

	17 months ended 31 December 2016 £000	Year ended 31 July 2015 £000
Current tax:		
UK Tax credits received in respect of prior periods	**(923)**	(477)
Foreign taxes paid	**20**	8
	(903)	(469)
Deferred tax:		
Origination and reversal of temporary timing differences	**17**	5
Tax credit on loss on ordinary activities	**(886)**	(464)

The credit for the period/year can be reconciled to the loss before tax per the statement of profit or loss and other comprehensive Income as follows:

Factors affecting the current tax charges

The tax assessed for the year varies from the small company rate of corporation tax as explained below:

	17 months ended 31 December 2016 £000	Year ended 31 July 2015 £000
The tax assessed for the period varies from the main company rate of corporation tax as explained below:		
Loss on ordinary activities before tax	**(21,125)**	(10,669)
Tax at the standard rate of corporation tax 20% (2015: 20%)	**(4,225)**	(2,134)
Effects of:		
Expenses not deductible for tax purposes	**291**	202
Research and development tax credits receivable	**(923)**	(477)
Unutilised tax losses for which no deferred tax asset is recognised	**5,130**	1,937
Employee share acquisition adjustment	**(1,172)**	-
Foreign taxes paid	**20**	8
Change in tax rates	**(7)**	-
Tax credit for the period/year	**(886)**	(464)

In the year ended 31 July 2015, the group had an amount of £477,000 receivable from HM Revenue and Customs in respect of Research and Development tax credits. This was included as a current tax asset in the Consolidated Statement of Financial Position on the basis that HMRC had agreed that this amount was payable and it was received shortly after the period end. The group accounts for Research and Development tax credits where there is certainty regarding HMRC approval and, as no claims have yet been made for the period to 31 December 2016, the group has not recognised a debtor for any amounts that may be receivable for this period.

6) LOSS PER SHARE (BASIC AND DILUTED)

Basic loss per share is calculated by dividing the loss attributable to equity holders of the parent by the weighted average number of ordinary shares in issue during the year. Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares in issue during the period to assume conversion of all dilutive potential ordinary shares.

	17 months ended 31 December 2016 £000	Year ended 31 July 2015 £000
Total loss attributable to the equity holders of the parent	**(20,239)**	(10,205)
	No.	No.
Weighted average number of ordinary shares in issue during the year	**80,839,504**	65,336,459
Loss per share		
Basic and diluted on loss for the year	**(25.04)p**	(15.62)p

Adjusted earnings per share has been calculated so as to exclude the effect of non-operating exceptional costs including related tax charges and credits. Adjusted earnings used in the calculation of basic and diluted earnings per share reconciles to basic earnings as follows:

Basic earnings	**(20,239)**	(10,205)
Non-operating exceptional costs	**87**	-
Adjusted earnings	**(20,152)**	(10,205)
Adjusted loss per share		
Basic and diluted on loss for the year	**(24.93)p**	(15.62)p

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

	17 months ended 31 December 2016	Year ended 31 July 2015
Issued ordinary shares at 1 August	**65,504,879**	65,173,549
Effect of shares issued for cash	**15,334,625**	162,910
Weighted average number of shares at 31 December/ 31 July	**80,839,504**	65,336,459

The Company has issued employee options over 6,687,763 (31 July 2015: 7,368,901) ordinary shares which are potentially dilutive. There is however, no dilutive effect of these issued options as there is a loss for each of the periods concerned.

7) SHARE CAPITAL

	Number	Share capital £000	Share premium £000	Merger reserve £000	Total £000
Total Ordinary shares of 0.15p each as at 31 July 2014	65,173,549	98	28,132	15,443	43,673
Issue of ordinary shares on exercise of share options	331,330	-	46	-	46
Total Ordinary shares of 0.15p each as at 31 July 2015	65,504,879	98	28,178	15,443	43,719
Issue of ordinary shares following placing	17,777,778	27	39,973	-	40,000
Issue of ordinary shares on exercise of share options	2,739,254	4	281	-	285
Costs of share issues	-	-	(2,152)	-	(2,152)
Total Ordinary shares of 0.15p each as at 31 December 2016	86,021,911	129	66,280	15,443	81,852

As permitted by the provisions of the Companies Act 2006, the Company does not have an upper limit to its authorised share capital.

The following is a summary of the changes in the issued share capital of the Company during the period ended 31 December 2016:

(a) 666,499 Ordinary Shares were allotted at a price of 10.8 pence per share, for total cash consideration of £71,982, upon the exercise of share options granted in the Company's EMI share option scheme.

(b) 588,500 Ordinary Shares were allotted at a price of 12.0 pence per share, for total cash consideration of £70,620, upon the exercise of share options granted in the Company's EMI and Unapproved share option schemes.

(c) 874,499 Ordinary Shares were allotted at a price of 16.2 pence per share, for total cash consideration of £141,669, upon the exercise of share options granted in the Company's EMI share option scheme.

(d) 609,756 Ordinary Shares were allotted at a price of 0.15 pence per share, for total cash consideration of £915, upon the exercise of share options granted in the Company's Unapproved share option scheme.

(e) 17,777,778 Ordinary Shares were allotted at a price of 225 pence per share, for total cash consideration of £40,000,000 (before costs) following a placing of shares.

At 31 December 2016, the Company had only one class of share, being Ordinary Shares of 0.15p each.

8) ANNUAL REPORT AND ACCOUNTS

The Group's annual report and accounts for the period ended 31 December 2016 have been published today and will be posted to shareholders shortly. The annual report and accounts will also be available in electronic form on www.xerostech.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.