Haydale Graphene Industries Plc

Annual Report And Accounts

For the year ended 30 June 2018

Creating Material Change

Contents

Chairman's Statement

Introduction

I am pleased to present the Haydale Graphene Industries Plc's ("Haydale", the "Group" or the "Company") full year audited results to 30 June 2018 ("FY18").

The year under review has been a busy one for Haydale, building on the foundations of the previous year, integrating, investing in and growing the revenues of the two acquisitions made in the prior year, launching a specialist graphene ink operation facility in Taiwan and opening new markets for our advanced graphene and nanomaterials products. At the beginning of the year we split the Group's customer facing operations into two sales generating strategic business units (SBU) which has proved to be a beneficial stepping stone in our operational development, increasing our revenues across both SBUs from those generated in the prior year ended 30 June 2017 ("FY17").

Summary financials

Total income for FY18 of £4.23 million (FY17: £3.91 million), comprised commercial revenues of £3.40 million (FY17: £3.00 million) and grant income of £0.83 million (FY17: £0.90 million). We continued to invest in increasing our know-how, knowledge and understanding of mixing and dispersion techniques alongside our industry-leading collaboration partners; being the bedrock for successful commercial sales.

As a leader in the graphene industry, an important KPI for Haydale is the amount of income that we generate from the sale of our graphene-related products and services. In FY18, I'm pleased that this figure remained in excess of £1.0 million for the second successive year, but more importantly it was made up from sales to more than 50 different customers across our countries of operation, almost double that of the prior year. We expect to be able to build further on this figure in the coming years.

Operations

During the year under review we set up a graphene and specialty ink manufacturing facility in Taiwan, targeting the $15 billion biomedical screen-printed sensors for the self-monitoring blood glucose market. This now takes our international operating sites to six, with two in the UK and one in each of the USA, Thailand, South Korea and Taiwan. Our Thailand operation is going from strength to strength and expects to build further on its improving sales in the current financial year ending 30 June 2019 ("FY19"). In particular, following successful functionalisation trials, we are delighted to have secured the sale of one of our HT60 plasma reactors to one of Thailand's leading Petrochemical processors (final commissioning is due in Q1 of FY19), as well as long-term consulting contracts. The customer intends to add value to certain bi-products arising from their manufacturing process using our functionalisation capabilities.

Our USA facility, which was successfully rebranded to Haydale Ceramic Technologies ("HCT") during the year, manufactures a range of our proprietary silicon carbide micro-fibres ("SiC") which add strength, toughness and anti-scratch properties to existing materials. Despite taking longer than we had expected, HCT has now signed a number of long-term supply contracts with worldwide businesses that incorporate HCT's SiC in the manufacture of their hard-edged cutting tools and, as of 10 September 2018, had a long-term order book of approximately £4.15 million ($5.46 million) for delivery over the coming years, providing excellent revenue visibility. HCT has been developing new markets for its products and has successfully integrated its SiC into a major US-based paint and coatings customer where sales commenced in October 2017 and were approximately £0.22 million in FY18. Pleasingly, sales volumes in current financial year to this customer are continuing at higher monthly rates than in FY18.

Our South Korean sales office has secured SiC orders of approximately £0.09 million from industrial giant, Taegu Tec Ltd, based in South Korea. that we expect to increase in FY19. We have received positive feedback from a major oil conglomerate on the benefits of our SiC as a structural enhancer of their catalysts, a crucial part in the petrochemical refining process. We have high hopes of developing this new market opportunity in FY19 as our product offers a real benefit to an industry-wide problem.

Rather than just sell SiC "powder", we took the decision in FY18 to add value to our SiC micro fibres by investing in our own in-house US manufacturing capabilities to address a growing market in selling our proprietary SiC cutting tools ("blanks"). We generated maiden sales of approximately £0.1 million in FY18, initially through selling third-party contract manufactured SiC blanks, but encountered supply chain issues from our European contractors which led to us deciding to accelerate our investment in our own capabilities. Our in-house manufacturing equipment is expected to be commissioned by the end of this calendar year with sales of product coming through in H2 of FY19.

During the year, we delivered phase 1 of a project to build a novel Automotive panel production line for Everpower in China. The sales value for phase 1 was approximately £0.28 million and phase 2 is expected to commence in Q3 of FY19, where the target application is initially focussed on internal car panels for the burgeoning Chinese auto industry.

The graphene teams in Loughborough and Ammanford have been working tirelessly during the year to enhance a number of customers' products through the appropriate functionalisation, mixing and dispersion of the correct commercially available graphene into their existing products. An excellent example of this was the strong commercial progress they have made over the last year with a global composite materials group to enhance mechanical properties for selected lines within their product range. The global customer paid approximately £0.11 million to Haydale in FY18 as we delivered various formulations of graphene enhanced masterbatches for trials.

Chairman's Statement continued

In collaboration with GKN, Cobham and BAE Systems, we have successfully increased the electrical conductivity of an aircraft aileron by 600% to defeat lighting strike and potentially reduce the need for heavy "parasitic copper" in a composite built aircraft. Whilst we acknowledge that material revenues from the commercial aircraft market will be longer term, its application in the fast-growing drone market is potentially considerable. We were delighted to be involved with the University of Central Lancaster, to develop the world's first graphene skinned plane which was unveiled at the Farnborough Airshow in July 2018.

Management

As recently announced, Keith Broadbent, who has been with Haydale for just over a year as Managing Director of the Resins, Polymers and Composites business unit, has now stepped up and joined the Board of Directors as Chief Operating Officer. Keith brings extensive operational experience in driving sales and will have overall responsibility for delivery of the Group's budgets. This allows Ray Gibbs, formerly CEO and now President, Business Development, to concentrate on global sales opportunities and focus on our key markets of ceramics, composites, conductive inks and elastomers.

I have also taken on the role of Interim Executive Chairman during this important phase of the Group's development. All businesses face challenges as they grow and develop and we have not been immune to a number of these challenges, specifically around sales order delays caused by the actions outside of our control by multi-national corporates. However, we now believe that we have in place an improved management structure capable of minimising these types of issues in the future.

Outlook

We enter FY19 with cautious optimism. The recently announced five-year SiC contract extension with an existing cutting tool customer has provided even more sales visibility for our US operation and our steadily increasing graphene ink sales to several print houses for the bio-medical sensor market is an encouraging start to the financial year.

We are delighted to be a Tier-1 partner to the new Graphene Engineering Innovation Centre (GEIC) at the University of Manchester, where we will install and showcase one of our HT60 plasma reactors. The enhanced functionalisation now being generated from upgrades we have made to the reactor makes for exciting product improvement opportunities for the myriad of companies now looking at collaborating with the GEIC and its Tier-1 Graphene partners. The facility officially opens in December 2018.

Overall progress for the Group this year has been solid, albeit we are disappointed that we did not achieve the revenue growth we had anticipated and we have previously updated the market on the reasons for this. We now believe that we have made the necessary changes to address those issues.

There are significant growth opportunities with the new and adapted approach of using our global footprint as one team, with cross-selling and cross R&D focus, and a re-orientation to organic growth and cost monitoring. Business development surrounding the major advances we have seen in the core skills on inks, functionalisation and dispersion of graphene, in conjunction with the new market segment of SiC, sets Haydale up for the next phase of evolution and scale up.

I would like to thank the staff, our advisors and my fellow Board members for their hard work and dedication in positioning the Group for the next stage of its growth. I would also like to thank our shareholders for their continued support.

David Banks
Interim Executive Chairman
17 September 2018

Strategic Report

The directors present their Strategic Report for the year ended 30 June 2018.

PRINCIPAL ACTIVITIES

Haydale Graphene Industries Plc ("Haydale" or the "Group") is the AIM listed group that uses tailored advanced materials, including graphene and silicon carbide micro-fibre (SiC). The Group's vision is to use its knowledge of advanced materials and dispersion to become one of the World's foremost creators of material change, enabling its customers to improve the performance of their products.

The Group has developed regulatory approved proprietary graphene-based and other speciality inks and coatings for the print and biomedical sensor markets, as well as enhanced resins for the pre-preg carbon fibre market. In the USA, Haydale manufactures proprietary SiC micro-fibres and whiskers that strengthen ceramics and enable highly scratch and wear resistant coatings. Applications for SiC include corrosion barriers for oil and gas pipelines and hard-edged cutting tools for fashioning jet engine turbine blades from solid super alloy billets. The Group has operational activities in its six chosen geographies worldwide. In summary, these are:

Haydale subsidiary	*Location*	*Principal activities*
Haydale Limited	Ammanford, Wales	R&D operation, supporting the resins, polymers and composites strategic business unit, developing ink production capability
Haydale Composite Solutions Limited ("HCS")	Loughborough, England	Principally consulting on advanced composites and elastomers design, R&D and testing specialist, covering the full product development lifecycle
Haydale Technologies (Korea) Limited ("HTK")	Seoul, South Korea	Dedicated sales servicing the fast-moving Korean, Chinese and Japanese markets
Haydale Technologies (Thailand) Company Limited ("HTT")	Bangkok, Thailand	Provides low-cost, high-value R&D and plasma functionalisation facilities, servicing the APAC region and supporting the Far East sales teams.
Haydale Technologies, Inc. ("HTI")	South Carolina, USA	Haydale Ceramic Technologies (formerly ACM) is HTI's wholly owned operating subsidiary which produces and sells novel SiC micro fibres and whiskers
Haydale Technologies Taiwan Ltd ("HTW")	Kaohsiung, Taiwan	Established in July 2017 as the production facility and technical centre for sales of speciality inks initially into the biomedical sensor market

Evolution of Strategic Business Units

From 1 July 2017, we created two strategic business units (SBU's) within the Group, each with their own dedicated management teams to focus on and deliver our anticipated sales growth:

1. Resins, Polymers and Composites ("**RPC**"); and
2. Advanced Materials (including SiC and inks) ("**AMAT**")

The RPC SBU increased its commercial revenues in the year to £1.02 million from £0.87 million in FY17, whilst AMAT's revenue increased to £2.39 million from £2.13 million in the prior year. RPC's revenues include those generated by the three UK entities, whereas the revenue from AMAT is derived from the Group's operations in the US and the Far East.

The setting up of two business units, as detailed in last year's strategic report, has delivered some success and ensured growth in all areas of the global business, albeit it did not deliver on our expected sales targets for the year. Accordingly, the dynamic nature of the growth requirement has necessitated an evolution in this approach, and consequently performance reporting for FY19 will see the three regional areas of: (1) USA; (2) UK (and Europe); and (3) Far East being brought together as a team under the newly created position of Group's Chief Operating Officer, with Keith Broadbent, the UK's MD for Resins, Polymers & Composites, having recently been promoted into the role, and becoming an executive director of Haydale Graphene Industries Plc.

Strategic Report continued

This change is designed to facilitate greater cross-selling and accountability across the Group, and success has already been seen with commercial activities on coatings with SiC now in progress in the UK, and graphene initiatives being targeted with major players in the US. The combination of our ink expertise in the UK with that in our Taiwan facility is also bearing fruit, not just on the technology side, but also sharing best operational practice on Health and Safety, Quality (ISO9001) and Production techniques. The Group's US MD, Trevor Rudderham, has very recently decided to step away from the business for family reasons and, whilst his contribution to Group's growth has been appreciated, his decision will allow the Group's transition from SBU focus to global focus. This position will not be replaced.

Plasma functionalisation and enhanced performance

During the year we have successfully completed several key research and development projects to enhance Haydale's capabilities and product offerings through the HDPlasTM process. We have made significant investments into capital equipment and our team's knowledge base to enhance our HT60 plasma reactors' performance and yield increased functionalisation levels to improve the concentration of bonded functional groups. Improving our product offering to compete in the advanced materials markets has been critical. Our ability to now offer enhanced functionalisation, including amines, means we can tailor functionalisation levels to further improve the dispersion characteristics of nanomaterials in wide ranging matrices. This has resulted in some significant graphene-related sales contracts being secured and delivered in the year under review.

The UK

In the UK, where RPC is principally situated, we have two operational facilities: Ammanford, South Wales; and Loughborough, East Midlands. We also opened a Group Head Office in Harwell Business Park, Oxfordshire in June 2018, to provide a central location for business development alongside significant potential customers operating in the aerospace and advanced materials sectors.

Ammanford is primarily a R&D operation which also sources, handles, functionalises and processes nanomaterials using a suite of prototyping and analytical equipment, as well as its own patented plasma reactors (HT60s and HT200s). Ammanford is responsible for installing, commissioning and maintaining the plasma reactors used internally and by third parties. The aim is to provide the Group with sustainable commercially available graphene and other nanomaterials for both internal product development and third-party customers. In addition, we have recently recruited a dedicated technical sales person with a track record in growing conductive inks.

In Loughborough, we are focussed on producing applications engineering solutions in composite and elastomer materials to enhance their mechanical properties (strength and stiffness), electrically conductive properties, and their thermally conductive properties.

The USA

Our US operation delivered the bulk of AMAT's revenues for FY18, with sales of SiC at £2.11 million (FY17: £2.05 million). We rebranded the operation from Advanced Composite Materials ("ACM") to Haydale Ceramic Technologies ("HCT") during the year, having acquired ACM in the autumn of 2016. The SiC comparative sales figure for FY17 represents the sales generated in the period from acquisition to 30 June 2017, which is the same as that generated in the full 12 months to 30 June 2017. During the year, we began an investment programme to instal a new product line in HCT to add value to its proprietary SiC micro fibres by incorporating them with aluminium oxide to enable us to manufacture our own cutting tool blanks. Revenues from this new product line are expected to start in the second half of FY19.

We also successfully opened up new markets for our SiC in the powder-coating anti-corrosion market where we generated maiden sales of approximately £0.22 million in FY18 and which have continued into the current year. Although sales in this market are at a lower gross profit margin than sales into the cutting tools market, the market size is potentially significantly larger. We also received encouraging feedback from a major oil conglomerate that has tested our SiC as a structural enhancer of catalysts which are a crucial part in the petrochemical refining process.

HCT has a long-term sales order book for delivery of SiC which was added to post year end with a new five-year supply contract extension and, as at 10 September 2018, stood at approximately £4.15 million ($5.46 million).

The Far East

We now have three operational sites in the Far East: a sales office in Seoul, South Korea (HTK); an R&D and consulting facility in Bangkok, Thailand (HTT); and an ink formulation and manufacturing facility in Kaohsiung, Taiwan (HTW).

HTT has quickly established itself as a technical and sales support service for our Korean and Taiwan activities. In FY18, HTT generated revenues of £0.23 million, up from £0.07 million in the prior year from a mixture of commercially funded contract research projects and the sale of an HT60 reactor to leading Thai petrochemical processor, IRPC, for functionalisation of some of its bi-products. Our high-class facility in the prestigious Thailand Science Park in Bangkok houses two of our patented plasma HT60 graphene functionalisation reactors, with one being owned by IRPC. The commissioning of IRPC's reactor straddled the end of the financial year so some revenues associated with its sale will fall into FY19.

Other developing graphene-related opportunities include PATit, Haydale's software driven anti-counterfeiting device that "reads" our unique conductive transparent and opaque inks when printed onto a product label, proving the authenticity (or otherwise) of the goods. The specialist ink uses graphite block from our collaboration partner, Talga Resources. To date, we have signed a LOI with one of Thailand's leading security printers.

HTW was established in July 2017 and commenced providing graphene and other speciality inks samples principally to leading biomedical sensor printers in the diabetes testing market. The time that customers take to evaluate our graphene inks has proven to take longer than we originally anticipated yet, pleasingly, we are now receiving regular repeat orders from customers, albeit still in relatively small quantities. Once our existing facility is operating at maximum capacity and our commercial revenues are fully established, our intention is to relocate production to a larger 10,000sq ft unit.

OPERATING REVIEW

The Group's key objective now is to accelerate the transition of the business from an R&D focussed operation into a sales and marketing organisation.

The improvements in our analysis, testing and characterisation expertise, both in-house and in collaboration with external partners in academia and industry, have increased the pace at which customer solutions can be obtained as well as giving potential for additional IP owned products. We have invested heavily in our UK teams' understanding of dispersion technologies, developing our knowledge of dispersibility of Nano materials into a wide range of polymer systems. This has included equipment and personnel, and the sharing of best practice throughout our company turning Haydale into a learning organisation.

Haydale has been working with its key OEM, to plan and design the next generation of HDPlas™ reactors , which will provide the ability to meet commercial volumes in anticipation of the breakthrough driven by the increasing scope of the core and patented technology.

Following the sale of a HT60 reactor to the Centre for Process Innovation (CPI) in 2015, CPI continues to assist Haydale to be at the forefront of graphene enhanced development in a range of applications. Working closely with Haydale's technical team through grant funded projects, Haydale and CPI, have developed filter technology for oil/water separation, desalination and industrial waste water, evaluation of which will continue during the current financial year.

At the end of June 2018, we were pleased to have been selected as one of the core Tier-1 partners of the University of Manchester's recently completed £60 million Graphene Engineering Innovation Centre (GEIC) where one of our patented HT60 plasma reactors is to be housed. This will help further functionalisation and applications knowledge across a range of graphene and other 2D materials where correct chemical bonding is a key part ensuring graphene disperses uniformly within its host material.

In the UK, our work on inks over the past year has been focused on the commercialisation of our patented pressure sensor and screen printable inks. Over the next 12 months, Haydale will continue to focus on bringing innovative and novel printed solutions to the market and has invested in it sales team to realise this potential. Other ink applications include wearables, focussed around a contract with The English Institute of Sport, as announced today.

Non-regulated markets, such as sporting goods, provide potentially significant short-term revenue opportunities for Haydale. An example of which has been supply during the year of graphene-enhanced carbon fibre pre-preg to a high specification bespoke UK bicycle manufacturer, which has met with some success.

Progress on two other longer-term projects continues, albeit slower than originally anticipated. Testing by Flowtite A/S of graphene-enhanced resins for their glass reinforced pipe systems took longer than anticipated and, whilst it showed certain improvements, there remains the need for further testing. Importantly, progress has been made but the incorporation of lab-based improvements into a full-blown production process is the key challenge, with functionalisation and dispersion in harmony with the manufacturing process still requiring further work. The Haydale and Flowtite teams are regrouping next month to determine next steps.

Results from the work carried out with Huntsman has subsequently significantly benefited other trials carried out with specific applications for component pre-preg in less regulated markets such as sports goods (cycles) and low volume automotive components. We continue to work on improvements in incorporating Haydale's graphene dispersions into Huntsman specific high value, specialist applications.

Grant Funded Projects

During the year under review, the Group has been busy progressing R&D programmes with important commercial partners where development of commercially viable end products is a pre-requisite of securing each projects' funding. Income from such projects totalled £0.83 million for the year under review (FY17: £0.91 million) and, as at 10 September 2018, the Group had secured grant funded projects worth approximately £0.86 million for delivery over the coming years.

Strategic Report continued

Management and Personnel

We have continued to invest in our people across the Group during the year, which now employs 79 people across five countries (FY17: 70).

In July 2017, David Banks replaced John Knowles as non-executive Chairman and, since the year end, has become the Group's Interim Executive Chairman. We further strengthened other key management with the recruitment in July 2017 of Keith Broadbent as MD of the RPC SBU. Keith has successfully demonstrated his operational and commercial capabilities during the past year such that, post year end, Keith has been promoted to the newly created role of the Group's Chief Operating Officer and as a director of the Company.

