



17 October 2016

Applied Graphene Materials plc

(“Applied Graphene Materials”, “the Group” or “the Company”)

Full year results – year ended 31 July 2016

Applied Graphene Materials, the producer of specialty graphene materials, is pleased to announce its full year results for the year ended 31 July 2016.

Operational highlights

- First production order received from Century Composites
- Accelerated product development programme with James Briggs with an expectation of product launch in early 2017
- New collaboration project with Sherwin-Williams Protective & Marine Coatings
- Independent test data showing significant benefits of including the Group’s graphene nanoplatelets in coatings
- In excess of 120kg of graphene dispersions supplied to customers in the year in over 170 evaluation samples
- Progressing on production capacity expansion on a modular basis – first phase commissioned and operational
- Manufacturing process patent approval from United States Patent Office

Financial overview

- Total revenues £0.3 million (2015: £0.1 million)
- EBITDA* Loss of £4.2 million (2015: loss of £3.9 million)
- PBTA** Loss of £4.3 million (2015: loss of £3.9 million)
- Loss before tax Loss of £4.5 million (2015: loss of £4.0 million)
- Cash at bank £7.7 million (2015: £4.7 million)
- Diluted EPS Loss of 22.0 pence per share (2015: loss of 22.9 pence)
- Adjusted diluted EPS Loss of 20.8 pence per share (2015: loss of 22.4 pence)
- Completion of placing and open offer raising £8.5 million

* EBITDA comprises loss before interest, tax, exceptional costs, depreciation and amortisation

** PBTA comprises loss before tax, exceptional costs and amortisation

Jon Mabbitt, Chief Executive Officer, commented:

“I am pleased to report that we have made substantial progress this year towards commercial adoption of Applied Graphene Materials’ graphene in our target markets. Our first production order, announced last week, was an important step for the Group and confirmation of the significant opportunities we anticipate as we continue to invest in collaborative partnerships to accelerate adoption in our target markets. Additionally, and to support this, we have made progress on scaling up our proprietary production capacity to meet further demand.

The successful fundraising in January 2016 demonstrated continued confidence in our intellectual property and commercial pipeline, which is developing in line with the management’s expectations, and we remain very optimistic for the forthcoming year.”

Ends

This announcement contains inside information for the purposes of Article 7 of EU Regulation 596/2014.

Applied Graphene Materials’ results presentation, with audio commentary, is expected to be made available on its website at <http://www.appliedgraphenematerials.com> in due course.

For further information, please contact:

Applied Graphene Materials

+44 (0) 1642 438 214

Jon Mabbitt, Chief Executive Officer

Oliver Lightowlers, Chief Financial Officer

N+1 Singer

+44 (0) 207 496 3000

Richard Lindley / Nick Owen

Hudson Sandler

+44 (0) 207 796 4133

Charlie Jack / Emily Dillon

Notes to Editors

Applied Graphene Materials works in partnership with its customers using its knowledge and expertise to provide bespoke graphene dispersions and formats to deliver enhancements and benefits for a wide range of applications. The Group's strategy is to target commercial applications in three core markets: coatings, composites and polymers, and functional fluids.

The Group has developed proprietary bottom-up processes which are capable of producing high purity graphene nanoplatelets using a continuous process. The manufacturing process is based on sustainable, readily available raw materials and therefore does not rely on the supply of graphite, unlike a number of other graphene production techniques. Applied Graphene Materials owns the intellectual property and know-how behind this process.

Applied Graphene Materials was founded by Professor Karl Coleman in 2010 with its operations and processes based on technology that he initially developed at Durham University. The Group was admitted to AIM in November 2013, raising £11 million, and is based at the Wilton Site on Teesside. In January 2016 the Group raised a further £8.5m to support its ongoing activities.