In June 2018, Ray Gibbs, who has served as the Company's Chief Executive Officer since 2013, informed the Board of his intention to step down as CEO in order to concentrate on the Group's business development activities. Ray was appointed to his new role as President, Business Development in early September 2018.

Patents, IP and Licensing

Our patents are process patents in key selected strategic territories where their use is as a blocking prior art tool. We are aware of one patent application by a third party where the examiner threw out their claims citing Haydale's patents as prior art. Our critical IP however, is our processing, mixing and dispersion knowledge and know-how derived from the work we have carried out in conjunction with Huntsman, together with the FDA approved ink formulations that have been developed in the Far East. We are in the process of documenting our knowledge and know-how IP, including ink recipes and masterbatching techniques.

The Group currently holds patents in the US, UK, Europe, China, Japan and Australia.

Key Performance Indicators ("KPIs")

The Group's KPIs are its financial metrics are its revenues, graphene related income, gross profit margin, grant income, adjusted EBITDA, cash position, total borrowings and long-term sales order book as follows:

	FY18 (£'000)	*FY17 (£'000)*
Revenue	3,403	3,004
Gross profit margin	59%	70%
Income from graphene related products and services	1,070	1,020
Adjusted EBITDA	(4,892)	(4,193)
Cash position	5,092	2,091
Borrowings	896	1,270
Long-term sales order book*	4,674	5,400

* The figure increased to £5.19 million as at 10 September 2018

FINANCIAL REVIEW

The Financial Review should be read in conjunction with the consolidated financial statements of the Group and the notes thereto. The consolidated financial statements are presented under International Financial Reporting Standards as adopted by the European Union and are set out on pages 27 to 61. The financial statements of the Company continue to be prepared in accordance with FRS 101 and are set out on pages 62 to 68.

Statement of Comprehensive Income

In the year under review, the Group's three principal areas of income were: (i) graphene-enhanced and advanced composite consulting services; (ii) sale of silicon carbide whiskers and fibres; and (iii) long-term graphene-related grant funded projects.

The Group's total income for the year ended 30 June 2018 of £4.23 million (FY17: £3.91 million), comprised commercial revenues of £3.40 million (FY17: £3.00 million) and grant income of £0.83 million (FY17: £0.90 million). Although the Group has made significant progress during the year, the 8 per cent. increase in income year-on-year was lower than management's expectations. The Group's income suffered in the second half of FY18 from a combination of specific customers requesting to defer shipment of product into the current financial year and longer than anticipated lead times by customers to reach commercial volumes.

The Group's gross profit, which excludes the income from grant funded projects was £2.0 million (FY17: £2.1 million) delivering a gross profit margin of 59% (FY17: 70%). The reduction in margin was primarily due to a different sales mix from the Group's US operations as it looks to expand the markets for its products. The Group's adjusted EBITDA (adjusted for share-based payment charges, profit/loss on disposal of property, plant and equipment and profit/loss on disposal of intangible assets) was a loss of £4.89 million (FY17: £4.19 million). The Directors consider that adjusted EBITDA is a more useful measure of the Group's performance and comparative performance than EBITDA because it is a closer measure to operating cashflow and it reduces the effects of one-off transactions and other non-cash items.

At the year end, the Group's contracted order book stood at £4.67 million (FY17: £5.40 million) and, since the year end, additional long term orders have been secured resulting in an order book as at 10 September 2018 of £5.19 million to be delivered over the coming years.

Total administrative costs increased approximately 6 per cent. In the year to £8.85 million (FY17: £8.35 million). During the year, we continued to invest in increasing our know-how, knowledge and understanding of mixing and dispersion techniques alongside our industry leading collaboration partners. Overall R&D spend for the year was £1.05 million (FY17: £1.15 million), of which £0.88 million was expensed during the year (FY17: £0.91 million), with the balance of £0.18 million being capitalised, (FY17: £0.24

million). This internal funded development expenditure is expected to lead to sales of new products in future financial years. The Group's other administrative costs for the year totaled £7.68 million (FY17: £7.09 million), the increase reflecting the investment in our Far East operations during the year, specifically in Taiwan. Overall, the loss from before tax for the year was £6.12 million (FY17: £5.64 million loss), and included non-cash items of £1.17 million (FY17: £1.14 million). The loss per share for the year reduced marginally to £0.22 (FY17: £0.28 loss).

Statement of Financial Position and Cashflows

As at 30 June 2018, net assets amounted to £12.54 million (2017: £8.91 million), including cash balances of £5.09 million (2017: £2.10 million). Other current assets decreased to £2.56 million at the year end (2017: £2.89 million), and current liabilities reduced to £2.51 million as at 30 June 2018 (2017: £2.89 million). Deferred consideration of £0.47 million was settled during the year, being amounts due to the vendors following the acquisition of ACM in 2016. Net cash outflow from operating activities, before working capital movements for the year was £4.86 million (2017: £4.19 million), the principal contributing factor being the loss from operations activities of £6.02 million (2017: £5.34 million). Expenditure on capital equipment again utilised a significant portion of cash during the year at £0.72 million (FY17: £0.42 million).

Capital Structure and Funding

As at 30 June 2018, the Company had 27,328,773 ordinary shares in issue (2017: 19,597,713). During the year, the Company issued 7,731,060 new ordinary shares, in connection with the Company's placing and offer for subscription which raised £9.28 million (before expenses) and was completed on 30 October 2017. No options were exercised into ordinary shares during the year (FY17: 39,500).

The Group repaid borrowings of £0.47 million during the year (FY17: £2.82 million), principally in relation to the Group's US borrowing facilities which are secured on the Group's US based tangible assets. This in turn reduced Haydale's financing costs in the year to £0.1 million from £0.3 million in the prior year. The Group's total borrowings at the year end were £0.90 million (2017: £1.27 million), all of which were held by the Group's US subsidiaries.

Haydale's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide return to equity holders of the Company and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group manages this objective through tight control of its cash resources to meet its forecast future cash requirements.

PRINCIPAL RISKS AND UNCERTAINTIES

The Board considers that the principal risks and uncertainties facing the Group may be summarised as follows:

Health and Safety

Many of the Group's products of advanced materials are nano in size and, although there is little actual evidence of any health risks associated with the handling of the Group's products, there is a theoretical risk that the Group's products could be a danger to health if an individual is exposed to and/or inhales/ingests some of the Group's products. The Group takes health and safety very seriously and manages the potential health and safety risk by regular staff training and restricting activities to only certain qualified individuals.

Acceptance of the Group's Products

The success of the Group will depend on the market's acceptance of, and attribution of value to, advanced materials technology developed by the Group based on successfully mixing and dispersing raw, mined graphite and other synthetically produced graphenes into customers' existing products in order to improve the mechanical, thermal or electrical properties of the customers' existing products.

Notwithstanding the technical merits of the processes developed by the Group, and the extensive market and product research carried out by management to assess the likelihood of acceptance of the Group's products, there can be no guarantee that its targeted customer base for the processes will ultimately purchase the Group's products.

Rapidity of product take up

While the Group makes every effort to establish sensible timelines for customer engagement and purchasing of Haydale products, there is often unforeseen delays (by both parties) in forecasting the commencement of sales. There may be regulatory hurdles to overcome and end customer risk aversion in accepting a new nanomaterial enhanced product. Additionally, a change of senior management or a corporate event such as a merger can cause revisions in customer requirements and often cessation of product development.

Intellectual Property Risk

The Group's success will depend in part on its ability to maintain adequate protection of its IP portfolio, covering its manufacturing process, additional processes, products and applications, including in relation to the development of specific functionalisation of graphene and other types of carbon-based nanomaterials for use in particular applications. The IP on which the Group's business is based is a combination of granted patents, patent applications and confidential know-how.

Strategic Report continued

The Group aims to mitigate any risk that any of the Group's patents will not be held valid if challenged, or that third parties will claim rights in, or ownership of, the patents and other proprietary rights held by the Group through general vigilance, regular international IP searches as well as monitoring activities and regulations for developments in copyright/intellectual property law and enforcement.

Growth Risk

Expansion of the business of the Group may place additional demands on the Group's management administrative and technological resources and marketing capabilities, and may require additional capital expenditure. The Group monitors the additional demands on resources on a regular basis and strengthens resources as necessary. If the Group is unable to manage any such expansion effectively, then this may adversely impact the business, development, financial condition, results of operations, prospects, profits, cash flow and reputation of the Group.

Competition Risk

The Group's current and potential competitors include companies and academic institutions, many of whom have significantly greater financial resources than the Group and management regularly reviews the competitive landscape. There can be no assurance that competitors will not succeed in developing products that are more effective or economic than any developed by the Group or which would render the Group's products non-competitive or obsolete.

Dependence on Key Personnel

The Group's business, development and prospects are dependent upon the continued services and performance of its Directors. The experience of the Group's personnel helps provide the Group with a competitive advantage. The Directors believe that the loss of services of any existing key executives, for any reason, or failure to attract and retain necessary additional personnel, could adversely impact on the business, development, financial condition, results of operations and prospects of the Group.

The Group aims to mitigate this risk by providing well-structured and competitive reward and benefit packages that ensure our ability to attract and retain key employees.

The impact of Brexit

The UK vote to leave the EU (Brexit) has not had a direct material impact on the Group's performance in the current reporting period. However, Brexit is likely to bring uncertainty in the following areas:

- Materials: the ability of the Group to import graphene and export its products, together with fluctuations in the value of Sterling may, have an impact on the Group's operations.
- Regulations: the Group is subject to the relevant regulations, including materials handling, within the jurisdictions that it operates, which include the EU. Any material adverse changes to the requirement for UK based business to adopt additional regulations as a result of Brexit may have a detrimental effect on the Group's operations.
- Grant income: the Group has previously benefitted from EU grant funds, specifically the Horizon 2020 Research and Innovation programme. However, the Group has, in the last 18 months, offset the loss of access to Horizon 2020, with additional grant awards from Innovate UK.

The Group will respond to the challenges that Brexit brings once negotiations are at an advanced stage.

By order of the Board

David Banks
Interim Executive Chairman
17 September 2018

Board of Directors

The Haydale board consists of experienced commercial directors from a range of industries that include engineering, retail, finance and accounting, high technology and the petro-chemical industries. Brief biographies of each of the directors are set out below.

1. David Doidge Richard Banks,
Interim-executive Chairman

David Banks started in Stock Broking in Birmingham in 1979 with Harris, Allday, Lea and Brooks before moving to London and becoming an Institutional Salesman at Panmure Gordon where he was acclaimed in the Automotive, Engineering, Aerospace and Motor Distributors sectors. He subsequently became a Corporate Broker advising many companies on their Corporate Structure, Strategy, Messaging and Presentations. He also raised the Capital for many of these Companies both at IPO and in Secondary fund raises. David joined Haydale as Non-executive Chairman in July 2017 and was appointed as Interim-Executive Chairman on 5 September 2018

2. Keith Broadbent;
Chief Operating Officer

Keith joined Haydale in July 2017 as head of its Resins, Polymers and Composites Strategic Business Unit (RPC SBU) and as Managing Director of Haydale Composites Solutions Ltd. Prior to joining Haydale, Keith held a number of senior operational and commercial positions which covered aerospace, automotive, defence, automotive, marine and medical sectors. His experience includes significant multi-site responsibilities in both the UK and internationally. The companies he has worked for include Princess Yachts International, Sunseeker, TT Electronics and most recently at Ultra Electronics. Keith has demonstrated a strong track record in the delivery of budgets, high level customer service and enhancing shareholder value. Keith was appointed as the Group's Chief Operating Officer on 5 September 2018.

3. Raymond (Ray) John Gibbs BA (Hons) FCA,
President, Business Development

Ray Gibbs is a Chartered Accountant, and former Deloitte audit and corporate finance partner for 9 years. He has spent the last 21 years in industry as CFO or commercial director of high technology and fast-moving consumer goods businesses both in the quoted and private arenas with sales ranging from £0.5 million to £500 million. He was a former CFO of Chemring Group Plc. Ray is a Board Member of the USA based National Graphene Association and is the UK Chairman of the UK and China Joint Working Group on Graphene Standardisation, organised by the BSI Group. Ray was part of the original Haydale Graphene Industries' management team that acquired Haydale Limited in 2010, was its CEO between 2013 and 2018, and was appointed as President, Business Development on 5 September 2018.

4. Matthew (Matt) Graham Wood BA (Hons) FCA,
Finance Director and Company Secretary

Matt Wood is a Chartered Accountant and experienced finance director and corporate finance professional with a background in advising quoted growth companies for almost 20 years. A former nomad, since 2006, Matt has worked as a finance and non-executive director of AIM companies since 2006 and joined Haydale in early 2014 before its AIM IPO. Matt brings a wealth of experience of Plc financial reporting, corporate governance and general board advisory. Matt is an approved person by the Financial Conduct Authority and holds a first-class degree in Economics.

5. Roger Anthony Smith BSc (Hons),
Executive Director

Roger Smith has over 30 years of experience in building and developing technology-based businesses having graduated with a degree in Physics. Roger has managed and, as their Managing Director, led two start up businesses to profitable multi-million pound revenue postions with successful exits. Roger has served as Commercial Director with Bureau Veritas SA, a French industrial services business, and most recently as Senior Vice President of Petrofac, a global oilfield services group. Roger was one of the original Haydale Graphene Industries' management team that acquired Haydale Ltd in 2010 and acted as one of its non-excective director until July 2017. From July 2017 Roger has been using his background in business development and account management to assist Haydale to accelerate its graphene sales. Roger is Non Executive Chairman of SRJ Technologies Ltd and a Non Executive Director of Inductosense Ltd.

6. Roger James Humm MBA BSc (Hons) FCA,
Senior Independent Non-Executive Director

Roger Humm is an experienced Commercial and Finance Director with extensive knowledge of high-growth technology companies. He brings experience of financial reporting, corporate governance, internal control and risk management from multiple board roles in both public and private companies. He currently acts as Chief Financial Officer at Boxarr Limited and G-Volution Limited, is a Trustee Director of the Oxford Instruments pension scheme and chairs the Investment Committee of the University of Bristol Enterprise Funds. In these roles he provides general support to management teams to ensure effective performance and good communication with all stakeholders. Roger has previously held corporate, financial and senior management roles with Oxford Instruments plc both in the UK and USA, including responsibility for corporate development, intellectual property management and establishing a corporate venturing portfolio. Roger gained his BSc in microbiology and virology from Warwick University before qualifying as a chartered accountant with Grant Thornton. He has an MBA from the University of Bath.

Board of Directors continued

7. Graham Dudley Eves MA,
Non-Executive Director

Graham Eves joined GKN plc in 1967 where he spent 13 years operating across multiple overseas jurisdictions including, for the last 5 years, setting up and running a special operation for GKN plc's head office in Switzerland. He returned to the UK in 1980 to work in venture capital and establish his own international business consultancy. His main activities covered advising a range of German, North American and Japanese automotive component/technology suppliers and he co-founded and was chairman of an automotive technology company, Mechadyne (now part of KolbenschmidtPierburg AG). Graham is a non-executive director of AB Dynamics plc. He was on the AIM advisory committee of the London Stock Exchange for 6 years and has a Master of Arts degree in Modern and Medieval Languages from the University of Cambridge.

Directors' Report

The directors present their report and the audited financial statements for Haydale Graphene Industries Plc (the "Company"), a public company incorporated and registered in England and Wales under the Companies Act 2016 with company number 7228939, and its subsidiaries (together the "Group") for the year ended 30 June 2018.

There are a number of items required to be included in the Directors' Report which are covered elsewhere in the annual report. Details of directors' remuneration and share options are given in the Directors' Remuneration Report, details of the use of financial instruments and financial risk management objectives and policies are given in note 22 of the financial statements and the following are covered in the Strategic Report:

- Principal Activities
- Review of the Business and Future Developments
- Key Performance Indicators
- Principal Risks and Uncertainties

Research and development

During the year ended 30 June 2018, the Group invested £0.88 million (2017: £0.91 million) in research and development activities which were expensed during the year, together with a further £0.18 million (2017: £0.24 million) of development expenditure which has been capitalised. A review of this expenditure is included in the Strategic Report.

Dividends

The directors do not propose the payment of a dividend (2017: nil).

Substantial Shareholdings

As at 30 June 2018, the Company had been advised by the following shareholders, other than the directors, that they held interests of 3% or more in the Company's ordinary share capital:

Name of Shareholder	*Number of Ordinary Shares*	*% of Share Capital*
Advanced Waste & Water Technology Environmental Ltd*	1,958,451	7.17
Credit Suisse Group AG	1,427,735	5.22
Legal & General Group Plc	1,050,000	3.84

* shares transferred from Everpower International Holdings Co. Ltd, part of the same group.

In addition to those shareholders set out in the table above who had informed the Company of their holding of Ordinary Shares, as they are required to due pursuant to the Companies Act and under the AIM Rules for Companies, as at 30 June 2018, the Company's registered shareholders with interests of 3% or more in the Company's ordinary share capital was as follows:

Name of Shareholder	*Number of Ordinary Shares*	*% of Share Capital*
Lynchwood Nominees Limited	2,128,584	7.79
Advanced Waste & Water Technology Environmental Ltd	1,958,451	7.17
Credit Suisse Group AG	1,427,735	5.22
Cheviot Capital (Nominees) Ltd	1,221,519	4.47
HSBC Global Custody Nominee (UK) Limited	1,050,000	3.84
Hargreaves Lansdown (Nominees) Limited	1,009,749	3.69
J M Finn Nominees Limited	948,170	3.47

Directors

The following directors have held office since 1 July 2017 and up to the date of signing the financial statements:

David Banks (Appointed 13 July 2017)
Graham Eves
Raymond Gibbs
Roger Humm
Roger Smith
Matthew Wood
John Knowles (retired 13 July 2017)
Keith Broadbent (Appointed 5 September 2018)

Directors' Report continued

Directors' Interests in Ordinary Shares

The directors, who held office at 30 June 2018, had the following interests in ordinary shares of the Company:

Director	*Number of Shares at 30 June 2018*	*% of Share Capital*
Ray Gibbs	494,686	1.81
Roger Smith	288,455	1.06
David Banks	41,667	0.15
Roger Humm[1]	48,776	0.18
Matthew Wood	18,154	0.07

1. Includes 42,526 ordinary shares held by his wife, Wendy Humm.

Between 30 June 2018 and the date of this report there has been no change in the beneficial interests of directors in shares or share options as disclosed in this report.

Directors' and Officers' Liability Insurance

Qualifying indemnity insurance cover has been arranged in respect of the personal liabilities which may be incurred by directors and officers of the Group during the course of their service with the Group. This insurance has been in place during the year and on the date of this report.

Post Balance Sheet Events

Since 30 June 2018, there has been the following changes to the Board of directors of the Company:

- The appointment of David Banks as Interim Executive Chairman in September 2018;
- The appointment of Keith Broadbent as the Group's Chief Operating Officer and a member of the Board in September 2018;
- The appointment of Roger Humm as Senior Independent Non-executive Director in September 2018; and
- The appointment of Ray Gibbs as President, Business Development, in September 2018, having previously held the position of the Group's Chief Executive Officer.

From 1 July 2018, the Group changed its internal reporting system to set up a third profit-centric strategic business units ("SBUs") known as "RPC", "AMAT" & "APAC". For the current financial year and beyond, the Group intends to report sales and profits under these three SBUs.

Foreign Currency, Interest Rate, Credit and Liquidity Risk

The directors do not consider any of these potential risks to pose a significant risk to the Group or its operations over the coming year. See note 22, Financial Instruments, for further details.

Disclosure of information to auditors

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

Independent auditors

The auditors, BDO LLP have expressed their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the annual general meeting.

Statement by the Directors

The Directors consider the annual report and accounts, taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

By order of the Board

David Banks
Interim Executive Chairman
17 September 2018

Corporate Governance Statement

Overview

As Chairman of the Board of Directors of Haydale Graphene Industries Plc (Haydale or the Company/Group as the context requires), it is my responsibility to ensure that Haydale has both sound corporate governance and an effective Board. This is achieved by maintaining a corporate governance framework that includes regular meetings of the board and its committees, with informative, relevant and timely management information flow. We have introduced effective Board evaluation practices and will carry out a regular review of our governance processes to ensure we are constantly improving. The Board members have extensive experience of managing AIM Companies, including detailed knowledge of the AIM Rules and the Market Abuse Regulations. Haydale has decided to adopt the Quoted Companies Alliance Corporate Governance (QCA Code) and this statement follows the structure of these guidelines and summarises how we have applied the guidance. The Board considers that the Group complies with the QCA Code in all respects. A full overview of the Company's compliance with the QCA Code is provided on the Company's website at www.haydale.com.

The Board believes that corporate governance is more than just a set of guidelines; rather it is a framework which underpins the core values for running the business in which we all believe, including a commitment to open and transparent communications with stakeholders. We believe that good corporate governance improves long-term success and performance, whilst reducing or mitigating risks. Changes that have been made to the Board's composition that have had an impact on our corporate governance framework in the year ended 30 June 2018 and since the year end, include:

- The appointment in July 2017 of David Banks as non-executive Chairman, replacing the retiring John Knowles;
- The appointment of Keith Broadbent as the Group's Chief Operating Officer and a member of the Board in September 2018;
- The appointment of David Banks as Interim Executive Chairman in September 2018;
- The appointment of Roger Humm as Senior Independent Non-executive Director in September 2018; and
- The appointment of Ray Gibbs as President, Business Development, in September 2018, having previously held the position of the Group's Chief Executive Officer.

Board changes are discussed with the Company's major shareholders in advance, where possible. In June 2018, the Board formed a Nominations Committee, the whole Board having previously carried out that function. The members of the Nominations Committee are myself, as Chair, Graham Eves and Roger Humm. Following my appointment as Interim Executive Chair in September 2018, I stepped down as a member of the Company's Remuneration Committee.

As part of our adoption of the QCA Code, we are in the planning stages of adopting a Group-wide employee evaluation process, including the Board, and an employee engagement survey, to commence in January 2019.

The Company summarises how it complies with the 10 principles of the QCA below. A full explanation can be found on the Company's website at www.haydale.com.

QCA Principles

1. Establish a strategy and business model which promotes long-term value for shareholders

The Board has concluded that the highest medium and long-term value can be delivered to its shareholders by the adoption of a single strategy for the Company; To use our knowledge of advanced materials and dispersion to be one of the World's foremost creators of material change, enabling our customers to improve the performance of their products. To achieve this vision the Company aims to grow organically and, if necessary, by acquisition to extend the Group's client base and geographical penetration, and use its existing expertise and global reach to generate synergies in the high growth advanced materials industry. Haydale's business model is set out with the Strategic Report on pages 3-8 of this report and accounts.

The Company intends to deliver shareholder returns initially through capital appreciation and eventually through distributions via dividends.

2. Seek to understand and meet shareholder needs and expectations

The Board is committed to maintaining good communication and having constructive dialogue with its shareholders by providing effective communications through our Interim and Annual Reports along with Regulatory News Service announcements. We also use the Company's website, www.haydale.com for both financial and general news relevant to shareholders.

The Directors meet shareholders and other investors or potential investors at regular intervals during the year, especially during the Annual and Interim Results cycles. The Company also hosts broker and analyst meetings. David Banks is the Director appointed as the main point of contact for shareholder liaison. The Directors respond to all shareholder requests for meetings, and take on board

Corporate Governance Statement continued

shareholder views. Roger Humm, the Senior Independent Non-executive Director ("SID"), will carry out shareholder liaison if the Chairman is not available or as an alternative.

The Board keeps in mind the proportions of direct, nominee and institutional shareholders, and distributes communications accordingly. The whole Board attends the AGM. The AGM is regarded as an opportunity to meet, listen and present to shareholders and shareholders are encouraged to attend. In addition, the Company seeks feedback from key stakeholders, taking action where appropriate.

The Company's broker and NOMAD, Arden Partners, is briefed regularly and updates the Board during the year on shareholder expectations.

3. Take into account wider stakeholder and social responsibilities and their implications for long-term success

The Board recognises that the long-term success of the Company is reliant upon the efforts of the employees of the Company and its collaboration partners, suppliers, regulators and other stakeholders. The Board has put in place a range of processes and systems to ensure that there is close oversight and contact with its key resources and relationships. The Company prepares a detailed budget annually which takes into account the Group's long term strategy and its available key resources including staffing, working capital, production capacity and functionalisation capabilities.

Everyone within the Group is a valued member of the team, and our aim is to help every individual achieve their full potential. We offer equal opportunities regardless of race, gender, gender identity or reassignment, age, disability, religion of sexual orientation. The Group is in the process of implementing a Company-wide policy to conduct employee engagement surveys, which will seek to understand any issues within the workforce which will be in place within the coming months.

4. Embed effective risk management, considering both opportunities and threats, throughout the organisation

The Board recognises the need for an effective and well-defined risk management process, and whilst it oversees and regularly reviews the current risk management and internal control mechanisms, has delegated this responsibility primarily to the Audit Committee and senior management. The Company is in the process of adopting a risk register, which will be reviewed regularly by senior management and the Audit Committee. This report and accounts outlines the key risks to the business, see pages 7-8. The status of the key risks to the Company will be shared regularly with the Board, and the Board intends to thoroughly review the Company's risk register to the Company on an annual basis.

The Board does not currently deem it necessary for an internal audit function, having put in place experienced financial controllers in each of its key operational entities and jurisdictions. The Company went through an extensive Group audit tender process in the spring of 2018, which provided insight into areas where the Group could improve its financial reporting framework. Consequently, the Board believes that it now has in place effective governance and risk management processes, however, it will continue to monitor closely and regularly, assessing its effectiveness and will implement any changes that it deems appropriate.

5. Maintain the board as a well-functioning, balanced team led by the Chair

The Board comprises five executive directors and two non-executive directors as follows:

Executives

• Interim Executive Chairman:	David Banks;
• Chief Operating Officer:	Keith Broadbent;
• Finance Director:	Matt Wood;
• President, Business Development:	Ray Gibbs; and
• Executive Director:	Roger Smith.

Non-executives

• Senior Independent Non-executive:	Roger Humm; and
• Independent Non-executive:	Graham Eves.

Biographical details of the Directors can be found on pages 9 to 10 of this report and on the Company's website at www.haydale.com.

The full Board meets 8 times in the year according to the schedule of future meetings agreed at the beginning of each year, and also as and when required. In order to be efficient, the Directors meet formally and informally both in person and by telephone. Board and Committee document authors are made aware of proposed monthly deadlines through the schedule of meetings agreed at the beginning of the year. Board papers are prepared by the relevant personal (Chair, COO, FD, Business Development) and circulated to the Board at least 48 hours before meetings, allowing time for consideration and necessary clarifications before the meetings.

During the year ended 30 June 2018, the Company held 12 board meetings (FY2017: 11), with each member's attendance as follows:

	Number of board meetings attended	
Director	*FY2018*	*FY2017*
David Banks (appointed July 2017)	12	–
Raymond Gibbs	12	11
Matthew Wood	12	11
Graham Eves	11	10
Roger Humm	12	10
Roger Smith	12	10
John Knowles (retired July 2017)	–	11
Anthony Belisario (retired December 2016)	–	5
Dr Christopher Spacie (resigned July 2016)	–	1

Attendance at the Company's audit, remuneration and nomination committee meetings during the year ended 30 June 2018 was as follows:

	Number of committee meetings attended		
Committee member	*Audit*	*Remuneration*	*Nomination*
David Banks	3	2	1
Graham Eves	3	2	1
Roger Humm	4	2	1

6. Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities

The Non-executive Directors have both a breadth and depth of skills and experience to fulfil their roles. The Company believes that the current balance of skills in the Board as a whole, reflects a very broad range of personal, commercial and professional skills across geographies and industries and the Board has experience of public markets. Details of the Directors' experience and areas of expertise are outlined on pages 9-10 of this report and accounts. The Non-executive Directors meet without the presence of the Executive Directors during the year, and also maintain ongoing communications with Executives between formal Board meetings.

7. Evaluate board performance based on clear and relevant objectives, seeking continuous improvement

Every other year the Board expects to carry out an internal Board and Committee evaluation exercise, including that of the Chairman. The exercise will be led by Roger Humm, the SID. The areas of evaluation covered include Board structure and knowledge, operating effectiveness, operating efficiency, quality of information and ongoing professional development. Individual reviews of Non-executive Director performance will also be carried out by the SID, and the Chairman will undertake a review of the performance of the SID. The SID will also chair meetings of the non-executive directors, where necessary.

Corporate Governance Statement continued

8. Promote a corporate culture that is based on ethical values and behaviours

The Board recognises that its decisions regarding strategy and risk will impact the corporate culture of the Company as a whole and that this will impact the performance of the Company. The Board is very aware that the tone and culture set by the Board will greatly impact all aspects of the Company as a whole and the way that employees behave. The corporate governance arrangements that the Board has adopted are designed to ensure that the Company delivers long-term value to its shareholders, and that shareholders have the opportunity to express their views and expectations for the Company in a manner that encourages open dialogue with the Board.

9. Maintain governance structures and processes that are fit for purpose and support good decision-making by the board

The Board is committed to, and ultimately responsible for, high standards of corporate governance, and has chosen to adopt the QCA Corporate Governance Code. We review our corporate governance arrangements regularly and expect to evolve these over time, in line with the Company's growth. The Board delegates responsibilities to Committees and individuals as it sees fit, with the Chairman being responsible for the effectiveness of the Board, and the Executive Directors being accountable for the management of the Company's business and primary contact with shareholders.

The Chairman is responsible for the leadership of the Board and ensuring its effectiveness in all aspects of its role. He is also responsible for creating the right Board dynamic and for ensuring that all important matters, in particular strategic decisions, receive adequate time and attention at Board meetings. The Executive Directors are responsible for the day-to-day running of the business: Keith Broadbent (Operations), Matt Wood (Finance), Ray Gibbs (Business Development) and Roger Smith (Business Development); as well as developing corporate strategy while the Non-Executive Directors are tasked with constructively challenging the decisions of executive management and satisfying themselves that the systems of business risk management and internal financial controls are robust.

The role of the SID is to serve as a sounding board for the Chairman and act as an intermediary for other Directors. They are also available to shareholders if they have reason for concern that contact through the normal channels of the Executive Directors has failed to resolve. They are responsible for holding annual meetings with non-executives, without the Chairman present, to appraise the Chairman's performance.

The Board has adopted appropriate delegations of authority which sets out matters which are reserved to the Board as set out below:

- The Group's strategy and vision
- Determining management's performance and changes in senior personnel
- Approval of major capital expenditure
- Financial reporting, risk management and internal controls
- Contracts, including potential acquisitions or investments in new projects or products
- Corporate governance
- Approval of annual budgets
- Approval of annual and interim reports
- Approval of changes in equity or debt funding
- Dividend recommendations and policy

The Board delegates authority to three Committees to assist in meeting its business objectives whilst ensuring a sound system of internal control and risk management. The Committees meet independently of Board meetings.

Audit Committee

The Audit Committee has three members, Roger Humm (Chair), Graham Eves and David Banks. The FD, Group FC and external auditors attend meetings by invitation. The Audit Committee is responsible for assisting the Board in fulfilling its financial and risk responsibilities. The Audit Committee oversees the financial reporting, risk management and internal control procedures. The Audit Committee advises the Board on the appointment and removal of the external auditor and discusses the nature, scope and results of the audit with the auditors. The Audit Committee reviews the extent of non-audit services provided by the auditors and reviews with them their independence and objectivity. The Audit Committee met four times during the year. The Audit Committee shall meet not less than three times in each financial year.

Remuneration Committee

The Directors' Remuneration Report is set out on pages 18-21 of this Report and Accounts. As from 5 September 2018, the Remuneration Committee has two members, Graham Eves (Chair) and Roger Humm, with David Banks stepping down on 4 September 2018, following his appointment as Interim Executive Director. The members are all Independent Non-Executive Directors. Other members of the Board may attend the Committee's meetings at the request of the Committee Chairman.

The remit of the Committee is primarily to determine and agree with the Board the framework or broad policy for the remuneration of the Company's Executive Directors and the Senior Management of the Group. The Remuneration Committee reviews the performance of the Executive Directors and makes recommendations to the Board on matters relating to their terms of employment and remuneration, including short term bonus and long-term incentives. The Remuneration Committee also considers the granting of share options pursuant to the Company's share option schemes. The Remuneration Committee shall meet not less than twice a year and will meet on other occasions and as and when required.

Nominations Committee

The Nominations Committee was created in June 2018 and currently has three members, Graham Eves (Chair), Roger Humm and David Banks. The Nominations Committee reviews the structure, size and composition required of the Board compared to its current position and make recommendations to the Board, considers succession planning and nominates candidates to fill Board vacancies. The Nominations Committee shall meet at least once per year, and otherwise as necessary to consider proposals for Board appointments and other matters.

10. Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

The Board is committed to maintaining effective communication and having constructive dialogue with its shareholders. The Company intends to have close ongoing relationships with its private shareholders. Institutional shareholders and analysts and for them to have the opportunity to discuss issues and provide feedback at meetings with the Company. The Company receives reports from its corporate registrar and from Argus Vickers. In addition, all shareholders are encouraged to attend the Company's Annual General Meeting. All 2017 AGM resolutions were passed comfortably. The Board maintains that, if there is a resolution passed at a General Meeting with 20% votes against, the Company will seek to understand the reason for the result and, where appropriate, take suitable action.

By order of the Board

David Banks
Interim Executive Chairman
17 September 2018

Directors' Remuneration Report

REMUNERATION COMMITTEE

The Company's remuneration policy is the responsibility of the Remuneration Committee which was first established at the time of the Company's admission to trading on AIM. The terms of reference of the Remuneration Committee are outlined below and in the Corporate Governance Statement on page 17. The members of the Remuneration Committee during the year under review and up until 4 September 2018 were Graham Eves (Chairman), David Banks and Roger Humm. As from 5 September 2018, its members are Graham Eves (Chairman) and Roger Humm, with David Banks having stepped off the committee following his appointment as Interim Executive Chairman. There is no requirement for the Company to prepare a Directors' Remuneration Report under the AIM Rules, however the Directors have included this report voluntarily. Furthermore, the requirements of the 2006 Companies Act in respect of the Directors' Remuneration Report have only been applied to the extent necessary as there is no requirement to prepare a Directors' Remuneration Report under the Companies Act.

The Remuneration Committee is required to meet at least twice per year and is responsible for considering executive remuneration. Executives may be invited to attend to assist the Remuneration Committee but no director or manager of the Company may be involved in any decisions as to their own remuneration.

The terms of reference of the Committee do not encompass decisions to employ or dismiss Executives. The Committee does not have responsibilities for nominations to the Board, responsibility for which is with the recently formed Nomination Committee.

Under the terms of reference of the Remuneration Committee, the remuneration of the Company's non-executive directors (including the chairman of the Board, if a non-executive) is a matter for the chairman of the Board (if executive) and the Company's executive directors.

Directors' remuneration for the year to 30 June 2018 is set out on page 21.

The Remuneration Committee terms of reference require it to establish remuneration policy on the basis of various outcomes including developing remuneration packages needed to attract, retain and motivate executives of the quality required (but to avoid paying more than is necessary for this purpose) and to ensure that performance-related elements of remuneration form a significant proportion of the total remuneration package of executives and that such elements be designed to align executives' interests with those of shareholders and to give such executives incentives to perform at the highest levels.

Equity Based Incentive Schemes

The Remuneration Committee believes that equity-based incentive schemes provide a strong incentive for retaining and attracting high calibre individuals.

The Company currently has three equity-based incentive schemes in place.

a) 2013 Share Option Scheme

In May 2013, the Company adopted an EMI share option plan ("2013 Share Option Scheme"). During 2013, the Company granted options to executive directors and senior management over a total of 121,500 ordinary shares under the 2013 Share Option Scheme. There were no outstanding options in respect of this scheme at the year end and no further grants have been made under this scheme or are anticipated to be made in the future.

b) 2014 Option Scheme

In April 2014, the Company adopted a new share option scheme pursuant to which it may grant both EMI approved options and unapproved options ("2014 Option Scheme"). EMI approved options are subject to individual and overall limits. Potential grantees are employees and officers of the Company and members of the Group.

During the year ended 30 June 2018, a total of 99,271 share options were granted under the 2014 Option Scheme (2017: 215,581 options granted) as follows:

- 99,271 options on 15 December 2017 at an exercise price of 125.50p

During the year ended 30 June 2018, 408,009 share options had lapsed (2017: nil) and no share options were exercised (2017: 39,500). At 30 June 2018, there were 619,360 unexercised options outstanding (2017: 928,098).

The 2014 Share Option Scheme sets a limit of 10% of the issued share capital at the time of grant that can be used by the Company for share options. Options granted under this scheme may typically be exercised between the third and tenth anniversaries of grant provided the option holder remains an employee of a member of the Group. In certain circumstances, options may be exercised outside this window, for example in the event of death of the option holder or a change of control of the Company. Options can be granted under the scheme within 42 days of release of the annual and interim results and at other times in exceptional circumstances by resolution of the Board. No further options may be issued after the tenth anniversary of the date of adoption of the scheme. It is intended that options shall not be granted with an exercise price lower than the prevailing market value of an ordinary share at the time of grant. There are no individual or company performance targets to be met in order to be able to exercise the options.

c) Long Term Incentive Plan ("LTIP")

In December 2017, the Company adopted the LTIP to incentivise the Group's key management ("Key Management") to deliver long-term value creation for shareholders, to ensure alignment with shareholders' interests and to attract and retain high-quality individuals.

Awards under the LTIP are structured as nominal cost options (£0.02) with a three-year vesting period and a seven-year life after vesting ("Exercise Period"). A single conditional grant of a maximum number of LTIP Awards ("Award") can be made to the relevant member of the Key Management ("Award Holder") at the outset. The performance conditions that dictate the proportion, if any, of the Award that is capable of exercise by the Award Holder during the Exercise Period, are based upon the Company's sustainable share price performance during the period commencing on the first day of the 13th month following the date of grant and ending on the last day of the 120th month following the date of grant ("Performance Period").