Business review

Overview

Applied Graphene Materials has made further substantial progress in the development of its commercial platform. Using its proprietary manufacturing processes and graphene formulation know-how, the Group continues to work closely alongside customers via collaboration and joint development activities and recently announced receipt of its first production order for the use of graphene in composite materials. Securing further production orders remains the greatest ongoing priority for the Group. It is important for investors to recognise that the adoption of graphene will only be achieved by supporting our partners, sharing expertise and providing independent data as we work closely alongside them.

During the year, the Group has continued to add to its pipeline of commercial opportunities, whilst remaining carefully focused on our core target market sectors of paints and coatings, composites and functional fluids where we believe our graphene formulation know-how can add most value. We remain confident that our pipeline reflects real opportunities and this is supported by the first commercial application and production orders. As we work more closely with our development partners, often leaders in their respective industries, we have built a strong understanding of what our graphene can do and how it delivers enhancements.

We have continued to build our knowledge base, investing in further independent test data, which has provided validation of the encouraging results that we are generating through the addition of our graphene to our partners' materials. Investment in technology through our team of highly skilled personnel is essential to ensure we achieve our goal of becoming a market leader.

Our proprietary technology and significant know-how increasingly differentiate Applied Graphene Materials from other producers of graphene. It enables us to cost effectively produce a tailored portfolio of graphene nanoplatelets suited to different end applications and an understanding of how to best transfer optimal property enhancements into host materials.

Commercial progress

The total number of engagements with customers has increased substantially in 2016 whilst at the same time we have strengthened and developed our existing relationships with key customers. This has largely been driven by the quality of independent, evidence based test data that we have generated. This data corroborates the Group's expertise and understanding of the key mechanisms that are involved in the translation of material properties from a nanoscale into bulk.

Paints and coatings

We are particularly pleased with the number and quality of collaborations that we have established in the paints and coatings sector, where our partners are utilising the barrier properties of our graphene. We announced in March 2016 that we had demonstrated a threefold increase in time to the onset of corrosion which, after additional development work, has been enhanced to a sixfold improvement.

On the back of this, James Briggs commenced an accelerated product development programme and is incorporating our material into several existing products to further enhance their performance with an expectation of launching the first of these early in 2017. We are currently working with James Briggs to determine the optimum format that we should supply the material in and exactly what that means in terms of production volumes for the Group. James Briggs sells its own range of products as well as supplying high-street distributors with household brands.

Other paints and coatings engagements have made similar levels of progress, with each having its own timescale and volumes. Our engagement with Sherwin-Williams, the world's largest paint supplier, is focused on developing anti-corrosive coatings incorporating graphene. The key driver for customer adoption of graphene in their formulations is improved performance, but there is the added incentive that several of the chemicals currently being used in formulations to deliver anti-corrosive characteristics are hazardous or environmentally unfriendly metallic compounds. Whilst revenues from this engagement are likely to be small during 2017, this relationship alone has the potential to increase to volumes that will require us to develop substantial additional production capacity.

Composites

In the composites sector we have focused our efforts on improving mechanical strength, which is achieved by toughening the resinous matrix through the incorporation of graphene. Although other additives can deliver mechanical toughness, at the same time most have a detrimental impact elsewhere, usually in processing traits. Graphene can improve toughness at low loading levels, such that other impacts are minimised and production methods require minimal change. In addition, graphene can offer multi-functionality that can benefit electrostatic discharge, thermal management and moisture control.

Business review

The Applied Graphene Materials' management team has significant experience of the composites industry and we are confident that we can rapidly penetrate the whole of the applicable market globally. The development of new graphene processing and deployment techniques could lead to significantly lower operating costs for the aerospace industry. Our NATEP (National Aerospace Technology Exploitation Programme) funded collaboration is targeted at improving toughness and reducing weight in composite structures. We are also working with a leading innovator in EU composites to produce a graphene enhanced prepreg. This material is being promoted across the composites sector and has attracted particular interest from motorsport and sporting goods customers. Modest revenues are starting to be recognised from this effort and we expect these to grow significantly during 2017. Already, Century Composites, a leading manufacturer of fishing rods has recognised the benefits of achieving additional performance in the design of its products. Recently, Century Composites launched its own range of products, branded Graphex, which utilises our graphene in the composite structure. This is our first commercial application, which has led to production orders.