Share price performance criteria

The LTIP has been structured to ensure that value is created for shareholders before any value is delivered to the Key Management. Accordingly, should the Company's closing mid-market share price not reach and remain at, or above, £2.20 for at least 15 consecutive trading days during the Performance Period ("Minimum Target"), then none of the Awards vest or is exercisable and the Awards will lapse in full.

Should the Company's closing mid-market share price reach and remain at or above £4.20 for at least 15 consecutive trading days during the Performance Period ("Maximum Target"), then 100% of the Awards vest and are exercisable. Between the Minimum Target and the Maximum Target, the % of the Awards that vest shall be pro-rata on a straight-line basis. The Awards may lapse in the event of cessation of employment save for certain circumstances, including inter alia, redundancy or retirement in which case, at the Company's sole discretion and subject to performance criteria being met, the Exercise Period may be accelerated.

Directors' Remuneration Report continued

Grant of LTIP Awards

On 15 December 2017, grants of LTIP Awards were made to the following members of the Key Management:

Name and role	Number of LTIP Awards granted ("Award")	Earliest exercise date	Latest exercise date	Minimum share price target before any Awards vest	Maximum share price target for 100% of Awards to vest
Ray Gibbs	819,863	14/12/20	14/12/27	£2.20	£4.20
Trevor Rudderham*	409,932	14/12/20	14/12/27	£2.20	£4.20
Keith Broadbent	409,932	14/12/20	14/12/27	£2.20	£4.20
Matt Wood	341,610	14/12/20	14/12/27	£2.20	£4.20

* Trevor Rudderham left the Group post year end for family reasons, accordingly Mr Rudderham's LTIP Award has lapsed.

DIRECTORS' INTERESTS IN SHARE OPTIONS

The interests of directors in share options over ordinary shares during the year were as follows:

2014 Share Option Scheme

Director	Date of Grant	Number of LTIP Options	Number of EMI Options	Number of Unapproved Options	First Exercise Date	Exercise Price	Expiry Date
Raymond Gibbs	3 April 2014	–	101,190	39,408	3 April 2017	210p	3 April 2024
	18 March 2015	–	–	14,275	18 March 2018	134.5p	18 March 2025
	19 May 2016	–	–	20,991	19 May 2019	171.5p	19 May 2026
	15 December 2017	819,863	–	–	15 December 2020	2p	15 December 2027
Matthew Wood	3 April 2014		–	32,337	3 April 2017	210p	3 April 2024
	18 March 2015		–	7,137	18 March 2018	134.5p	18 March 2025
	19 May 2016		–	8,396	19 May 2019	171.5p	19 May 2026
	15 December 2017	341,610	–	–	15 December 2020	2p	15 December 2027
David Banks	15 December 2017	–	100,000	100,000	15 December 2020	125.5p	15 December 2027
Graham Eves	3 April 2014		–	16,872	3 April 2017	210p	3 April 2024
Roger Humm	3 April 2014		–	16,872	3 April 2017	210p	3 April 2024
Roger Smith	3 April 2014		–	16,872	3 April 2017	210p	3 April 2024

No options were exercised by the directors during the year under review.

The mid-market price of the Company's ordinary shares at 30 June 2018 was 70p (2017: 175.50p). During the year to 30 June 2018, the mid-market price ranged from 70p to 186p (2017: 148.50p to 206p).

DIRECTORS' REMUNERATION

The aggregate remuneration received by directors who served during the years ended 30 June 2018 and 30 June 2017 was as follows:

			Year ended 30 June 2018			*Year ended 30 June 2017*		
£'000	*Salary/Fee*	*Benefits*	*Total (excl. Pension)*	*Pension*	*Total (incl. pension)*	*Total (excl. pension)*	*Pension*	*Total (incl. pension)*
Executive Directors								
R. Gibbs	150	12	162	9	171	162	9	171
C. Spacie*	–	–	–	–	–	10	1	11
M. Wood	98	12	110	6	116	89	5	94
R. Smith**	9	–	9	–	9	28	–	28
Non-Executive Directors								
A. Belisario ***	–	–	–	–	–	14	–	14
J. Knowles****	12	–	12	–	12	41	–	41
D Banks*****	49	–	49	–	49	–	–	-
G. Eves	28	–	28	–	28	28	–	28
R. Humm	28	–	28	–	28	28	–	28
	374	24	398	15	413	400	15	415

* resigned on 31 July 2016

** Part-time executive

*** resigned on 13 December 2016

**** resigned on 13 July 2017

***** appointed on 13 July 2017. Mr Banks was appointed as Independent Executive Chairman on 5 September 2018

In addition to the amounts shown above, the share-based payment charge for the period was:

	to 30 June 2018 £'000	*to 30 June 2017 £'000*
Raymond Gibbs	42	43
David Banks	14	7
Matthew Wood	18	15
John Knowles	9	9
Anthony Belisario	5	5
Graham Eves	5	5
Roger Humm	5	5
Roger Smith	5	5
	103	94

By order of the Board

Graham Eves
Chairman of the Remuneration Committee
17 September 2018

Statement of Directors' Responsibilities

The directors are responsible for preparing the strategic report, the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 Group and Company and of the profit or loss for the Group for that period. The directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the AIM market.

In preparing these financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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 requirements of 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.

Website Publication

The directors are responsible for ensuring that the annual report and financial statements are made available on a website. Financial statements are published on the Group's website, www.haydale.com, in accordance with the AIM Rules for Companies published by the London Stock Exchange and legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Group's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Going Concern

The directors have prepared and reviewed detailed financial forecasts. After due consideration of these forecasts, the Group's current cash resources, borrowing facilities and the directors' belief that the Group will have access to additional equity or debt funding in the future, the directors consider that the Company and the Group have adequate financial resources to continue in operational existence for the foreseeable future (being a period of at least 12 months from the date of this report), and for this reason the financial statements have been prepared on the going concern basis.

By order of the Board

Matt Wood
Finance Director and Company Secretary
17 September 2018

Independent Auditor's Report to the members of Haydale Graphene Industries Plc

Opinion

We have audited the financial statements of Haydale Graphene Industries PLC (the 'parent company') and its subsidiaries (the 'group') for the year ended 30 June 2018 which comprise the Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows, Parent Company's Balance Sheet and Parent Company Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 30 June 2018 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance 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 FRC's Ethical Standard as applied to listed entities, 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

- Revenue recognition

The Group's revenue recognition policy is included within the accounting policies on page 32 and the components of revenue are set out in note 4.

Management exercises judgement in recognising revenue arising from the provision of services where contracts are ongoing at the year end. Revenues for such contracts are recorded on a percentage completion basis unless the contract outcome cannot be reliably determined, in which case, revenue is only recognised to the extent that incurred costs are recoverable.

In view of the judgements involved and estimation that could be susceptible to management bias, we considered that these matters gave rise to a significant risk of misstatement in the financial statements and therefore a key audit matter.

How We Addressed the Key Audit Matter in the Audit

We have assessed whether revenue recognition is in accordance with IAS 18 and the Group's accounting policies and, in respect of service contracts ongoing at the year end, we considered the basis of estimation for accrued and deferred income. This was performed by gaining an understanding of the terms of a sample of underlying contracts and ensuring that the revenue, accrued and deferred income were recognised appropriately by testing management's assessment of the stage of completion with reference to evidence such as costs incurred, time recording records and budgets.

Independent Auditor's Report to the members of Haydale Graphene Industries Plc continued

Our application of materiality

Group materiality 30 June 2018	*Group materiality 30 June 2017*	*Basis for materiality*
£300,000	£400,000	5% of losses before tax (2017: 8% of losses before tax). This determination is based on our view that the loss before tax is a key financial measure for the group and its members in assessing financial performance as the group is primarily research and development focussed.

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Performance materiality was set at 70 per cent of the above materiality levels.

Where financial information from components was audited separately, component materiality levels were set for this purpose at lower levels varying from £42,000 to £125,000 (2017: £25,000 to £200,000).

Our determination of materiality decreased from 2017 due to a lower percentage being applied to the benchmark on the basis of our risk assessment and assessment of the group's control environment. We consider losses before tax to be one of the principal considerations for members of the company in assessing the financial performance of the group.

We agreed with the audit committee that we would report to the committee all individual audit differences identified during the course of our audit in excess of £10,000 (2016: £16,000). We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative grounds.

There were no misstatements identified during the course of our audit that were individually, or in aggregate, considered to be material in terms of their absolute monetary value or on qualitative grounds.

An overview of the scope of our audit

Our group audit scope focussed on the group's principal operating locations being Ammanford, Loughborough and South Carolina, each of which were subject to a full scope audit. Together with the parent company and its group consolidation, which was also subject to a full scope audit, these locations represent the principal business units of the group and account for 91% of the group's revenue, 90% of the group's loss before tax and 97% of the group's total assets. The remaining components of the group were considered non-significant and these components were principally subject to analytical review procedures.

Whilst materiality for the financial statements as a whole was £300,000, each component of the group was audited to a lower level of materiality.

Audits of the components were performed at a materiality level calculated by reference to a proportion of group materiality appropriate to the relative scale of the business concerned. These audits were all performed by BDO LLP with the exception of the South Carolina operations audited by BDO US.

The Group audit team was actively involved in directing the audit strategy of the component auditor in South Carolina and a key member of the Group audit team visited local management and the auditors of the operations in South Carolina during the audit fieldwork. The Group audit team reviewed in detail the findings of work performed and considered the impact of these upon the Group audit opinion.

Other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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.

Matters on which we are required to report by exception

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

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or

the parent company financial statements are not in agreement with the accounting records and returns; or

certain disclosures of directors' remuneration specified by law are not made; or

we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, as set out on page 22, 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.

Independent Auditor's Report to the members of Haydale Graphene Industries Plc continued

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

Use of our report

This report is made solely to the parent 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 parent 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 parent company and the parent company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Malcolm Thixton *(Senior Statutory Auditor)*
For and on behalf of BDO LLP, Statutory Auditor
Southampton
17 September 2018

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 30 June 2018

	Note	Year ended 30 June 2018 £'000	Year ended 30 June 2017 £'000
REVENUE	4	**3,403**	3,004
Cost of sales		**(1,403)**	(894)
Gross profit		**2,000**	2,110
Other operating income	5	**831**	901
Administrative expenses			
Research and development expenditure		**(878)**	(908)
Share based payment expense		**(291)**	(351)
Other administrative expenses		**(7,684)**	(7,090)
		(8,853)	(8,349)
LOSS FROM OPERATIONS		**(6,022)**	(5,338)
Finance costs		**(95)**	(297)
LOSS BEFORE TAXATION	6	**(6,117)**	(5,635)
Taxation	8	**850**	883
LOSS FOR THE YEAR FROM CONTINUING OPERATIONS		**(5,267)**	(4,752)
Other comprehensive income:			
Items that may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations		**(47)**	(74)
Remeasurements of defined benefit pension schemes		**(99)**	(36)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR FROM CONTINUING OPERATIONS		**(5,413)**	(4,862)
Loss for the year attributable to:			
Owners of the parent		**(5,413)**	(4,862)
Non-controlling interest		**–**	–
		(5,413)	(4,862)
Total comprehensive loss attributable to:			
Owners of the parent		**(5,413)**	(4,862)
Non-controlling interest		**–**	–
		(5,413)	(4,862)
Loss per share attributable to owners of the Parent			
Basic (£)	9	**(0.22)**	(0.28)
Diluted (£)	9	**(0.22)**	(0.28)

The notes from pages 31 to 61 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2018

Company Registration No. 07228939

	Note	30 June 2018 £'000	30 June 2017 £'000
ASSETS			
Non-current assets			
Goodwill	10	**2,087**	2,115
Intangible assets	10	**2,130**	2,152
Property, plant and equipment	11	**5,061**	5,074
Deferred tax asset	27	**550**	679
		9,828	10,020
Current assets			
Inventories	12	**1,022**	1,212
Trade receivables	13	**705**	798
Other receivables	14	**362**	535
Corporation tax	14	**473**	345
Cash and bank balances		**5,092**	2,091
		7,654	4,981
TOTAL ASSETS		**17,482**	15,001
LIABILITIES			
Non-current liabilities			
Bank loans	19	**640**	911
Deferred tax	27	**675**	1,234
Pension Obligation	26	**1,120**	969
		2,435	3,114
Current liabilities			
Bank loans	19	**256**	359
Trade and other payables	18	**2,172**	2,305
Deferred income	20	**78**	253
Corporation tax	18	**–**	65
		2,506	2,982
TOTAL LIABILITIES		**4,941**	6,096
TOTAL NET ASSETS		**12,541**	8,905
EQUITY			
Capital and reserves attributable to equity holders of the parent			
Share capital	15	**547**	392
Share premium account	15	**27,539**	18,936
Share-based payment reserve	16	**1,298**	1,007
Foreign exchange reserve		**(160)**	(113)
Retained earnings		**(16,683)**	(11,317)
TOTAL EQUITY		**12,541**	8,905

The financial statements on pages 27 to 61 were approved and authorised for issue by the Board of directors on 17 September 2018 and signed on its behalf by:-

David Banks
Interim Executive Chairman

Matt Wood
Finance Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2018

	Share capital £'000	Share premium £'000	Share-based payment reserve £'000	Foreign exchange reserve £'000	Retained profits £'000	Other reserves £'000	Total equity £'000
At 1 July 2016	305	11,840	656	(39)	(6,117)	(44)	6,601
Total comprehensive loss for the year	–	–	–	(74)	(4,787)	–	(4,861)
Recognition of share-based payments	–	–	351	–	–	–	351
Issue of ordinary share capital	87	7,253	–	–	–	–	7,340
Repurchase of NCI	–	–	–	–	(413)	44	(369)
Transaction costs in respect of share issues	–	(157)	–	–	–	–	(157)
At 30 June 2017	392	18,936	1,007	(113)	(11,317)	–	8,905
Total Comprehensive loss for the year	–	–	–	(47)	(5,366)	–	(5,413)
Recognition of share-based payments	–	–	291	–	–	–	291
Issue of ordinary share capital	155	9,123	–	–	–	–	9,278
Transaction costs in respect of share issues	–	(520)	–	–	–	–	(520)
At 30 June 2018	**547**	**27,539**	**1,298**	**(160)**	**(16,683)**	**–**	**12,541**

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 30 June 2018

	Note	Year ended 30 June 2018 £'000	Year ended 30 June 2017 £'000
Cash flow from operating activities			
Loss before taxation		**(6,117)**	(5,635)
Adjustments for:-			
Amortisation of intangible assets	10	**149**	157
(Profit)/Loss on disposal of intangible assets		**75**	–
Capitalised loan costs written off		**–**	77
Depreciation of property, plant and equipment	11	**675**	560
(Profit)/Loss on disposal of property, plant and equipment		**(60)**	–
Share-based payment charge	16	**291**	351
Finance costs		**95**	297
Pension – net interest expense		**37**	–
Operating cash flow before working capital changes		**(4,855)**	(4,193)
Decrease/(Increase) in inventories		**190**	(12)
Decrease/(Increase) in trade and other receivables		**266**	(596)
(Decrease)/Increase in payables and deferred income		**159**	260
Cash used in operations		**(4,240)**	(4,541)
Income tax received		**269**	412
Net cash used in operating activities		**(3,971)**	(4,129)
Cash flow used in investing activities			
Purchase of property, plant and equipment		**(723)**	(415)
Purchase of Intangible Assets		**(175)**	(245)
Proceeds from disposal of property, plant and equipment		**83**	–
Acquisition of subsidiary – deferred consideration		**(444)**	4
Purchase of non-controlling shareholding		**–**	(413)
Net cash used in investing activities		**(1,259)**	(1,069)
Cash flow used in financing activities			
Finance costs		**(95)**	(297)
Proceeds from issue of share capital (net of share issue costs)		**8,757**	6,058
New bank loans raised		**–**	1,408
Repayments of borrowings		**(446)**	(2,817)
Net cash flow from financing activities		**8,216**	4,352
Effects of exchange rates changes		**15**	75
Net increase/(decrease) in cash and cash equivalents		**3,001**	(771)
Cash and cash equivalents at beginning of the financial year		**2,091**	2,862
Cash and cash equivalents at end of the financial year		**5,092**	2,091

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2018

1. Accounting policies
Basis of preparation
The Group consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively "IFRSs") as adopted by the European Union ('Adopted IFRSs') and with those parts of the Companies Act 2006 applicable to companies preparing their financial statements under adopted IFRS.

The Group's financial statements have been prepared under the historical cost convention and in accordance with IFRS.

The consolidated financial statements are presented in sterling amounts.

Amounts are rounded to the nearest thousands, unless otherwise stated.

The individual financial statements of Haydale Graphene Industries Plc are shown on pages 62 to 68.

Basis of consolidation
The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company made up to the reporting date. The Company controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns over the investee, and the ability of the investee to use its power to affect the variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control. All intra-group transactions, balances, income and expenditure are eliminated on consolidation. The consolidated financial statements have been prepared using the acquisition method of accounting.

Under the acquisition method, the results of the subsidiaries acquired or disposed of are included from the date of acquisition or up to the date of disposal. At the date of acquisition, the fair values of the subsidiaries' net assets are determined and these values are reflected in the Consolidated Financial Information. The cost of acquisitions is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Haydale Graphene Industries Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. Any excess of the purchase consideration of the business combination over the fair value of the identifiable assets and liabilities acquired is recognised as goodwill. Goodwill, if any, is not amortised, but reviewed for impairment at least annually. If the consideration is less than the fair value of assets and liabilities acquired, the difference is recognised directly in the statement of comprehensive income. Acquisition-related costs are expensed as incurred.

Going concern
The Group consolidated financial statements are prepared on a going concern basis which the Directors believe continues to be appropriate. The Group meets its day-to-day working capital requirements through existing cash resources which at 30 June 2018, amounts to £5.092 million. The Directors have prepared cash flow projections for the period ending no less than 12 months from the date of their approval of these financial statements. On the basis of those projections, and current cash resources, the Directors believe that the Group will be able to continue to trade for the foreseeable future.

2. Future accounting developments
New standards and interpretations issued but not yet effective
As at 30 June 2018, the following new or amended standards and interpretations, which have not been applied in these financial statements, have been issued by the International Accounting Standards Board (IASB) but are yet to become effective.

- IFRS 9 – Financial Instruments (effective for accounting periods commencing on or after 1 January 2018);
- IFRS 15 – Revenue from Contracts with Customers (effective for accounting periods commencing on or after 1 January 2018);
- IFRS 16 – Leases (effective for accounting periods commencing on or after 1 January 2019); and
- Amendments resulting from Annual Improvements to IFRS 2014-2016 Cycle (effective for accounting periods commencing on or after 1 January 2018).

IFRS 9 - Financial Instruments replaces IAS 39. The standard is effective for the Group's first IFRS financial statements for the period beginning on 1 July 2018 and will impact the classification and measurement of financial instruments and will require certain additional disclosures. Whilst an assessment of the new standard is ongoing, the changes to recognition and measurement of financial instruments and changes to hedge accounting rules are not currently considered likely to have any major impact on the Group's current accounting treatment or hedging activities due to the simple nature of our financial instruments.

2. Future accounting developments (continued)

The standard also requires entities to use an expected credit loss model for impairment of financial assets instead of an incurred credit loss model. This could be expected to impact the way the Group provides for bad and doubtful receivables. However, the current expectation is that it is unlikely to have a material impact on the overall level of provisions due to historical low levels of bad or doubtful receivables, together with the credit worthiness of our customers and procedures and processes carried out before billing. There is no expectation for restatement of any 2018 comparatives within the 2019 Financial Statements.

IFRS 15 - Revenue from Contracts with Customers (effective for the Group's first IFRS financial statements for the period beginning on 1 July 2018) replaces IAS 18 'Revenue', IAS 11 'Construction Contracts' and related interpretations. The standard introduces a single, five-step revenue recognition model that is based upon the principle that revenue is recognised at the point that control of goods or services is transferred to the customer. The standard also updates revenue disclosure requirements.

The Directors have specifically considered the adoption of IFRS 15 on the revenue recognition of the Group's three main revenue streams, which are explained below.

Goods

The Directors do not anticipate that the changes made under IFRS 15 will have any material impact to the way in which sale of goods will be recognised within the Group's financial statements. Under IFRS 15, the Group will continue to recognise revenue when the risks and rewards of ownership are passed to the customer.

The Group currently have some contracts in place with customers to provide goods over a number of years. There are, occasionally, variations or amendments to these shipments of goods under these contracts. The Directors have considered the contract modification criteria with IFRS 15 and will ensure these are applied for any contract modifications that may take place. At present, the Directors do not anticipate that there will be any restatement of any 2018 comparatives within the 2019 financial statements.

Services

The Directors do not anticipate that the changes made under IFRS 15 will have a material impact to the way in which revenue from services will be recognised. The Group will continue to adopt the approach of recognising revenue based upon the percentage of completion method, whereby the stage of completion is determined based on the proportion of contract costs incurred compared to total estimated contract costs.

Reactor Sales

The recognition of reactor sales has been considered by the Directors. The recognition of revenue has historically been recognised over time on a percentage of completion basis. Under IFRS 15, it is anticipated that the revenue will continue to be recognised over time, as opposed to a point in time, given that the performance obligations of the delivery and commissioning of the reactors are linked. As a result, the recognition of revenue will continue to be recognised on a percentage completion basis, as in prior years. The Directors do no anticipate that there will be any restatement of any 2018 comparatives within the 2019 financial statements.

IFRS 16 - Leases (effective for the Group's first IFRS financial statements for the period beginning on 1 July 2019) will require all of the Group's leases to be recognised on the balance sheet. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. IFRS 16 supersedes IAS 17 'Leases and related interpretations' and its adoption requires the Group to set out the principles for the recognition, measurement, presentation and disclosure of leases. The Group has a number of operating lease arrangements which we have considered below.

The main effect on the Group is that IFRS 16 introduces a single lessee accounting model and requires lessees to recognise assets and liabilities for almost all leases and will therefore result in an increase of total property, plant and equipment and total financial debt of approximately £1.6 million.

All things being equal, under the new standard, trading operating profit and reported EBITDA would increase by approximately £1.4 million due to the replacement of the operating lease expense with amortisation of lease assets. This would partially be offset by an interest charge resulting in an insignificant impact on net profit. The Group is currently assessing the precise impact of the standard.

3. Summary of significant accounting policies

(a) Intangible assets

Research and development expenditure

Research expenditure is recognised as an expense when it is incurred.

Development expenditure is recognised as an expense except that costs incurred on development projects are capitalised as intangible assets to the extent that such expenditure is expected to generate future economic benefits. Development expenditure is capitalised if, and only if an entity within the Group can demonstrate all of the following:-

i) its ability to measure reliably the expenditure attributable to the asset under development;

ii) the product or process is technically and commercially feasible;

iii) its future economic benefits are probable;

iv) its ability to use or sell the developed asset;

v) the availability of adequate technical, financial and other resources to complete the asset under development; and

vi) its intention to use or sell the developed asset.

Capitalised development expenditure is measured at cost less accumulated amortisation and impairment losses, if any. Development expenditure initially recognised as an expense will not be restated as an asset in a subsequent period.

Historic capitalised development expenditure is amortised on a straight-line basis over a period of 20 years when the products or services are ready for sale or use. The 20 years amortisation period is based on European Patents being 20 years from the date of filing of the application, under Article 60 of the European Patent Convention, and, although the Group now has patents granted in other jurisdictions, the Directors believe that 20 years is appropriate. New projects will be reviewed on completion, to determine the useful economic life. In the event that it is no longer probable that the expected future economic benefits will be recovered, the development expenditure is written down to its recoverable amount. Amortisation is included within administrative expenses.

Acquired intangible assets

An intangible resource acquired with a subsidiary undertaking is recognised as an intangible asset if it is separable from the acquired business or arises from contractual or legal rights, is expected to generate future economic benefits and its fair value can be measured reliably. Acquired intangible assets (excluding development expenditure which is in line with the above policy), including customer relationships, are amortised through the Consolidated Statement of Comprehensive Income on a straight-line basis over their estimated economic lives of between three and ten years.

Goodwill

Business combination are accounted for by applying the purchase method. The cost of a business combination is a fair value of the consideration given, liabilities incurred or assumed and of equity instrument issued plus the cost directly attributable to business combination. Where control is achieved in stages the cost is a consideration at the date of each transaction.

Contingent consideration is initially recognised at estimated amount where the consideration is probable and can be measured reliably. Where (i) the contingent consideration is not considered probable or cannot be reliably measured but subsequently becomes probable or (ii) contingent consideration previously measured is adjusted, the amounts are recognised as an adjustment to the cost of the business combination if the remeasurement occurs within a year of the transaction and relates to information that was available at the point of acquisition. Otherwise, any remeasurements of contingent consideration is reflected in the statement of comprehensive income.

On acquisition of a business, fair values are attributed to the identifiable assets, liabilities and contingent liabilities unless the fair value cannot be measured reliably, in which case the value is incorporated in goodwill. Where the fair value of contingent liabilities cannot be reliably measured they are disclosed on the same basis as other contingent liabilities.

Goodwill recognised represent the excess of the fair value and directly attributable costs of the purchase consideration over the fair value to the Group's interest in the identifiable net assets, liabilities and contingent liabilities acquired.

3. Summary of significant accounting policies (continued)

The carrying value of goodwill, and the cash-generating unit to which it relates, is reviewed at the end of each reporting period for impairment regardless of whether there is an indication that the asset may be impaired. Other non-financial assets are considered for indicators of impairment at each reporting date and full impairment reviews carried out if indicators of impairment exist. Impairment is measured by comparing the carrying values of the assets with their recoverable amounts. The recoverable amount of the assets is the higher of the assets' fair value less costs to sell and their value-in-use, which is measured by reference to discounted future cash flow. An impairment loss is recognised in administrative expenses within the Statement of Comprehensive Income immediately it is identified.

In respect of assets other than goodwill, and when there is a change in the estimates used to determine the recoverable amount, a subsequent increase in the recoverable amount of an asset is treated as a reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in profit or loss immediately.

(b) Revenue and interest income

(i) Goods

Revenue represents sales to external customers at invoiced amounts less value added tax or local taxes on sales. Revenue is recognised generally on delivery, or customer acceptance for where customer acknowledges the transfer of risk and reward of ownership and are liable for insuring the goods.

(ii) Services

Engineering design and research revenue is recognised on the percentage of completion method unless the outcome of the contract cannot be reliably determined, in which case contract revenue is only recognised to the extent of contract costs incurred that are recoverable. Foreseeable losses, if any, are provided for in full as and when it can be reasonably ascertained that the contract will result in a loss.

The stage of completion is determined based on the proportion of contract costs incurred compared to total estimated contract costs.

(c) Financial instruments

Financial instruments are recognised in the statements of financial position when the Group has become a party to the contractual provisions of the instruments.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument classified as a liability are reported as an expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity.

Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

A financial instrument is recognised initially, at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

The accounting policy for financial instruments recognised in the statements of financial position are disclosed in the individual policy statement associated with each item.

Financial assets are derecognised when the contractual rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(i) Financial assets

The group currently only holds financial assets classed as loans and receivables.

- *Loans and receivables*

  Trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables financial assets. Loans and receivables financial assets are measured at amortised cost using the effective interest method, less any impairment loss. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

(d) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any. The cost of an item of property, plant and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is calculated under the straight-line method to write off the depreciable amount of the assets over their estimated useful lives. The principal annual rates used for this purpose are:-

Leasehold improvements	10-20% per annum straight line
Plant and machinery	15-33% per annum straight line
Furniture and fittings	20-33% per annum straight line
Motor vehicles	33% per annum straight line

The depreciation method, useful lives and residual values are reviewed, and adjusted if appropriate, at the end of each reporting period to ensure that the amounts, method and periods of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of the property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when the cost is incurred and it is probable that the future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. The carrying amount of parts that are replaced is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred. Cost also comprises the initial estimate of dismantling and removing the asset and restoring the site on which it is located for which the Group is obligated to incur when the asset is acquired, if applicable.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The gain or loss on retirement or disposal is determined as the difference between any sales proceeds and the carrying amounts of the asset and is recognised in the income statement within administrative expenses.

(e) Income taxes

The charge for taxation is based on the loss for the period and takes into account deferred taxation.

Current tax is measured at amounts expected to be paid using the tax rates and laws that have been enacted by the balance sheet date. The substantively enacted rate has been used for deferred tax balances, which are recognised in respect of all timing differences that have been originated but not reversed by the reporting date, except that the recognition of deferred tax assets is limited to the extent that the Company anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

The Group receives research and development tax credits for the work it performs in the field of nano-technology. Using the SME and large company schemes, these credits generate cash reimbursement in exchange for the sacrifice of applicable losses, such receipts are recognised in income tax within the Statement of Comprehensive Income.

(f) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, bank balances, deposits with financial institutions and short-term, highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value and have maturities of 3 months or less from inception.

(g) Inventories

Inventories are recorded at the lower of cost and net realisable value. Cost represents materials, direct labour, other direct costs and related production overheads, and is determined on the First-In-First-Out (FIFO) method. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal. Provision is made for slow-moving, obsolete and defective inventories where appropriate.

The value of inventories used in the fulfilment of commercial or developmental programmes are charged to cost of sales in the Statement of Comprehensive Income.

3. Summary of significant accounting policies (continued)

(h) Employee benefits

(i) Short-term benefits

Wages, salaries, paid annual leave and sick leave, bonuses and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group.

(ii) Defined contribution plans

The Group's contributions to defined contribution plans are recognised in profit or loss in the period to which they relate. Once the contributions have been paid, the Group has no further liability in respect of the defined contribution plans.

(iii) Defined Benefit Pension plans

The group acquired a non-contributory defined benefit pension plan through the acquisition of HCT (formerly ACM). The pension obligations are identified by the calculations performed by an actuary.

(i) Provisions

Provisions are recognised when the Group has a present or constructive obligation as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate of the amount can be made. Provisions are reviewed at the end of each financial reporting period and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the provision is the present value of the estimated expenditure required to settle the obligation.

(j) Government grants

Revenue grants are accounted for under the accruals model, with grants being recognised within other income on a systematic basis over the period in which the group recognised the related costs for which the grant is intended to compensate. Grants received in advance of the income being recognised in the Statement of Comprehensive Income are included in grant creditors.

When grant income is received for capital expenditure, it is held as deferred income on the balance sheet and released on a straight line basis over the useful economic life of the asset to which it relates. All income relating to government grants is included as 'other income' within the Statement of Comprehensive Income.

(k) Share-based payment arrangements

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 16 to the Consolidated Financial Statements.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the number of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to other reserves.

(l) Leases

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(m) Transactions and balances in foreign currencies

Transactions in foreign currencies are converted into the respective functional currencies on initial recognition, using the exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities at the end of the reporting period are translated at the rates ruling as of that date. Non-monetary assets and liabilities are translated using exchange rates that existed when the values were determined. All exchange differences are recognised in profit or loss.

Overseas operations which have a functional currency different to the group presentation currency have been translated using the monthly average exchange rate for consolidation in to the statement of comprehensive income. The amounts included in the group statement of financial position, have been translated at the exchange rate ruling at the statement date. All resulting exchange differences are reported in other comprehensive income.

(n) Critical accounting estimates and judgements

The preparation of financial information in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires the directors of the Haydale Graphene Industries Plc Group (the "Group") to exercise their judgement in the process of applying the accounting policies which are detailed below. These judgements are continually evaluated by the directors and management and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The key estimates and underlying assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial period are reviewed on an ongoing basis. Revision 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.

Defined Benefit Pension Scheme

In determining the pension valuation movement and the defined benefit obligation of the groups pension scheme, a number of assumptions are used in order to produce a valuation, which is sensitive to changes in the assumptions. These assumptions include an appropriate discount rate, the levels of salary increases, price inflations and mortality rates. Further details are included in note 26, including sensitivity analysis.

Impairment of non-financial assets

The carrying value of goodwill, and the cash generating units to which it relates, is assessed annually for impairment through comparing the recoverable amount to the CGU's carrying value. The value in use calculations require estimates in relation to uncertain items, including management's expectations of future revenue growth, operating costs, profit margins, operating cashflows and the discount rate applied.

Future cash flows used in the value in use calculations are based on our latest Board approved five-year financial plans. Expectations about future growth reflect expectations of growth in the markets applicable to the group. The future cashflows are discounted using a pre-tax discount rate that reflects current market assessments of the time value of money. The discount rate used is adjusted for the specific risk to the group, including the countries to which cash flows will be generated.

Further details are included in note 10, including sensitivity analysis.

Useful economic lives of tangible assets

The annual depreciation charge for tangible assets is sensitive to change in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. Thay are amended where necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See note 11 for the carrying amounts of the property plant and equipment, and the depreciation accounting policy for the useful economic lives for each class of assets.

4. Segment analysis

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (which takes the form of the board of directors of Haydale Graphene Industries Plc) as defined in IFRS 8, in order to allocate resources to the segment and to assess its performance.

For management purposes, the Group is organised into the following reportable segments:

- Resins, Polymers and Composites (known as RPC) ; and
- Advanced Materials (including SiC and Inks) (known as AMAT)

These strategic business units were created on 1 July 2017, prior to this date management did not distinguish between different operating segments. Comparative figures have been calculated on the basis that the operating segments existed in the previous financial year.

2018

	Resins, Polymers & Composites £'000	Advanced Materials £'000	Adjustments, Central & Eliminations £'000	Consolidated £'000
REVENUE	1,018	2,385	–	3,403
Cost of sales	(566)	(837)	–	(1,403)
Gross profit	452	1,548	–	2,000
Other income	757	–	74	831
Administrative expenses				
Research and development expenditure	(475)	(59)	(344)	(878)
Share based payment expense	(58)	(43)	(190)	(291)
Depreciation & Amortisation	(104)	(334)	(408)	(846)
Other administrative expenses	(1,658)	(3,086)	(2,094)	(6,838)
	(2,295)	(3,522)	(3,036)	(8,853)
OPERATING LOSS	(1,086)	(1,974)	(2,962)	(6,022)
Finance costs				(95)
LOSS BEFORE TAXATION				(6,117)
Taxation				850
LOSS AFTER TAXATION				(5,267)
Additions to non-current assets	338	537	23	898
Segment assets	2,988	7,683	6,811	17,482
Segment liabilities	(147)	(4,222)	(572)	(4,941)

2017

	Resins, Polymers & Composites £'000	Advanced Materials £'000	Adjustments, Central & Eliminations £'000	Consolidated £'000
REVENUE	870	2,134	–	3,004
Cost of sales	(639)	(255)	–	(894)
Gross profit	231	1,879	–	2,110
Other income	660	–	241	901
Administrative expenses				
Research and development expenditure	(58)	(161)	(689)	(908)
Share based payment expense	(28)	(7)	(316)	(351)
Depreciation & Amortisation	(61)	(205)	(451)	(717)
Other administrative expenses	(1,368)	(2,294)	(2,711)	(6,373)
	(1,515)	(2,667)	(4,167)	(8,349)
OPERATING LOSS	(624)	(788)	(3,926)	(5,338)
Finance costs				(297)
LOSS BEFORE TAXATION				(5,635)
Taxation				883
LOSS AFTER TAXATION				(4,752)
Additions to non-current assets	527	132	–	659
Segment Assets	3,092	7,386	4,523	15,001
Segment Liabilities	(275)	(4,085)	(1,736)	(6,096)

Geographical information

All revenues of the Group are derived from its principal activity, the sale and distribution of nano-technology and silicon carbide products or the delivery of research projects into those nano materials. The Group's revenue from external customers by geographical location are detailed below.

	2018 £'000	2017 £'000
By destination		
United Kingdom	**238**	265
Europe	**516**	952
United States of America	**532**	131
China	**448**	11
Thailand	**199**	73
South Korea	**93**	14
Japan	**1,299**	1,545
Rest of the World	**78**	13
	3,403	3,004

During 2018, 38% (2017: 51%) of the Group's revenue depended on a single customer. During 2018, 10% (2017: 12%) of the Group's revenue depended on a second single customer.

Revenue within Europe was predominantly split between Germany (6%) and Ireland (5%) (2017: Germany 19%, and Ireland 10%), as a proportion of total group turnover for the year.

All amounts shown as other income within the Statement of Comprehensive Income are generated within and from the United Kingdom. These amounts include income earned as part of a number of grant funded projects and a government grant which is being released over a period of 5 years. The residual amount is reflected in deferred income.

4. Segment analysis (continued)

Revenue from goods was £2.48 million or 73% (2017: £2.09 million or 70%) and revenue from services was £0.80 million or 24% (2017: £0.69 million or 23%).

The split of revenue by type was as follows:

	2018 £'000	2017 £'000
Services	**836**	691
Reactors	**89**	225
Goods	**2,478**	2,088
	3,403	3,004

	RPC £'000	AMAT £'000	TOTAL £'000
Services	809	27	836
Reactors	–	89	89
Goods	209	2,269	2,478
	1,018	2,385	3,403

The group acquired the following non-current assets during the year, split by geographical location as detailed below:

Non-current asset additions

	2018 £'000	2017 £'000
By destination		
United Kingdom	**360**	528
United States of America	**325**	31
Thailand	**76**	100
South Korea	**2**	–
Taiwan	**135**	–
	898	659

The carrying value of the group's non-current assets split by geographical location are detailed below:

	2018 £'000	2017 £'000
By destination		
United Kingdom	**5,378**	5,691
United States of America	**3,640**	3,552
Thailand	**142**	98
South Korea	**1**	–
Taiwan	**117**	–
	9,278	9,341

5. Other Operating Income

	2018 £'000	2017 £'000
Grant Income	**831**	901
	831	901

6. Loss before taxation

Loss before taxation is arrived at after charging:

	2018 £'000	2017 £'000
Research and development:		
– current period's expenditure	**878**	908
– amortisation of capitalised expenditure	**–**	77
– amortisation of other intangibles	**149**	157
Loss on disposal of intangibles – Note 10	**75**	–
Depreciation of property, plant and equipment	**675**	560
Profit on disposal of property, plant and equipment	**(9)**	–
Foreign Exchange	**(33)**	(20)
Operating lease rentals:		
– land and buildings	**572**	447
– plant and machinery	**6**	7

The fees of the Group's auditor, BDO LLP, for services provided are analysed below:

	2018 £'000	2017 £'000
Fees payable to the Company's auditor for the audit of the Group's financial statements	**24**	30
Fees payable to the Company's auditor and it's associates for other services:		
– Audit of the company's subsidiaries	**45**	19
– Taxation related compliance services	**18**	14
– Other non-audit services	**7**	–
	94	63

7. Employees

The average number of employees during the year, including executive directors, was:

	2018 No.	2017 No.
Administration	**27**	26
Research, development and production	**49**	43
	76	69

Staff costs for all employees, including executive directors, consist of:

	2018 £'000	2017 £'000
Wages and salaries	**3,514**	2,989
Social security costs	**314**	391
Pension costs	**172**	142
Share-based payment expense	**291**	321
	4,291	3,843

An analysis of the remuneration of the directors is detailed within the Directors' Remuneration Report on pages 18 to 21. The total amount payable to the highest paid director in respect of emoluments was £171,000 (2017: £171,000), including pension costs of £9,000 (2017: £9,000).