During 2016 Applied Graphene Materials commenced the exploratory phases of a development programme with Airbus Defence and Space. The programme work is covered under a non-disclosure agreement but is targeted at using the unique properties of graphene in satellites. Initial development work has been successful and both parties are optimistic of moving quickly to a product development programme in 2017, with product adoption soon after.

Applied Graphene Materials has also been developing its knowledge base concerning the deployment of graphene into bulk polymers and resins and again we are working alongside a select number of industrial and consumer brands. A range of plastics has been demonstrated to be capable of enhancement by the addition of a small amount of graphene. Injection moulding and extrusion are widely used manufacturing techniques and a variety of products containing graphene, from consumer goods to films, have already been produced in evaluation quantities. Films can benefit from enhanced barrier performance whilst injection mouldings can take advantage of improved toughness.

Functional fluids

Since entering into a formal JDA in October 2015, we have been collaborating with Puraglobe to understand how our graphene can best be incorporated into Puraglobe's products based on SYNTAINICS® technology. This has progressed to a point where we are now forming tripartite agreements, particularly with metalworking and cutting fluids companies but also adjacent market companies. A database of the performance of several of Puraglobe's products containing graphene has been generated by an accredited independent German test house, providing proof of performance, which will help to speed up customer adoption.

Underpinning technology and manufacturing capacity

Not all graphene is equal or identical in properties. The method and conditions of manufacture have a huge influence on the resultant properties exhibited. It is therefore essential to be able to tailor the product to optimise the augmentation of properties for specific applications. The Group owns the intellectual property across two complementary proprietary production processes which are subject to existing patents and patent applications. Using these manufacturing processes, Applied Graphene Materials has the ability to design nanoplatelets to suit the specific requirements of each customer's application. We have robust control systems in place that ensure that our formulations deliver repeatable results and we have proven our ability to scale up the processes without affecting product quality. Recently, the Group received a manufacturing process patent approval from the United States Patent Office.

Following the completion of the placing and open offer in January 2016, we have devised a modular approach to scale-up which creates greater flexibility and which will ultimately allow us to match production capacity increases to the expected growth in customer demand. Although demand for our graphene is growing, at this stage we still have limited visibility over the timing of customer take up rates. Therefore, we believe that flexing our strategy to adopt a modular basis of capacity expansion is a prudent response, whilst still allowing us to scale-up in time in order to meet expected growth in demand. The first phase of capacity expansion was recently completed and commissioned. Combined nameplate production capacity has now been extended to 1.5 tonnes.

Understanding the mechanisms of property translation from nanoplatelets to bulk properties is essential to be able to influence and optimise the enhancements that can be achieved in end products. Transferring the benefits of graphene is difficult and the know-how over formatting graphene, combined with the use of appropriate techniques for inclusion in the host material, is absolutely critical. Applied Graphene Materials continues to add to its toolbox of formatting technologies that are utilised and to develop its knowledge base. We believe that this will ultimately give us a crucial commercial advantage and we continue to deploy this know-how for the benefit of our commercial partners.

Group Board

In August 2016, Oliver Lightowlers gave notice of his resignation from the Board in order to pursue a new opportunity. The process to identify and appoint a suitable replacement is well underway with an announcement

Business review

expected to be made in due course. The Board would like to thank Oliver for his significant contribution to the Group during his time as Chief Financial Officer and whilst I am disappointed to see him leave I wish him well, on behalf of the Board, for the future.

Outlook

The achievement of our first production orders gives the Board confidence that our strategic approach to the commercialisation of graphene is effective and on track. Our focus on supplying formatted graphene to our customers such that they can adopt this readily into their production processes and benefit from the performance enhancements in their existing markets is beginning to bear fruit. Graphene has the potential to be a disruptive technology and we are targeting applications where graphene can be incorporated with minimal change to production processes. We believe this to be the most expeditious route to market. The depth of our customer engagements is setting the foundations for a long term, stable and highly attractive business. Our intent remains to become a global graphene market leader and the Board believes that Applied Graphene Materials remains well placed to meet its ambitions.

Jon Mabbitt

Chief Executive Officer

17 October 2016

Financial review

Revenue

Revenue for the year was £75,000 (2015: £41,000) arising from the supply of evaluation quantities of graphene to commercial partners.

Other income

Other income, which comprises grant income, was £177,000 (2015: £60,000). Grants received generally relate to funding for the development of new graphene applications, the creation of new jobs or the purchase of assets.

Loss on ordinary activities before interest, tax, exceptional costs, depreciation and amortisation (EBITDA)

EBITDA for the Group increased from a loss of £3,860,000 in 2015 to a loss of £4,155,000 for the year ended 31 July 2016. This increase in losses reflects ongoing costs of working with commercial partners and the significant efforts undertaken to support those customers.

Exceptional costs

Exceptional costs recognised in the year were £250,000 (2015: £91,000). These costs principally relate to fees paid in relation to the issue of new shares in the current year and payments made as compensation for loss of office. Prior year costs principally relate to payments made as compensation for loss of office.

Net finance income

Net finance income for the year was £55,000 (2015: £62,000). The reduction in net finance income arises from receiving lower interest rates on cash deposits during the year.

Loss on ordinary activities before tax, exceptional costs and amortisation (PBTA)

PBTA for the year increased from a loss of £3,909,000 in 2015 to a loss of £4,269,000 for the year ended 31 July 2016. This increase in losses reflects ongoing costs of working with commercial partners and the significant efforts undertaken to support those customers.

Loss on ordinary activities before tax

A loss on ordinary activities before tax of £4,519,000 (2015: loss of £4,000,000) was recognised. This includes exceptional costs of £250,000 mainly connected to fees paid in relation to the issue of new shares and payments made as compensation for loss of office.

Tax

The Group has not recognised any tax assets in respect of trading losses arising in the current financial year or accumulated losses in previous financial years. The tax credit recognised in the current and previous financial years arises from the receipt of R&D tax credits.

Earnings per share

Diluted earnings per share were a loss of 22.0 pence per share (2015: loss of 22.9 pence per share). Adjusted diluted earnings per share (before exceptional costs) were a loss of 20.8 pence per share (2015: loss of 22.4 pence per share).

Dividend

No dividend has been proposed for the year ended 31 July 2016 (2015: £nil).

Cash flow

Net cash used in operations was £4,184,000 (2015: £3,589,000). During the year, net working capital utilised increased by £14,000 (2015: reduction of £206,000). The prior year reduction principally relates to an increase in trade creditors and accruals reflecting growth in the activities of the business.

Capital expenditure of £990,000 (2015: £385,000) has been incurred in the year mainly relating to the development of the production process and related production assets. Net proceeds arising from the issue of shares totalled £8,031,000 (2015: £13,000).

Balance sheet

Net assets have increased to £8,512,000 (2015: £4,590,000), principally reflecting the cash generated from the issue of shares offset by the trading loss for the year.

Cash at bank at 31 July 2016 was £7,702,000 (2015: £4,709,000). The proceeds from the issue of shares have been placed on deposit with a small number of financial institutions for time periods ranging between instant access and up to one year in maturity.

Accounting policies

The Group's consolidated financial information has been prepared in accordance with International Financial Reporting Standards as adopted in the EU. The accounting policies used in the consolidated financial information are consistent with those set out in the audited financial statements.

Going concern

Financial review

After making enquiries and producing cash flow forecasts, the Directors have reasonable expectations, as at the date of approving the financial statements, that the Company and the Group will have adequate resources to fund the activities of the Company and the Group for at least twelve months from the date of signing the financial statements. Therefore, the financial statements have been prepared on a going concern basis.