8. Income tax

	2018 £'000	2017 £'000
Current tax credit		
Total income tax credits:		
– for the financial year	**399**	280
– under provision in the previous financial year	**63**	33
Total Current Tax	**462**	313
Deferred tax credit		
Origination and reversal of temporary differences	**388**	204
Recognition of previously unrecognised deferred tax assets	**–**	366
	388	570
	850	883

The reason for the difference between the actual tax charge for the year and the standard rate of corporation tax in the United Kingdom applied to the losses for the year are as follows:

	2018 £'000	2017 £'000
Loss for the year	**(5,267)**	(4,752)
Income tax credit	**(850)**	(883)
Loss before income taxes	**(6,117)**	(5,635)
Tax using the Group's domestic tax rates of 19% (2017 – 19.75%)	**1,162**	1,113
Expenses not deductible for tax purposes	**(274)**	(251)
Different tax rates applied in overseas jurisdictions	**26**	53
R&D enhancement	**234**	285
R&D costs capitalised	**36**	–
Surrender for R&D tax credit	**(15)**	(94)
Adjustment for under/(over) provision in previous periods	**63**	33
Movement in unrecognised losses carried forward	**(747)**	–
Movement in unrecognised fixed asset temporary differences	**(23)**	–
Deferred tax: Origination and reversal of temporary differences	**388**	(622)
Recognition of previously unrecognised deferred tax assets	**–**	366
Total tax credit	**850**	883

Changes in tax rates and factors affecting the future tax charge
The main rate of corporation tax for UK companies reduced from 20% to 19% from 1 April 2017. The Finance Bill 2016, which was substantively enacted in September 2016, announced a further reduction to the main rate of corporation tax. The rate will reduce to 17% from 1 April 2020.

The main rate of corporate tax in the U.S reduced from 34% to 21% effective from 1 January 2018 as part of the U.S tax reforms. This has reduced the deferred tax liability attributable to the group's subsidiaries based in South Carolina.

The Group has tax losses that are available indefinitely for offset against future taxable profits of the companies approximately amounting to £15,780,000 (2017: £12,629,000) and £3,843,000 (2017: £4,946,000) of fixed asset timing differences. The group currently expects to be able to utilise its US tax losses in the foreseeable future and a deferred tax asset has been recognised in respect of these tax losses accordingly.

9. Loss per share

The calculations of loss per share are based on the following losses and number of shares:

	2018 £'000	2017 £'000
Loss after tax attributable to owners of Haydale Graphene Industries Plc	**(5,413)**	(4,862)
Weighted average number of shares:		
– Basic and Diluted	**24,744,693**	17,232,137
Loss per share:		
Basic (£) and Diluted (£)	**(0.22)**	(0.28)

The loss attributable to ordinary shareholders and weighted average number of ordinary shares for the purpose of calculating the diluted earnings per ordinary share are identical to those used for basic earnings per share. This is because the exercise of share options would have the effect of reducing the loss per ordinary share and is therefore not dilutive under the terms of IAS 33. At 30 June 2018, there were 3,619,940 (2017: 1,634,856) options and warrants outstanding as detailed in note 16.

10. Intangible assets

	Customer Relationships £'000	Development expenditure £'000	Goodwill £'000	Total £'000
Cost				
At 1 July 2016	285	1,129	685	2,099
Additions	–	244	–	244
Additions from acquisitions	869	55	1,429	2,353
At 1 July 2017	1,154	1,428	2,114	4,696
Additions	–	175	–	175
Disposals		(55)	(27)	(82)
At 30 June 2018	**1,154**	**1,548**	**2,087**	**4,789**
Accumulated amortisation				
At 1 July 2016	58	215	–	273
Charge for the period	115	42	–	157
At 1 July 2017	173	257	–	430
Charge for the year	115	34	–	149
Disposals	–	(7)	–	(7)
At 30 June 2018	**288**	**284**	**–**	**572**
Net book value				
At 30 June 2018	**866**	**1,264**	**2,087**	**4,217**
At 30 June 2017	981	1,171	2,114	4,266
At 30 June 2016	227	914	685	1,826

Goodwill

Goodwill arose on the acquisition of EPL Composite Solutions Ltd (now Haydale Composite Solutions Limited "HCS") on 1 November 2014 (£634,000), on the acquisition of Haydale Ltd on 21 May 2010 (£24,000) and of the acquisition of the trade and assets of Intelligent Nano Technology Ltd (£27,000) on 12 May 2010. On the 9 September 2016, goodwill of £327,151 arose on the acquisition of Innophene Co. Ltd (now Haydale Technologies Thailand). Goodwill arose on the acquistion of HCT (formerly ACM) on the 13th October 2016 of £1,102,620.

During the year Intelligent Nano Technology Limited was dissolved resulting in the disposal of £27,000 of goodwill.

Customer Relationships

The Customer relationships intangible asset arose on the fair value of assets on the acquisition of EPL Composite Solutions Ltd (now Haydale Composite Solutions Limited) on 1 November 2014. Additions to the assets were brought in through the acquisition of HCT (formerly ACM) on the 13 October 2016 amounting to £868,676.

Development costs

Development costs brought forward are made up of three areas. One of which relates to the fair value of assets on the acquisition of Haydale Ltd on 21 May 2010 for development of nano-technology projects, where it is anticipated that the costs will be recovered through future commercial activity. The second of which relates to capitalised patent costs of Innophene that were acquired a part of the acquisition of Innophene in the previous financial year. And lastly, the development of graphene enhanced epoxy resins within Haydale Limited.

The group acquired £54,831 due to the acquisition of Innophene during the previous year. This was disposed of in the current financial year as the costs related to a patent that was previously capitalised, however the contract was terminated during the current year resulting in a loss on disposal of £47,379.

Development expenditure of £175,069 was capitalised during the year in accordance with IAS 38 in connection with the Group's expenditure with the development of graphene enhanced epoxy resins, where the Directors believe that future economic benefit is probable (2017: £245,369). Capitalised development expenditure is not amortised until the products or services are ready for sale or use.

Amortisation

Capitalised development costs are amortised over the estimated useful life of 20 years. The amortisation charge is recognised in administrative expenses.

The Customer relationships intangible is amortised over the estimated useful life of 10 years with the exception of the amount pertaining to the acquisition of HCT (formerly ACM) which is being amortised over 5 years. The amortisation charge is recognised in administrative expenses.

Goodwill impairment

Goodwill acquired in a business combination is allocated at acquisition to the cash generating units ("CGUs") that are expected to benefit from that business combination. Following the acquisitions of HCS, HCT (formerly ACM) and Haydale Technologies (Thailand), the Group is operating a number of different CGUs and therefore HCS and ACM goodwill has been considered against the future forecast trading outcomes of HCT and HCS as separate CGU's. The remaining goodwill in the Group prior to the acquisitions is immaterial and has not been tested for impairment. The goodwill arising from the acquisition of Haydale Technologies (Thailand) is also immaterial and has not been tested for impairment.

An analysis of the pre-tax discount rates used and the goodwill balance as at the year end by principal CGU's is shown below:

	2018	2017	**2018**	2017
	%	%	**£'000**	£'000
Haydale Composite Solutions	**10%**	11%	**634**	634
Haydale Graphene Industries	**n/a**	n/a	**23**	51
Haydale Ceramic Technologies LLC (HCT)	**10%**	11%	**1,103**	1,103
Haydale Technologies (Thailand)	**n/a**	n/a	**327**	327

The Group tests goodwill at least annually for impairment or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the CGUs are determined from value-in-use calculations. The key assumptions for the value-in-use are those regarding the discount rates, the growth rates and expected changes to cash flows during the period for which management have detailed plans. The Directors estimate discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs.

Pre-tax discount rates, derived from the Group's post-tax weighted average cost of capital of 10% (2017: 11%), and have been used to discount projected cash flows.

The calculations for HCS have been derived from the Board's approved forecast figures for the next year. The HCS forecasts assume that its turnover will grow at 30% in the current financial year, the following year and thereafter with the growth rate tapering off 6% year on year. The forecast assumes a 3% per annum growth beyond five years. The growth rates used are based on management's internally estimated growth forecasts for the market, together with the expected market share of HCS within those markets. The Group applies sensitivities to the projections to determine whether there is sufficient head-room in positive cash flows to support the carrying value of the underlying assets of the CGUs.

The calculations for HCT have been derived from the Board's approved forecast figures for the next year. The HCT forecasts assume that its turnover will grow at 30% in the current financial year, the following year and therafter with the growth rate tapering off 7.5% year on year. The forecast assumes a 3% per annum growth beyond five years. The growth rates used are based on management's internally estimated growth forecasts for the market, together with the expected market share of HCT within those markets.

Following this review, the Directors have determined that there is no impairment charge which should be recognised against the intangible assets of the Group, nor has any such impairment been required to be recognised in any of the periods covered by this report.

Sensitivity to changes in assumptions

If the revenue growth in HCS and HCT dropped below 20% p.a., assuming all other things being equal, that would result in an impairment within its financial model although, in this scenario, the Board would take mitigating action to try to prevent such an impairment, included reducing the cost base in line with the reduced revenues.

11. Property, plant and equipment

	Leasehold improvements £'000	Plant and machinery £'000	Fixtures and fittings £'000	Motor vehicles £'000	Assets under construction £,000	Total £'000
Cost						
At 1 July 2016	492	2,171	97	2	15	2,777
Additions	17	290	34	–	74	415
Additions from acquisitions	11	3,544	283	32	–	3,870
FX on additions from acqn's	(1)	(210)	(16)	–	–	(227)
Transfers	–	15	–	–	(15)	–
At 1 July 2017	519	5,810	398	34	74	6,835
Additions	65	217	76	–	365	723
FX translation	(1)	(30)	21	(1)	–	(11)
Disposals	–	(124)	(3)	(2)	–	(129)
Transfers	–	98	–	–	(98)	–
At 30 June 2018	**583**	**5,971**	**492**	**31**	**341**	**7,418**
Accumulated depreciation						
At 1 July 2016	136	991	72	2	–	1,201
Charge for the year	47	467	41	5	–	560
At 1 July 2017	183	1,458	113	7	–	1,761
Charge for the year	57	562	50	6	–	675
FX Translation	–	(1)	27	–	–	26
Disposals	–	(100)	(3)	(2)	–	(105)
At 30 June 2018	**240**	**1,919**	**187**	**11**	**–**	**2,357**
Net book value						
At 30 June 2018	**343**	**4,052**	**305**	**20**	**341**	**5,061**
At 30 June 2017	336	4,352	285	27	74	5,074
At 30 June 2016	356	1,180	25	–	15	1,576

12. Inventories

	2018 £'000	2017 £'000
Raw materials	**291**	274
Work in progress	**271**	296
Finished goods	**460**	642
	1,022	1,212

The total value of inventories recognised in cost of sales during during the year was £924,091 (2017: £252,394)

Raw materials and finished goods comprise functionalised carbon, chemicals and associated raw materials. Work in progress comprises recoverable costs on long-term contracts.

13. Trade receivables

	2018 £'000	2017 £'000
Trade receivables	**705**	798
	705	798

14. Other receivables

	2018 £'000	2017 £'000
Other receivables	**209**	127
Prepayments and accrued income	**153**	408
	362	535

	2018 £'000	2017 £'000
Corporation tax	**473**	345
	473	345

15. Share capital and share premium

	Number of shares No.	Share capital £'000	Share premium £'000	Total £'000
At 1 July 2016	15,236,946	305	11,840	12,145
Issue of £0.02 ordinary shares	4,360,767	87	7,096	7,183
At 30 June 2017	19,597,713	392	18,936	19,328
Issue of £0.02 ordinary shares	7,731,060	155	8,603	8,758
At 30 June 2018	**27,328,773**	**547**	**27,539**	**28,086**

During the year, the Company issued 7,731,060 new ordinary shares of 2p each as follows:

- In October 2017, 7,731,060 shares were issued in connection with the Company's £9.3 million placing and open offer;

Issue costs amounting to £520,342 (2017: £157,360) have been charged to the share premium account in the year.

16. Share-based payment transactions

Options

The Company operates both an approved EMI share option scheme and an unapproved share option scheme for the benefit of employees and directors of the Company. The exercise price of the options is equal to the mid-market price of the shares on the date of grant. The options vest either one year or three years from the date of grant. The options are accounted for as equity settled share based payment transactions. The following table which illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the year:

	Number of options No.	**2018 Weighted average exercise price Pence**	Number of options No.	2017 Weighted average exercise price Pence
Balance at beginning of year	**1,257,717**	**166**	1,081,636	159
Granted	**2,438,576**	**25**	215,581	187
Exercised	**–**	**–**	(39,500)	93
Lapsed	**(453,492)**	**138**	–	–
Balance at end of year	**3,242,801**	**44**	1,257,717	166

At 30 June 2018, there were options outstanding over 3,242,801 un-issued ordinary shares, equivalent to 11.87% of the issued share capital as follows:

	Number of shares	**Exercise price**	**Earliest exercise date**	**Performance criteria**	**Latest exercise date**
Approved EMI scheme					
03 April 2014	192,860	210.00p	03 April 2017	–	03 April 2024
1 November 2014	30,000	62.25p	1 November 2017	Share price > 160p	1 November 2024
7 November 2014	60,000	61.50p	7 November 2017	Share price > 160p	7 November 2024
18 March 2015	17,115	134.50p	18 March 2018	–	18 March 2025
25 June 2015	17,438	121.00p	25 June 2018	–	25 June 2025
3 November 2015	10,619	177.00p	3 November 2018	–	3 November 2025
19 May 2016	61,835	171.50p	19 May 2019	–	19 May 2026
14 October 2016	42,782	198.14p	14 October 2019	–	14 October 2026
26 June 2017	87,440	178.50p	27 June 2020	–	27 June 2027
15 December 2017	99,271	125.50p	15 December 2020	–	15 December 2027
Unapproved schemes					
03 April 2014	167,353	210.00p	03 April 2017	–	03 April 2024
18 March 2015	21,412	134.50p	18 March 2018	–	18 March 2025
19 May 2016	34,052	171.50p	19 May 2019	–	19 May 2026
14 October 2016	26,170	198.14p	14 October 2019	–	14 October 2026
26 June 2017	35,149	178.50p	27 June 2020	–	27 June 2027
15 December 2017	257,968	125.50p	15 December 2020	–	15 December 2027
15 December 2017	100,000	125.50p	15 December 2020	Share price > 220p	15 December 2027
Long Term Incentive Plan					
15 December 2017	1,981,337	0.02p	15 December 2020	Share price > 220p**	15 December 2027
	3,242,801				

The estimated fair value was calculated by applying a Black-Scholes option pricing model.

	Type of award	Number of shares	Share price at date of grant (p)	Fair value per option (p)	Award life (years)	Risk free rate (%)	Expected volatility rate (%)	Performance conditions
03 April 2014	EMI	192,860	210	94	10	1.75	30	None
03 April 2014	Unapproved	167,353	210	94	10	1.75	30	None
1 November 2014	EMI	30,000	62	38	10	1.75	50	Share price > 160p*
7 November 2014	EMI	60,000	62	38	10	1.75	50	Share price > 160p*
18 March 2015	EMI	17,115	135	82	10	1.75	50	None
18 March 2015	Unapproved	21,412	135	82	10	1.75	50	None
25 June 2015	EMI	17,438	121	74	10	1.75	50	None
3 November 2015	EMI	10,619	177	111	10	1.75	52	None
19 May 2016	Unapproved	34,052	172	101	10	0.62	51	None
19 May 2016	EMI	61,835	172	101	10	0.62	51	None
14 October 2016	Unapproved	42,782	198	113	10	0.50	49	None
14 October 2016	EMI	26,170	198	113	10	0.50	49	None
26 June 2017	EMI	87,440	179	179	10	0.50	34	None
26 June 2017	Unapproved	35,149	179	179	10	0.50	34	None
15 December 2017	EMI	99,271	126	55	10	0.50	51	None
15 December 2017	Unapproved	257,968	126	55	10	0.50	51	None
15 December 2017	Unapproved	100,000	126	47	10	0.50	51	Share price > 220p
15 December 2017	LTIP	1,981,337	126	124	10	0.50	51	Share price > 220p**
		3,242,801						

*Share price >160p. These performance conditions are for share options issued to Employees only; there are no performance conditions for share options issued to Directors.

The LTIP has been structured to ensure that value is created for shareholders before any value is delivered to the Key Management. Accordingly, should the Company's closing mid-market share price not reach and remain at, or above, £2.20 for at least 15 consecutive trading days during the Performance Period ("Minimum Target**"), then none of the Awards vest or is exercisable and the Awards will lapse in full.

Should the Company's closing mid-market share price reach and remain at or above £4.20 for at least 15 consecutive trading days during the Performance Period ("**Maximum Target**"), then 100% of the Awards vest and are exercisable. Between the Minimum Target and the Maximum Target, the % of the Awards that vest shall be pro-rata on a straight-line basis. The Awards may lapse in the event of cessation of employment save for certain circumstances, including *inter alia*, redundancy or retirement in which case, at the Company's sole discretion and subject to performance criteria being met, the Exercise Period may be accelerated.

Grant of LTIP Awards

On 15 December 2017, grants of LTIP Awards were made to the following members of the Key Management:

Name and role	Number of LTIP Awards granted ("Award")	Earliest exercise date	Latest exercise date	Minimum share price target before any Awards vest	Maximum share price target for 100% of Awards to vest
Ray Gibbs	819,863	14/12/20	14/12/27	£2.20	£4.20
Trevor Rudderham	409,932	14/12/20	14/12/27	£2.20	£4.20
Keith Broadbent	409,932	14/12/20	14/12/27	£2.20	£4.20
Matt Wood	341,610	14/12/20	14/12/27	£2.20	£4.20

506,078 Options were exercisable as at 30 June 2018 (2017: 538,094).