Principal risks and uncertainties

Risk management forms an integral part of the business planning and review cycle. The Directors believe the following risks to be the most significant for potential investors. However, the risks listed do not necessarily comprise all of those associated with an investment in the Group and are not set out in any particular order or priority. Additional risks and uncertainties not currently known to the Directors, or which the Directors currently deem not to be significant, may also have an adverse effect on the Group and the information set out below does not purport to be an exhaustive summary of the risks affecting the Group. In particular, the Group's performance may be affected by changes in market or economic conditions and in legal, regulatory and tax requirements.

Broadly, risks are categorised into seven types: strategic and planning; financial and IT; operational and quality; technical; safety, health and environment (SHE) and regulatory; commercial and reputation; and people. Significant risks facing the Group include:

- Acceptance of the Group's products – early stage of operations and acceptance of graphene. The Group is at an early stage of development and the success of the Group will depend on the acceptance and attribution of value to graphene produced by the business. Timescales to the successful development of applications for graphene are significantly determined by the product development cycle of customers. There can be no guarantee that either acceptance of graphene or attribution of value will be forthcoming.
- Early stage of operations – existing capacity and scale up. The Group has not yet demonstrated its existing technology at either nameplate production capacity or increased capacities and has commenced scaling up its production processes. There can be no guarantee that scaled up production processes will be operational to any anticipated timeframe or budget. Furthermore, the operation of the Group's production processes following scale up involves risks and uncertainties beyond the Group's control. Failure to operate at either current or increased nameplate capacities would adversely impact the Group's business and financial position.
- Intellectual property – the Group's business is based on a combination of patent applications and know-how. The Group's success will depend in part on its ability to maintain adequate protection of its intellectual property and know-how. There is no certainty that patent applications will be granted, such applications and know-how will be a source of competitive advantage to the Group, or that others have not developed similar or better applications or know-how. Significant costs may be incurred in asserting intellectual property rights and there is no certainty that intellectual property could not become known in a manner (for example, cyberattack) which provided the Group with no recourse.
- Commercialisation, competition and pricing – technological advances may impede the commercial progress of graphene and may also result in worldwide production capacity exceeding demand. This could adversely impact the price of, or demand for, graphene. There is no guarantee that graphene will become an accepted material for use on a commercial scale or that demand for graphene will develop at all. The Group may also be unsuccessful in its efforts to realise benefits from the commercialisation of graphene. In such situations, the Group's business and financial position would be adversely impacted.
- Adequacy of financial resources – the available funding required to support the business through to profitability and cash generation may be insufficient. Currently, it is expected that additional capital will be required in future to fund the business. The Group may be unable to access additional debt or equity capital, or to raise funds on acceptable terms. In the event that the resources available to the Group are inadequate then this could have a materially adverse impact on the implementation of the Group's strategy, its business, financial condition and operations.
- Financial, operational and management information systems – the efficient operation and management of the Group depends on the proper operation and performance of financial, operational and management information systems. Any failure in such systems may result in a loss of control and adversely impact the Group's ability to operate effectively and to fulfil its contractual obligations.
- Safety, health and environment – the Group's operations are subject to numerous safety, health and environmental and regulatory requirements, both in the UK and overseas, which are likely to become more complicated, stringent and onerous as the Group grows or as time passes. Failure to comply in any way with SHE or regulatory requirements could result in the Group being unable to manufacture or supply graphene, incurring significant costs and liabilities, or being subject to claims and lawsuits which could adversely affect its operations and financial condition. Graphene is also a relatively new material with a limited number of studies having been undertaken into its effects on biological systems. If evidence emerges that graphene has a deleterious effect then this may adversely impact the Group's business and financial position.
- Key personnel – the Group has in place an experienced and motivated senior management team and is beginning to build strength in depth. If the Group is unable to attract and retain suitably skilled and qualified people, then the Group's performance and prospects may be adversely impacted. The loss of one or more key personnel could have an adverse impact on the Group's operations, reputation, relationships and future prospects.

Financial review

Cautionary statement

The Business and Financial reviews have been prepared for the shareholders of the Company, as a body, and no other persons. Their purpose is to assist shareholders of the Company to assess the strategies adopted by the Group and the potential for those strategies to succeed and for no other purpose. The Business and Financial reviews, contain forward-looking statements that are subject to risk factors associated with, amongst other things, the economic and business circumstances occurring from time to time in the sectors and markets in which the Group operates. It is believed that the expectations reflected in these statements are reasonable but they may be affected by a wide range of variables which could cause actual results to differ materially from those currently anticipated. No assurances can be given that the forward-looking statements in the Business and Financial reviews will be realised. The forward-looking statements reflect the knowledge and information available at the date of preparation.

Oliver Lightowers

Chief Financial Officer

17 October 2016

Consolidated income statement and statement of comprehensive income
for the year ended 31 July 2016

	Note	2016 £'000	2015 £'000
Revenue	5	75	41
Other income		177	60
		252	101
Cost of sales		(397)	(341)
Gross loss		(145)	(240)
Operating expenses		(4,429)	(3,822)
EBITDA		(4,155)	(3,860)
Exceptional costs		(250)	(91)
Depreciation of property, plant and equipment		(169)	(111)
Operating loss		(4,574)	(4,062)
Finance income		55	62
PBTA		(4,269)	(3,909)
Exceptional costs		(250)	(91)
Loss before tax	5	(4,519)	(4,000)
Tax on loss	3	175	100
Loss for the year attributable to equity shareholders		(4,344)	(3,900)
Other comprehensive income		—	—
Total comprehensive expense		(4,344)	(3,900)
Earnings per share (pence per share)			
Basic	6	(22.0)	(22.9)
Diluted	6	(22.0)	(22.9)

EBITDA comprises loss before interest, tax, exceptional costs, depreciation and amortisation

PBTA comprises loss before tax, exceptional costs and amortisation

Consolidated statement of changes in shareholders' equity

as at 31 July 2016

	Called up share capital £'000	Share premium account £'000	Merger reserve £'000	Retained earnings £'000	Total equity £'000
As at 31 July 2014	340	10,296	1,231	(3,546)	8,321
Loss for the year and total comprehensive expense	—	—	—	(3,900)	(3,900)
IFRS 2 share based payments	—	—	—	156	156
Issue of shares (net)	—	13	—	—	13
As at 31 July 2015	340	10,309	1,231	(7,290)	4,590
Loss for the year and total comprehensive expense	—	—	—	(4,344)	(4,344)
IFRS 2 share based payments	—	—	—	235	235
Issue of shares (net)	97	7,934	—	—	8,031
As at 31 July 2016	437	18,243	1,231	(11,399)	8,512

Consolidated statement of financial position

as at 31 July 2016

	Note	2016 £'000	2015 £'000
Assets			
Non-current assets			
Intangible assets		97	—
Property, plant and equipment		1,503	641
		1,600	641
Current assets			
Inventories		38	25
Trade and other receivables		209	156
Cash deposits		1,500	1,000
Cash		6,202	3,709
		7,949	4,890
Liabilities			
Current liabilities			
Trade and other payables		(1,037)	(941)
		(1,037)	(941)
Net current assets			
		6,912	3,949
Non-current liabilities			
Provisions for other liabilities and charges		—	—
		—	—
Net assets			
		8,512	4,590
Shareholders' equity			
Called up share capital	8	437	340
Share premium account		18,243	10,309
Merger reserve		1,231	1,231
Retained earnings		(11,399)	(7,290)
Equity shareholders' funds			
		8,512	4,590