16. Share-based payment transactions (continued)

The model inputs for share options granted in the year were:

	EMI & Unapproved 15 December 2017	LTIP 15 December 2017
Share prices at grant date	125.50p	125.50p
Exercise prices	125.50p	2.00p
Expected volatility	51.11%	51.11%
Risk free rate	0.50%	0.50%
Contractual life	10 years	10 years

- No dividends are anticipated in the life of model, consistent with the Directors' view that the Group's model is to generate value through capital growth rather than the payment of dividends;
- Risk-free interest rate of 0.5 per cent., equating to the prevailing UK Gilts rate, was used for the most recent option grants, which most closely matches the expected term of the grant; and
- The volatility has been adjusted to reflect market based performance criteria where appropriate.

The weighted average remaining contractual life of share options outstanding at 30 June 2018 is 8.8 years (2017: 7.8 years). The charge for the year for share-based payment amounted to £232,094 (2017: £292,721).

Warrants

	Number of warrants No.	2018 Weighted average exercise price Pence	Number of warrants No.	2017 Weighted average exercise price Pence
Balance at beginning of year	**377,139**	**187**	377,139	187
Granted	**–**	**–**	–	–
Lapsed	**–**	**–**	–	–
Balance at end of year	**377,139**	**187**	377,139	187

No warrants were issued during the year under review. None of the warrants outstanding at 30 June 2018 are to employees or have performance conditions attached. The same pricing model was used for calculating the cost of warrants to the Group as was used for calculating the cost of the options to the Group.

The weighted average remaining contractual life of warrants outstanding at 30 June 2018 is 1.14 years (2017: 2.14 years). The charge for the year for share-based payment amounted to £59,052 (2017: £58,610).

17. Reserves

Share capital

The share capital represents the nominal value of the equity shares in issue.

Share premium account

The share premium account represents the amount received on the issue of ordinary shares in excess of their nominal value and is non-distributable.

Share-based payment reserve

The share-based payment reserve comprises the cumulative expense representing the extent to which the vesting period of share options has passed and management's best estimate of the achievement or otherwise of non-market conditions and the number of equity instruments that will ultimately vest.

Retained earnings

The retained profits and losses reserves comprise the cumulative effect of all other net gains, losses and transactions with owners (e.g. dividends) not recognised elsewhere.

Foreign Exchange

The foreign exchange reserve comprises of translation differences arising from the translation of the overseas subsidiary results. Revaluing those subsidiaries from their functional currency into the group presentation currency.

18. Trade and other payables

	2018 £' 000	2017 £' 000
Trade payables	**687**	380
Tax and social security	**73**	80
Accruals and other creditors	**1,412**	1,845
	2,172	2,305

	2018 £' 000	2017 £' 000
Corporation tax	**–**	65
	–	65

19. Bank loans

	2018 £' 000	2017 £' 000
Bank loans	**896**	1,270
The borrowings are repayable as follows:		
– within one year	**256**	359
– in the second year	**267**	261
– in the third to fifth years inclusive	**373**	650
	896	1,270

The Group's borrowings are denominated in US dollars. The directors consider that there is no material difference between the fair value and carrying value of the Group's borrowings.

	2018 %	2017 %
Average interest rates paid	**4**	4

In December 2014 a three year bank loan of £500,000 was drawn by the Company and securitised by cash deposits. The loan accrued interest at 1.5% above the Bank of England base rate and was repayable in equal monthly instalments. The loan was fully repaid in February 2018.

In October 2016, a five year bank loan of $1,720,000 (equivalent to approximately £1.4 million at the time) was drawn by Haydale Technologies Inc ("HTI"), the Company's US holding company subsidiary, secured on the fixed assets of HTI and its newly acquired operating subsidiary, Advanced Composite Materials. This loan carries an interest rate of 4% and is repayable in equal instalments. In addition to this HTI has secured a working capital line of credit with a rate fixed at 5.25% on the remaining balance.

20. Deferred income

Deferred income is recognised for both capital and revenue grants from governments and other funding parties, and released as income in accordance with the relevant conditions of the grant concerned.

	2018 £' 000	2017 £' 000
Grants	**7**	13
Commercial Deferred Income	**71**	240
	78	253

Commercial Deferred Income

As at 30 June 2018, deferred income of £71,041 arose in relation to the sale of a reactor, which had been invoiced at the year end, however the full revenue could not be recognised until the reactor has been commissioned.

As at 30 June 2017, deferred income of £240,104 arose in relation to a sale where a cash receipt was received in advance for work to be carried out over the next six months.

21. Related party disclosures

Balances and transactions between Haydale Graphene Industries Plc and its subsidiaries are eliminated on consolidation and are not disclosed in this note. Balances and transactions between the Group and other related parties are disclosed below.

Remuneration of directors and key management personnel

The remuneration of the senior Executive Management Committee members, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 'Related Party Disclosures'.

	2018	2017
	£' 000	£' 000
Short-term employee benefits and fees	**398**	400
Social security costs	**47**	46
Share-based payments	**74**	122
Post-retirement benefits	**15**	15
	534	583

During the year ended 30 June 2018, Mr G Eves, a director of the Company, earned fees through his company, Evesco International Business, totalling Nil (2017: £11,293) for corporate finance consultancy. At 30 June 2018, the balance owed to Evesco International Business was Nil. (2017: Nil).

Fees totalling £47,163 (2017: £35,333) were paid to the ONE Advisory Ltd, a company of which Mr M Wood, a director of the Company, is a director, during the year ended 30 June 2018 for financial, administration, compliance and support services. At 30 June 2018, the balance owed to ONE Advisory Ltd was £3,405 (2017: £3,551).

Fees totalling £100,037 (2017: £64,427) were paid to the ATL Consulting Ltd, a company of which Mr R Smith, a director of the Company, is a director, during the year ended 30 June 2018 for business development consultancy. At 30 June 2018, the balance owed to ATL Consulting Ltd was £9,081 (2017: £11,387).

During the year under review, legal services were provided to the Group by ONE Legal Advisory Ltd, a company of which Mr M Wood is a director amounting to £143 (2017: £5,856). The balance owed to ONE Legal Advisory Ltd at the end of the year was Nil (2017: Nil).

Other transactions

Other related party transactions during the year under review are shown in the table below:

	2018	2017
	£' 000	£' 000
Services Received		
T M Mather – admin support	**14**	7
Tracey Enterprises Limited	**–**	4
PlanarTech	**107**	110
QM Holdings	**416**	329

An amount of £13,885 was invoiced by Ms T M Mather to HCS during the year ended 30 June 2018 for the provision of administrative support (2017: £7,079). Ms T M Mather is the partner of Mr N Finney, a director of HCS. As at 30 June 2018, a balance of Nil was due to Ms T M Mather by HCS (2017:£3,023).

Accountancy and administration services were provided by Tracey Enterprises Ltd ("Tracey") to HCS during the year ended 30 June 2018 amounting to Nil (2017: £3,555). Mr R Tracey, a director of Tracey, was the company secretary of HCS during the year under review. There were no amounts outstanding due to Tracey at 30 June 2018 (2017: Nil).

During the year an amount of £416,189 was paid to QM Holdings in respect of property rent (2017: £328,887). QM Holdings is owned by Tom Quantrille and Marvin Murrell who are officers of HCT (formerly ACM), a wholly owned subsidiary of the group. Additional payments were made in the year in respect of the deferred consideration due to the vendors of HCT, Tom Quantrille and Marvin Murrell. Payments to Tom Quantrille made in the year amounted to £333,333 (2017: £16,281) and £111,111 (2017: £5,427) to Marvin Murrell. There were no amounts outstanding at the year end.

During the year, Haydale Limited procured business development services from PlanarTech, a company of which P Frantz, a director of Haydale Technologies Thailand Ltd, a subsidiary of the Company, is a director. The value of services provided by PlanarTech in the year was £106,765 (2017: £110,356). The balance outstanding to PlanarTech at the year end was £10,439 (2017: £18,169).

	2018	2017
	£' 000	£' 000
Services provided		
Frangible Safety Posts Limited	**1**	6
Aqualiner Limited	**10**	72
Everpower Sheng Tie (Xiemen) Graphene Technology Co Ltd	**275**	–
Everpower International Holdings Co. Ltd	**52**	–

In the year ended 30 June 2018, HCS provided services to Frangible Safety Posts Limited ("FSP"), a company of which Mr G S Boyce, a director of HCS, was a director. The amounts for the year under review were £776 (2017: £6,186). There were no amounts outstanding at the year end (2017: Nil).

HCS made sales to Aqualiner Ltd ("Aqualiner") during the year ended 30 June 2017, a company in which Mr N Weatherby and Mr G S Boyce, both directors of HCS, are directors. The net sales for the year ended 30 June 2018 were £9,908 (2017: £72,429). The balance outstanding at the year end was Nil (2017: £66,534).

During the year, Haydale Graphene Industries Plc made sales to Everpower Sheng Tie (Xiemen) Graphene Technology Co. Ltd for £275,000. Haydale Limited made sales to Everpower International Holdings Co. Ltd of £51,744 during the year. Everpower are part of the same group as Advanced Waste & Water Technology Environmental Ltd, who own a 7.17% shareholding in Haydale Graphene Industries Plc.

The balances outstanding (due to) / from related parties at each year ended 30 June were as follows:-

	2018	2017
	£' 000	£' 000
Aqualiner Limited	**–**	67
Thermocomp Limited	**(2)**	(2)
T M Mather	**–**	(3)
PlanarTech	**(10)**	(18)
Everpower International Holdings Co. Ltd	**35**	–

22. Financial instruments

The Group's activities are exposed to a variety of market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall financial risk management policy focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Financial risk management policies

The Group's policies in respect of the major areas of treasury activity are as follows:

(i) Market risk

(i) Foreign currency risk

The Group is exposed to foreign currency risk on transactions and balances that are denominated in currencies other than Pounds Sterling. The currencies giving rise to this risk are primarily the United States Dollar and the Euro. Foreign currency risk is monitored closely on an ongoing basis to ensure that the net exposure is at an acceptable level. The Group maintains the ability to provide a natural hedge wherever possible by matching the cash inflows (revenue stream) and cash outflows used for purposes such as operational expenditure in the respective currencies.

22. Financial instruments (continued)

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the end of each reporting period were as follows:

	United States Dollar £' 000	Euro £' 000	Total £' 000
2018			
Financial assets	**498**	**43**	**541**
Financial liabilities	**266**	**–**	**266**
2017			
Financial assets	658	88	746
Financial liabilities	127	4	131

Foreign currency sensitivity analysis

The following table details the sensitivity analysis to possible changes in the relative values of foreign currencies to which the Group is exposed as at the end of the respective financial periods, with all other variables held constant:

Effects on loss after taxation/equity	**2018 Increase/ (decrease) £' 000**	2017 Increase/ (decrease) £' 000
United States Dollar:		
– strengthened by 10%	**26**	58
– weakened by 10%	**(21)**	(50)
Euro:		
– strengthened by 10%	**5**	9
– weakened by 10%	**(4)**	(8)

(ii) *Interest rate risk*

The Group's exposure to interest rate risk arises mainly from interest-bearing financial assets. The Group's policy is to obtain the most favourable interest rates available, while ensuring no risk to capital. Any surplus funds will be placed with licensed financial institutions to generate interest income. The current loan and credit facilities maintain a fixed rate of interest.

Interest rate risk sensitivity analysis

A 100 basis points strengthening or weakening of the interest rate as at the end of each financial period would have an immaterial impact on loss after taxation and/or net assets. This assumes that all other variables remain constant.

(ii) Credit risk

The Group's exposure to credit risk, or the risk of third parties defaulting, arises mainly from trade and other receivables. The Group manages its exposure to credit risk by the application of credit approvals, credit limits and monitoring procedures on an ongoing basis. For other financial assets (including cash and bank equivalents), the Group minimises credit risk by dealing exclusively with high credit rating financial institutions.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of the trade and other receivables as appropriate. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. Impairment is estimated by management based on prior experience, current market and third party intelligence while considering the current economic environment.

Credit risk concentration profile

To date, modest sales have meant that the credit risk profile of the Group has tended to focus on a handful of customers only. As such, no meaningful analysis can be drawn from the customer profile of the receivables outstanding at each period end under review.

Exposure to credit risk

As the Group does not hold any collateral, the maximum exposure to credit risk is represented by the carrying amount of the financial assets at the end of each financial period.

The exposure of credit risk for trade receivables by geographical region as at the year end is as follows:

	2018	2017
	£'000	£'000
United Kingdom	**149**	132
Europe	**37**	16
North America	**124**	265
Rest of the world	**395**	385
	705	798

Maturity analysis

The ageing analysis of the Group's trade receivables as at the year end is as follows:

	2018	2017
	£'000	£'000
Not past due	**470**	699
Past due:		
– less than 3 months	**200**	99
– between 3 and 6 months	**35**	–
– more than 6 months	**–**	–
Gross amount	**705**	798

At the end of each financial period, trade receivables that are individually impaired were those in significant financial difficulties and have defaulted on payments. These receivables are not secured by any collateral or credit enhancement.

Collective impairment allowances, are determined based on estimated irrecoverable amount from the sale of goods and services, determined by reference to past default experience.

Trade receivables that are past due but not impaired

The Haydale Graphene Industries Group believes that no impairment allowance is necessary in respect of these trade receivables. They are substantially companies with good collection track record and no recent history of default, further on from this , this applies to any trade receivables held at year end which are not past due.

(iii) 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 exposure to liquidity risk arises primarily from mismatches of the maturity of financial assets and liabilities.

The Group maintains a level of cash and cash equivalents and bank facilities deemed adequate by management to ensure as far as possible, that it will have sufficient liquidity to meet its liabilities when they fall due.

All of the financial liabilities of the Group are due within one year, with the exception of certain long term bank loans – see note 19.

22. Financial instruments (continued)

Maturity analysis

The ageing analysis of the Group's non-derivative financial liabilities as at the year end is as follows:

	2018 £'000	2017 £'000
Due:		
– within one year	**2,356**	2,591
– within one to two years	**267**	261
– within two to five years	**373**	650
Gross amount	**2,996**	3,502

(b) Capital risk management

The Group defines capital as the total equity of the Group. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, Haydale Graphene Industries PLC may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. Haydale Graphene Industries PLC ensures that the distributions to shareholders do not exceed working capital requirements.

(c) Classification of financial instruments (at amortised cost)

	2018 £'000	2017 £'000
Financial assets		
Trade receivables	**705**	798
Other receivables	**209**	222
Cash and bank balances	**5,092**	2,091
Financial Assets (at amortised cost)	**6,006**	3,111
Financial liabilities		
Bank loans	**896**	1,270
Trade payables	**687**	380
Accruals and other creditors	**1,412**	1,845
Financial Liabilities (at amortised cost)	**2,995**	2,895

(d) Fair value of financial instruments

The Group has no financial assets or liabilities carried at fair values at the end of each reporting date.

23. Capital commitments

The Group had the following capital commitments in the respective years:

	2018 £'000	2017 £'000
Contracted but not provided for	**999**	39
Authorised by the directors but not contracted for	**37**	–
	1,036	39

24. Ultimate controlling party

The Directors do not consider any one shareholder, individually or acting in consort with others, to have ultimate control of the Group.

25. Operating lease arrangements

The amounts of minimum lease payments under non-cancellable operating leases are as follows:

	2018 Land and buildings £' 000	**2018 Plant and machinery £' 000**	2017 Land and buildings £' 000	2017 Plant and machinery £' 000
– within one year	**573**	**7**	547	7
– within two to five years	**976**	**8**	1,423	3
– later than 5 years	**177**	**–**	–	–
Aggregate amounts payable	**1,726**	**15**	1,970	10

Payments recognised as an expense under these operating leases were as follows:

	2018 Land and buildings £' 000	**2018 Plant and machinery £' 000**	2017 Land and buildings £' 000	2017 Plant and machinery £' 000
Operating lease expense	**572**	**6**	447	7

A significant proportion of the lease arrangements relate to the premises from which HTI and HCT operate in South Carolina, USA totalling £1.11 million (2017: £1.56 million). The lease expires on 31 December 2020. Other leases pertain to the office and unit contracts for the two UK facilities of in aggregate £0.1 million (2017: £0.22 million). Of the £0.22 million, certain leases are cancellable with three months' notice and others have break clauses 10 months after the date of these accounts.

During the current year a new lease agreement has been entered into, in respect of offices at Harwell, Oxfordshire. The lease expires in March 2028. The estimated committed costs are £0.36 million (2017: nil).

The facility in Thailand is leased and, at the date of these results, will expire in 16 months. The cost is £0.03 million (2017: £0.09 million).

Within the minimum lease payments for plant and machinery is the cost relating the general office equipment.

26. Defined Benefit Pension Scheme

HCT (formerly ACM) operated a defined benefit pension scheme, The scheme was closed in November 2006 for any new participants. The net periodic benefit cost is determined at the beginning of the year based on applicable assumptions at that time.

Contributions of approximately £110,000 are expected to be made during the year ended 30 June 2019. This payment is expected to be made in September 2018.

Included in the loss before tax during the year:

	2018 £'000	2017 £'000
Net Interest Expense	**37**	156

Included in other comprehensive income during the year:

	2018 £'000	2017 £,000
Actuarial loss / (gain) from demographic assumptions	**125**	57
Deferred Tax	**(26)**	(21)
	99	36

26. Defined Benefit Pension Scheme (continued)

The following table sets forth the pension plan's funded status as of 30 June:

	2018	2017
	£'000	£,000
Accumulated benefit obligation	**(3,830)**	(3,939)
Projected Benefit obligation	**(3,830)**	(3,939)
Plan assets at fair value	**2,710**	2,970
Funded Status	**(1,120)**	(969)
Accrued Pension Cost	**(1,120)**	(969)

Net amount recognised in the consolidated balance sheet as of 30 June, consisted of the following:

	2018	2017
	£'000	£,000
Non current Assets	**–**	–
Current Liabilities	**–**	–
Non current liabilities	**(1,120)**	(969)
	(1,120)	(969)

The discount rate is based on the yield curve of government bonds in the applicable region adjusted with a credit spread of one of the two highest ratings given by a recognized ratings agency. Future cash outflows of the plans are then related with the yield curve. The average is the discount rate. The weighted average assumptions used to develop the actuarial present value of benefit obligations and net periodic benefit costs for the pension plan are as follows for the year ended 30 June 2018:

Discount rate for periodic benefit costs	4.00%
Discount rate for benefit obligations	4.00%
Rate of increase in compensation levels	0.00%
Investment return rate	4.00%

Mortality Assumptions are as follows:

Longevity at retirement age (current & future pensioners)	2018	2017
– Males	**21.08 years**	19.98 years
– Females	**23.00 years**	21.71 years

Plan Assets

Pension assets are managed by an outside investment manager and are rebalanced periodically. The Company establishes policies and strategies and regularly monitors performance of the assets, including the selection of investment managers, setting long-term strategic targets, and monitoring asset allocations. Target allocation ranges are guidelines, not limitations, subject to variation from time-to-time or as circumstances warrant, and occasionally, the Company may approve allocations above or below a target range.

The pension plan's investment strategy with respect to pension assets is to invest the assets in accordance with ERISA and fiduciary standards. The long-term primary objective for the pension plan assets are to protect the assets from erosion of purchasing power and to provide a reasonable amount of long-term growth of capital, without undue exposure to risk. Currently, the strategic targets are 45% for equity securities, 50% for debt securities, and no more than 5% for other categories.