Consolidated cash flow statement
for the year ended 31 July 2016

	Note	2016 £'000	2015 £'000
Operating activities			
Net cash used within operations	7	(4,184)	(3,589)
Finance income		44	82
Tax received		189	111
Net cash used in operating activities		(3,951)	(3,396)
Investing activities			
Purchase of intangible assets		(97)	—
Purchase of property, plant and equipment		(990)	(385)
Net cash used in investing activities		(1,087)	(385)
Financing activities			
Net proceeds from issue of Ordinary shares		8,031	13
Net cash generated from financing activities		8,031	13
Net increase/(decrease) in net cash and cash deposits		2,993	(3,768)
Net cash and cash deposits at 31 July 2015		4,709	8,477
Net cash and cash deposits at 31 July 2016		7,702	4,709
Net cash and cash deposits include:			
Cash deposits (maturity greater than three months)		1,500	1,000
Cash (maturity less than three months)		6,202	3,709
Net cash and cash deposits at 31 July 2016		7,702	4,709

Notes to the annual financial results

for the year ended 31 July 2016

1 General information

The principal activity of Applied Graphene Materials plc is the manufacture, dispersion and development of applications for graphene. The Group operates principally in the United Kingdom.

The Company is incorporated and domiciled in the United Kingdom and its registered number is 8708426. The address of the registered office is The Wilton Centre, Redcar, Cleveland, TS10 4RF. The Company was incorporated on 27 September 2013.

The consolidated financial information was approved for issue on 17 October 2016.

2 Basis of accounting

The consolidated financial information for the year ended 31 July 2016 has been presented under the historical cost accounting convention, as modified by financial assets and liabilities at fair value through the income statement and share based payments at fair value, and in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, IFRIC interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial information has been prepared on a going concern basis.

The consolidated financial information included in this announcement has been extracted from the audited financial statements of the Group for the year ended 31 July 2016. The content of this announcement has been agreed with the Company's auditors. This announcement of financial results does not constitute the Group's financial statements. The Group's 2016 Annual report and financial statements, on which the Company's auditors, PricewaterhouseCoopers LLP, have given an unqualified opinion in accordance with the Companies Act 2006, are to be delivered to the Registrar of Companies following the Company's Annual General Meeting.

The accounting policies used in the consolidated financial information are consistent with those set out in the audited financial statements. If any new IFRS standards or interpretations are issued then these may impact on the financial statements of the Group in future years. The Group will continue to review its accounting policies in the light of emerging industry consensus on the practical application of IFRS.

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

The consolidated financial information does not include all financial risk management information and disclosures required in the annual financial statements.

3 Taxation

The Group has not recognised any tax assets in respect of trading losses arising in either the current financial year or accumulated losses in previous financial years. The tax credits recognised arises from the receipt of R&D tax credits.

4 Dividends

No dividend has been proposed for the year ended 31 July 2016 (2015: £nil).

5 Segmental analysis

The Group currently has one operating segment. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the Chief Operating Decision Maker (CODM) in deciding how to allocate resources and in assessing performance. The Group's Chief Executive Officer has been identified as the CODM. Revenue and profits arising from that operating segment are the same as presented on the face of the consolidated income statement and statement of comprehensive income.

Notes to the annual financial results

for the year ended 31 July 2016

6 Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to Ordinary shareholders by the weighted average number of shares in issue during each year. The weighted average number of shares in issue during the year used in the calculation of basic earnings per share was as follows:

	2016 'm	2015 'm
Weighted average number of shares for basic earnings per share	19.7	17.0

Diluted earnings per share is the basic earnings per share adjusted for the effect of the conversion into fully paid shares of the weighted average number of share options outstanding during the year. The weighted average number of shares in issue during the year used in the calculation of diluted earnings per share was as follows:

	2016 'm	2015 'm
Weighted average number of shares for diluted earnings per share	20.9	17.9

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

	2016 £'000	2015 £'000
Basic earnings	(4,344)	(3,900)
Adjustments for taxation	—	—
Exceptional costs	250	91
Adjusted earnings	(4,094)	(3,809)
Earnings per share (pence per share)		
Basic	(22.0)	(22.9)
Diluted	(22.0)	(22.9)
Adjusted earnings per share (pence per share)		
Basic	(20.8)	(22.4)
Diluted	(20.8)	(22.4)

The Group was loss making for the years ended 31 July 2016 and 31 July 2015. Therefore, the dilutive effect of share options has not been taken account of in the calculation of diluted earnings per share or adjusted diluted earnings per share, since this would decrease the loss per share for each of the years reported.

7 Notes to the cash flow statement

	2016 £'000	2015 £'000
Continuing operations		
Loss for the year attributable to equity shareholders	(4,344)	(3,900)
Tax on loss	(175)	(100)
Finance income	(55)	(62)
Depreciation of property, plant and equipment	169	111
Exceptional costs	250	91
EBITDA	(4,155)	(3,860)
Depreciation of property, plant and equipment	(169)	(111)
Exceptional costs	(250)	(91)
Operating loss	(4,574)	(4,062)
Depreciation of property, plant and equipment	169	111
IFRS 2 share based payments	235	156
Increase in inventories	(14)	(25)
Increase in receivables	(42)	(53)
Increase in payables	42	284
Net cash used in operations	(4,184)	(3,589)

Notes to the annual financial results

for the year ended 31 July 2016

8 Share capital

	Number of Ordinary shares	Total £'000
Allotted, called up and fully paid		
At 31 July 2014 – Ordinary shares of 2 pence each	16,974,911	340
Issued on 27 January 2015	39,305	—
At 31 July 2015 – Ordinary shares of 2 pence each	17,014,216	340
Issued on 8 January 2016	4,858,335	97
At 31 July 2016 – Ordinary shares of 2 pence each	21,872,551	437

On 27 January 2015, 39,305 Ordinary shares of 2 pence each were issued at an average price of £0.34 to satisfy the exercise of share options.

On 8 January 2016, 4,858,335 Ordinary shares of 2 pence each were issued at a price of £1.75 per share to institutional and other investors.

9 Related party transactions

Transactions between Applied Graphene Materials plc and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Transactions with shareholders

The following transactions with shareholders and companies controlled by former Directors of the Group were recorded, excluding VAT, during the year:

	2016 £'000	2015 £'000
University of Durham (shareholder)		
Staff secondment, consultancy and other fees	59	45
IP2IPO Limited (shareholder)		
Recruitment and other fees	—	5
Top Technology Limited (controlled by shareholder)		
Corporate finance fees	26	—
Non-Executive Director fees and expenses	20	11

The following balances were outstanding at the end of the year in respect of the transactions set out above:

	2016 £'000	2015 £'000
University of Durham	40	15
Top Technology Limited	5	5

Remuneration of key management personnel

The remuneration of the Directors and 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:

	2016 £'000	2015 £'000
Short term employee benefits (excluding bonuses)	732	689
Payments to third parties	15	10
IFRS 2 share based payments	182	116
Compensation for loss of office	—	73
	929	888

Remuneration of key management includes remuneration paid by subsidiary undertakings in the current and prior financial years.

Notes to the annual financial results

for the year ended 31 July 2016

10 Seasonality

The Group experiences no material variations in performance arising due to seasonality.

11 Availability of Annual Report

It is anticipated that the Annual Report will be sent to all shareholders on 31 October 2016. Electronic copies of the report will also be available on Applied Graphene Materials' website at www.appliedgraphenematerials.com.

12 Annual General Meeting

The 2016 Annual General Meeting is to be held at The Farndale Room, The Wilton Centre, Redcar, Cleveland, TS10 4RF on 20 December 2016 at 11.00am.

13 Post balance sheet events

On 12 August 2016, 166,204 Ordinary shares of 2 pence each were issued at a price of £0.583 per share to satisfy the exercise of share options by Oliver Lightowlers.