The fair value of the Company's pension plan assets valued at 30 June 2018, by asset category were as follows:

Description	Total Carrying Amount £'000	Assets/ Liabilities Measured at Fair Value £'000	Fair Value Measurements at 30 June 2018 using Level 1 Inputs £'000	Level 2 Inputs £'000	Level 3 Inputs £'000
Cash	147	147	147	–	–
Corporate Equities	1,212	1,212	1,212	–	–
Fixed Income:					
US Government	144	144	–	144	–
Municipal	10	10	–	10	–
Corporate debt	694	694	–	694	–
Mutual Funds	334	334	334	–	–
Negotiable CD	169	169	169	–	–
	2,710	**2,710**	**1,862**	**848**	**–**

All corporate equities are quoted securities.

The changes in the fair value of the Company's pension plan assets for the year ending 30 June 2018, were as follows:

	£'000
At 01 July 2017	2,970
Contributions	–
Distributions	(262)
Earnings	65
Net realised gain	57
Administrative expenses	(73)
Foreign exchange gain/(loss)	(47)
Balance at 30 June 2018	**2,710**

Cash Flows

For current financial year, the Company expects contributions to be approximately £110,000. The Company expects benefits paid for the next five fiscal years and the five years thereafter as follows:

	£'000
2019	243
2020	242
2021	237
2022	232
2023	226
Thereafter	1,080
	2,260

The company's pension plan asset allocations by asset category were as follows as of 30 June 2018:

Asset Category	
Cash	5%
Equities	45%
Fixed Income	38%
Mutual funds	12%

26. Defined Benefit Pension Scheme (continued)

Plan Obligations

	£' 000
Benefit Obligation at 01 July 2017	3,939
Foreign exchange movement	(59)
Interest Cost	147
Actuarial loss	65
Benefits paid	(262)
Benefit Obligation at 30 June 2018	**3,830**
Fair Value of Plan Assets at 01 July 2017	2,970
Foreign Exchange movement	(46)
Actual Return on plan assets	(61)
Interest Income	109
Employer contributions	–
Benefits paid	(262)
Fair Value of Plan Assets at 30 June 2018	**2,710**
Funded Status at 30 June 2018	**(1,120)**

Defined benefit obligation – sensitivity analysis.

The impact to the value of the defined benefit obligation of a reasonably possible change to one actuarial assumption, holding all other assumption constant, is presented in the table below:

	Reasonably	Defined Benefit Obligation (£'000)	
Actuarial Assumption	**Possible Change**	**Increase**	**Decrease**
Discount Rate	(+/- 0.25%)	(91)	94
Inflation Rate	(+/-1.00%)	14	(16)
Mortality Rate	(+/-1.00%)	39	(39)

HCT (formerly ACM) also has a defined contribution plan under Section 401(k) of the Internal Revenue Code which provides for voluntary participation. All employees who have completed one hour of service are eligible to participate in this plan beginning the first pay period of the month following the date an hour of service is first performed. Participants may contribute on a pre-tax basis from 1% to 60%, in 1% increments, of their annual base salary. Company contributions under the plan are required to be equal to 100% of that portion of participant contributions which do not exceed 6% of the participant's annual base compensation rate. Participants are immediately vested in their voluntary contributions plus actual earnings and Company contributions. The Company contributions for the year ended 30 June 2018, were £57,725 (2017: £29,245).

27. Taxes

Deferred tax is calculated in full on temporary differences under the liability method. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The movement on the deferred tax account is as shown below:

	2018	2017
	£' 000	£' 000
At 1 July 2017	**(555)**	–
Recognised in profit and loss:		
Tax expense	**388**	570
Recognised in other comprehensive income:		
Actuarial gain on defined benefit pension schemes	**27**	
Arising on business combinations	**–**	(1,217)
Movement due to changes in exchange rates	**15**	92
At 30 June 2018	**(125)**	(555)

Deferred tax assets have been recognised in respect of tax losses and other temporary differences giving rise to deferred tax assets where the directors believe it is probable that these assets will be recovered.

The main rate of corporate tax in the U.S reduced from 34% to 21% effective from 1 January 2018 as part of the U.S tax reforms. This has reduced the deferred tax liability attributable to the group's subsidiaries based in South Carolina.

Detail of the deferred tax liability, amounts recognised in profit and loss and amounts recognised in other comprehensive income are as follows:

	Asset 2018 £'000	Liability 2018 £'000	Net 2018 £'000	(Charged)/ credited to profit or loss 2018 £'000	(Charged)/ credited to equity 2018 £'000
Employee pension liabilities	**235**	**–**	**235**	**(118)**	**27**
Available losses	**315**	**–**	**315**	**(32)**	**–**
Business combinations	**–**	**(675)**	**(675)**	**538**	**–**
Net tax assets/(liabilities)	**550**	**(675)**	**(125)**	**388**	**27**

	Asset 2017 £'000	Liability 2017 £'000	Net 2017 £'000	(Charged)/ credited to profit or loss 2017 £'000	(Charged)/ credited to equity 2017 £'000
Employee pension liabilities	329	–	329	329	–
Available losses	350	–	350	350	–
Business combinations	–	(1,234)	(1,234)	(109)	–
Net tax assets/(liabilities)	679	(1,234)	(555)	570	–

A deferred tax asset has not been recognised for the following:

	2018 £'000	2017 £'000
Accelerated capital allowances	**(103)**	(224)
Deductible temporary differences	**–**	–
Unused tax losses	**2,426**	1,972
	2,323	1,748

The unused tax losses can be carried forward indefinitely.

28. Post Balance Sheet Events

From 1 July 2018, the Group changed its internal reporting system to set up a third profit-centric strategic business units ("SBUs") known as "RPC", "AMAT" & "APAC". For the current financial year and beyond, the Group intends to report sales and profits under these three SBUs.

Since 30 June 2018, there has been the following changes to the Board of directors of the Company:

- The appointment of David Banks as Interim Executive Chairman in September 2018;
- The appointment of Keith Broadbent as the Group's Chief Operating Officer and a member of the Board in September 2018;
- The appointment of Roger Humm as Senior Independent Non-executive Director in September 2018; and
- The appointment of Ray Gibbs as President, Business Development, in September 2018, having previously held the position of the Group's Chief Executive Officer.

PARENT COMPANY BALANCE SHEET
As at 30 June 2018
Company Registration No. 07228939

	Note	2018 £'000	2017 £'000
Fixed assets			
Property, plant and equipment		**22**	–
Investments	6	**3,610**	3,076
		3,632	3,076
Current assets			
Debtors – within one year	7	**18,102**	14,329
– after more than one year	7	**–**	–
Cash at bank and in hand		**4,874**	1,675
		22,976	16,004
Creditors: amounts falling due within one year	8	**(286)**	(732)
NET CURRENT ASSETS		**22,690**	15,272
TOTAL ASSETS LESS CURRENT LIABILITIES		**26,322**	18,348
Creditors: amounts falling due after more than one year		**–**	–
NET ASSETS		**26,322**	18,348
Capital and reserves			
Called up share capital	9	**547**	392
Share premium account	9	**27,539**	18,936
Profit and loss account		**(1,764)**	(980)
SHAREHOLDER'S FUNDS		**26,322**	18,348

As permitted by section 408 of the Companies Act 2006, the Company's profit and loss account has not been included in these financial statements. The loss of the Company for the year ended 30 June 2018 was £1,074,669 (2017: £1,666,959).

The financial statements on pages 62 to 68 were approved and authorised for issue by the Board of directors on 17 September 2018 and signed on its behalf by:-

David Banks
Interim Executive Chairman

Matt Wood
Finance Director

COMPANY STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2018

	Share capital £'000	Share Premium £'000	Retained profits £'000	Total Equity £'000
At 1 July 2016	305	11,840	335	12,480
Loss for the year	–	–	(1,666)	(1,666)
Recognition of share-based payments	–	–	351	351
Issue of ordinary share capital, net of transaction costs	87	7,096	–	7,183
At 30 June 2017 and 1 July 2017	392	18,936	(980)	18,348
Loss for the year	–	–	(1,075)	(1,075)
Recognition of share-based payments	–	–	291	291
Issue of ordinary share capital, net of transaction costs	155	8,603	–	8,758
At 30 June 2018	**547**	**27,539**	**(1,764)**	**26,322**

NOTES TO THE PARENT COMPANY BALANCE SHEET
For the year ended 30 June 2018

1. Basis of preparation
The parent company financial statements of Haydale Graphene Industries Plc, a public company incorporated and registered in England and Wales under the Companies Act 2016 with company number 07228939 which is limited by shares, have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework. The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to the years presented, unless otherwise stated.

The financial statements have been prepared on a historical cost basis. The presentation currency used is sterling and amounts have been presented in round ("£000's").

Disclosure exemptions adopted
In preparing these financial statements the company has taken advantage of all disclosure exemptions conferred by FRS101. Therefore these financial statements do not include:

- certain comparative information as otherwise required by EU endorsed IFRS;
- certain disclosures regarding the company's capital;
- a statement of cash flows;
- the effect of future accounting standards not yet adopted;
- the disclosure of the remuneration of key management personnel; and
- disclosure of related party transactions with other wholly owned members of the group headed by Haydale Graphene Industries Plc.

In addition, all in accordance with FRS 101, further disclosure exemptions have been adopted because equivalent disclosures are included in the consolidated financial statements of Haydale Graphene Industries Plc. These financial statements do not include certain disclosures in respect of:

- Share based payments;
- Business combinations;
- Financial Instruments (other than certain disclosures required as a result of recording financial instruments at fair value); and
- Fair value measurement (other than certain disclosures required as a result of recording financial instruments at fair value).

2. Accounting policies
The following accounting policies have been applied consistently in dealing with items which are considered material to the company's financial statements:

Investment in subsidiary undertakings
Where the company has control over an investee, it is classified as a subsidiary. The company controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

Investments in subsidiary understandings where the company has control are stated at cost less any provision for impairment.

Share-based payments
When the company grants options over equity instruments directly to the employees of a subsidiary undertaking, the effect of the share-based payment is capitalised as part of the investment in the subsidiary as a capital contribution, with a corresponding increase in equity.

Depreciation
Depreciation is provided to write off cost, less estimated residual values, of all tangible fixed assets, evenly over their expected useful lives. It is calculated at the following rates:

Furniture and fittings	33% per annum straight line
Computer equipment	33% per annum straight line

Impairment
The need for any fixed asset impairment write-down is assessed by comparison of the carrying value of the asset against the higher of realisable value and value in use.

Taxation
The charge for taxation is based on the loss for the period and takes into account taxation deferred.

Current tax is measured at amounts expected to be paid using the tax rates and laws that have been enacted by the balance sheet date. Substantively enacted rate has been used for deferred tax balances, which are recognised in respect of all timing differences that have been originated but not reversed by the reporting date, except that the recognition of deferred tax assets is limited to the extent that the Company anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Foreign Currency
Foreign currency transactions are translated at the rates ruling when they occurred. Foreign currency monetary assets and liabilities are translated at the rate of exchange ruling at the balance sheet date. Any differences are taken to the profit and loss account.

Critical accounting judgements and estimation uncertainty
The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the assets or liabilities affected in future periods.

The key sources of estimation uncertainty that have a significant effect on the amounts recognised in the financial statements include estimation, where applicable, for items relating to revenue recognition and impairment of receivables.

Impairment of Investments
The company considers the impairment of investments on an annual basis. An estimate of the values of investments is calculated on a discounted cash flow basis. Our value in use calculations require estimates in relation to uncertain items, including management's expectations of future revenue growth, operating costs, profit margins, operating cashflows and the discount rate applied.

Future cash flows used in the value in use calculations are based on our latest Board approved five-year financial plans. Expectations about future growth reflect expectations of growth in the markets applicable to the group. The future cashflows are discounted using a pre-tax discount rate that reflects current market assessments of the time value of money. The impairment of investments have been considered under note 10 of the consolidated financial statements.

Impairment of debtors
The company makes an estimate of the recoverable value of trade and other debtors. When assessing impairment of trade and other debtors, management considers factors including the current credit rating of the debtor, the ageing profile of the debtor and historical experience.

For intercompany debtors, the company considers the forecast results of the subsidiary to which the intercompany balance relates, in order to determine its recoverability. The impairment of intercompany debtors have been considered under note 10 of the consolidated financial statements.

3. Audit Fees
The audit fees of the parent company have been disclosed within note 6 of the consolidated financial statements, which form part of these financial statements.

4. Employees

The average number of employees during the year, including executive directors, was:

	2018 No.	2017 No.
Administration	**11**	7

Staff costs for all employees, including executive directors, consist of:

	2018 £	2017 £
Wages and Salaries	**683,669**	385,703
Social Security Costs	**80,239**	46,268
Pension Costs	**22,391**	14,053
Share based payment expense	**159,835**	147,990
	946,134	594,014

5. Directors' remuneration

In respect of directors' remuneration, the disclosures required by Schedule 5 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 are included in the detailed disclosures in the audited section of the Directors' Remuneration Report on pages 18 to 21, which are ascribed as forming part of these financial statements.

6. Fixed asset investments

	Investment in subsidiary undertakings £'000	Capital contribution £'000	Total £'000
Cost			
At 1 July 2017	2,580	496	3,076
Additions	432	131	563
Disposals	(29)	–	(29)
At 30 June 2018	**2,983**	**627**	**3,610**

On 14 July 2017, the group setup a new wholly owned subsidiary, Haydale Technologies (Taiwan) Co Ltd (HTW), based in Kaoshing, South Taiwan. The group acquired the entire share capital for £25,251 on incorporation. HTW issued further shares of £99,057 and £307,984 on 14 September 2017 & 01 December 2017 respectively, taking the group's investment in HTW to £432,292. This represents Haydale Graphene Industries' 100% ownership of 1,750,000 shares of 10 TWD each in HTW. The composition of the consideration was cash.

Since the incorporation of HTW to 30 June 2018, HTW has contributed £0.02 million to the Group's total income and generated a loss of £0.21 million.

The undertakings in which the company's interest at the period end is 20% or more are as follows:

Name of subsidiary company	Country of incorporation or registration	Proportion of ordinary share capital held	Nature of business
Haydale Ltd	England & Wales	100%	R&D, sales and distribution
Haydale Composite Solutions Limited	England & Wales	100%	R&D, sales and distribution
Haydale Composites Ltd	England & Wales	100%	Dormant
EPL Composites Limited	England & Wales	100%	Dormant
Haydale Technologies Korea Co., Ltd	South Korea	100%	Sales and distribution
Haydale Technologies Incorporated LLC	North America	100%	R&D, sales and distribution
Haydale Technologies Thailand Ltd	Thailand	100%	R&D, sales and distribution
Haydale Ceramic Technologies LLC (Formerly ACMC Holdings LLC)	North America	100%	Sales and distribution
Haydale Technologies (Taiwan) Co Ltd	Taiwan	100%	R&D, sales and distribution

Haydale Composites Ltd & EPL Composite Limited are exempt from audit in accordance with the Companies Act 2006, as a result of the companies remaining dormant throughout the current and previous financial years.

Haydale Technologies Korea Co., Ltd and Haydale Technologies (Taiwan) Co Ltd are exempt from audit.

Subsidiary	**Registered office**
Haydale Ltd	Clos Fferws, Parc Hendre, Capel Hendre, Ammanford, Carmarthenshire, SA18 3BL
Haydale Composites Ltd	Clos Fferws, Parc Hendre, Capel Hendre, Ammanford, Carmarthenshire, SA18 3BL
EPL Composites Ltd	Clos Fferws, Parc Hendre, Capel Hendre, Ammanford, Carmarthenshire, SA18 3BL
Haydale Composite Solutions Limited	Unit 10 Charnwood Business Park, North Road, Loughborough, Leicestershire, LE11 1QJ
Haydale Technologies Korea Co., Ltd	16F, Gangnam Bldg. 396, Seocho-daero, Seocho-gu, Seoul 137-857, South Korea
Haydale Technologies Thailand Ltd	Room 510 - 515, Tower D, 5th Floor, Thailand Science Park Phahon Yothin Road, Luang District, Pathum Thani Province, 12120, Thailand
Haydale Technologies Incorporated LLC	1446 South Buncombe Road, Greer, South Carolina. 29651, USA
Haydale Ceramic Technologies LLC (Formerly ACMC Holdings LLC)	1446 South Buncombe Road, Greer, South Carolina. 29651, USA
Haydale Technologies (Taiwan) Co Ltd	10 Fl., No 251 Minghua Road, Gushan District Kaohsiung City 804, Taiwan

7. Debtors

	2018	2017
	£'000	£'000
Amounts owed by group companies	**17,908**	13,984
Corporation tax	**115**	190
Other debtors	**37**	116
Prepayments and accrued income	**42**	39
	18,102	14,329

8. Creditors: amounts falling due within one year

	2018	2017
	£'000	£'000
Bank loan	**–**	108
Trade creditors	**110**	64
Amounts owed to group companies	**37**	–
Other creditors including tax and social security	**29**	477
Accruals and deferred income	**110**	83
	286	732

The bank loan is securitised by an equal balance held on deposit and accrues interest at 1.5% above the Bank of England base rate. The loan was fully repaid in February 2018.

9. Share capital and share premium

	Number of shares No.	**Share capital £'000**	**Share premium £'000**	**Total £'000**
At 1 July 2017	19,597,713	392	18,936	19,328
Issue of £0.02 ordinary shares	7,731,060	155	9,123	9,278
Share Issue Costs	–	–	(520)	(520)
At 30 June 2018	**27,328,773**	**547**	**27,539**	**28,086**

9. Share capital and share premium (continued)

During the year, the Company issued 7,731,060 new ordinary shares of 2p each as follows:

- In October 2017, 7,731,060 shares were issued in connection with the Company's £9.3 million placing and open offer;

Issue costs amounting to £520,342 (2017: £157,360) have been charged to the share premium account in the year.

10. Ultimate controlling party

The Directors do not consider any one shareholder, individually or acting in consort with others, to have ultimate control of the Company

11. Related party transactions

The Company is exempt from disclosing transactions with wholly owned subsidiaries within the Group. Other related party transactions are included within those given in note 21 of the consolidated financial statements.

Corporate Directory

Company Number	07228939
Directors	David Doidge Richard Banks Keith Broadbent Raymond John Gibbs Matthew Graham Wood Roger Anthony Smith Graham Dudley Eves Roger James Humm
Secretary	Matt Wood
Investor Relations Contact	Gemma Smith Gemma.smith@haydale.com
Head Office and Registered Office	Clos Fferws, Parc Hendre, Capel Hendre, Ammanford, Carmarthenshire, Wales, SA18 3BL
Website	www.haydale.com
E-mail	info@haydale.com
Telephone	+44 (0)1269 842946
Advisers	
Independent Auditor	BDO LLP Arcadia House, Maritime Walk, Ocean Village, Southampton, SO14 3TL
Nominated Advisor and broker	Arden Partners 125 Old Broad Street, London, EC2N 1AR
Registrars	Share Registrars Limited Suite E, First Floor, 9 Lion and Lamb Yard, Farnham, Surrey, GU9 7LL
Solicitors	Field Fisher LLP Riverbank House, 2 Swan Lane, London EC4R 3TT
Intellectual Property Solicitors	Mewburn Ellis LLP 33 Gutter Lane, London, EC2V 8AS

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