TOMORROW’S MATERIAL. TODAY.
INNOVATIVE TECHNOLOGY

We work in partnership with our clients using our knowledge and expertise to provide standard and bespoke graphene dispersions and formats to deliver enhancements and benefits for a wide range of applications where we can deliver maximum value.
Operational and commercial highlights

- Good commercial progress being made, albeit yet to lead to revenue growth due to time to introduce and test materials rigorously for customer product launch.
- Customer/AGM new product launches:
  - JBL formally launched its Hycote anti-corrosion primer.
  - Alltimes launched its Advantage Graphene roof coating product for construction use.
  - Applied Nano Surfaces is scaling up production of a low-friction aerosol-based coating product, Tricolit®.
  - Thermal adhesive product launched by an independent high performance product specialist.
  - AGM’s water based application launched in July 2019.
- Two new distributors appointed – CAME in Italy and Carst & Walker in South Africa following full launch of our Genable® standard dispersion product range.
- Strong technical data to demonstrate the effectiveness of AGM’s graphene dispersions presented at major coatings industry conferences.
- Manufacturing patent granted in key territory in May 2019.

Financial overview

**Total income**
- £0.12 million (2018: £0.20 million)

**EBITDA**
- Loss of £4.56 million (2018: loss of £3.98 million)

**Loss before tax**
- Loss of £4.83 million (2018: loss of £4.54 million)

**Cash at bank**
- £6.13 million (2018: £10.44 million)

**Basic EPS**
- Loss of 7.9 pence per share (2018: loss of 8.2 pence)

**Adjusted EPS**
- Loss of 7.9 pence per share (2018: loss of 7.5 pence)
  - EBITDA comprises loss before interest, tax, exceptional costs and depreciation.

Post year end

- R&D tax credit of £0.62 million received in August 2019 further strengthens the Company’s cash position.
- On 9 October 2019 the Company entered into a consultation period with staff to realign its resources which will reduce costs.
- The realignment will further extend the Company’s cash runway.

Chairman’s statement

Today, we stand on the cusp of the graphene age.”

Boris Johnson
Prime Minister
27 July 2019

Creating value

We aim to create value for shareholders through improving the performance of our customers’ materials and products.

Why graphene?

As a disruptive technology, graphene has the potential to replace or enhance the performance of existing materials in a wide range of applications and sectors.
AT A GLANCE

ACCELERATING MOMENTUM

Our combination of leading edge manufacturing, technology, unique know-how and IP, along with a highly skilled workforce, provides us with a market-leading position within the emerging graphene sector.

Why AGM?

Operational
- Bottom-up process
- Successful scale-up
- Modular capacity expansion
- Consistency of product

IP and know-how
- Patent protection
- Formatting knowledge
  - Structural Ink®
  - Genable® range

Commercial
- Extensive databases
- Key partner collaborations
- Increasing number of production orders

Strong management
- Review of business by new executive team
- Increased promotional activity

Why now?

Market opportunity
- Focused engagements in key markets
- 77% of collaborations are in coatings

Increasing graphene awareness
- EU funding of €1.0 billion
- Extensive press coverage
  - “We stand on the cusp of the graphene age”

Our progress

October 2016
Full database on the performance of Puraglobe products containing AGM graphene by German accredited test house Optimol
Composite materials database generated at CTE Century Composites – launch of carp fishing rods

May 2017
Launched Structural Ink®, targeted at the advanced composites industry

September 2017
Real life field trials commence on coatings for commercial vehicles

March 2018
USA patent awarded
Magna Exteriors presents a graphene enhanced tailgate at JEC in Paris
How AGM applies the properties of graphene

The commercial value of graphene lies in the ability to transfer its intrinsic properties into other materials, thus creating higher value materials and products which possess specifically enhanced characteristics.

Our expertise is in incorporating graphene. Technically correct dispersions enable graphene to be readily incorporated, delivering performance gains in the finished product.

**Transparent**
- Circa 98% optical transmission
- The AGM difference: AGM graphene is not transparent. Some grades are effective as a black pigment

**Impermeable**
- Vacuum tight to helium gas
- The AGM difference: Genable® 1000 and 3000; very good barrier properties give anti-corrosive performance in paints

**Lubricating**
- Very low surface shear
- The AGM difference: Tricolit® low friction, high abrasion resistance coating

**Mechanical**
- 100× stronger than steel. Stiffer than diamond
- The AGM difference: Structural Ink® – improved fracture toughness

**Electrical**
- 60% more conductive than copper
- The AGM difference: Structural Ink®. Printing conductive technology, enhanced passivation technology on aluminium substrates. Other potential

**Thermal**
- 5× conductivity of aluminium
- The AGM difference: Genable® 4000 high thermally conductive pastes providing temperature control

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Applied Graphene Materials plc
Annual Report and Financial Statements 2019

FY2019

May 2018
- Launch of the Genable® 3000 Series
- James Briggs Limited announces its intention to launch a graphene enhanced product

March 2019
- Promoted new technical data to demonstrate efficacy of graphene products at major conferences

May 2019
- Patent granted in key territory
- CAME srl signed as a distributor

June 2019
- Carst & Walker signed as a distributor

July 2019
- Alltimes Coatings launches new roofing coating
- AGM launches applications for water based coatings
FOCUSBING ON STRATEGY

Our strategic goals remain focused on executing additional commercial agreements within our core market sectors.

Introduction
I am pleased to present the Group’s full year results for the year ended 31 July 2019. We have made significant progress in developing and presenting technical data that clearly demonstrates the effectiveness of our graphene applications and new products were launched during the year. Significant progress in absolute revenue terms, however, is yet to materialise.

Throughout the past twelve months, we have continued to focus on developing close working arrangements with our commercial partners, who work to incorporate graphene into their products. This collaborative approach underpins all of our partnerships, representing a key element of our strategic approach and we have started to see the first customer products becoming commercially available.

Since the year end we have announced that AGM is to realign its resources around its dispersion and applications technology and we have entered into a consultation period with staff to restructure the Company and reduce our costs which will extend our cash runway.

Financial performance
The Group recorded an EBITDA loss of £4.6 million for the year (2018: £4.0 million). Net cash was £6.1 million at 31 July 2019 (2018: £10.4 million). Whilst the loss recorded by the business in the year has increased slightly compared to the previous year, it reflects the ongoing investment made in supporting our customer base as it works towards incorporating graphene into its products.

Highlights
The business has continued to gain further momentum in the year ended 31 July 2019 and since then, with additional highlights including:

• improved technical data to support products;
• launch of new water based application;
• significant advances in many of the customer engagements which remain over 100;
• ANS launches Tricolit®, a range of oil based lubricants to key customers;
• JBL launches Hycote primer at Automechanika in July 2019;

Key points
• Performance in line with expectations
• Strong technical data published that underpins the performance of our graphene based products
• Significant reduction in cost base being implemented post year end
• Board remains committed to strategic approach focused on core markets
• Alltimes launches new roofing product with 50% longer warranty period of 30 years;
• grant of patent for manufacturing processes in key strategic territory in May 2019; and
• further patent applications filed for AGM dispersion processes.

We are excited by the recent product launches and look forward to their adoption by end users in the current financial year.

**Group Board**
We introduced a new executive team during the year – Adrian Potts was appointed as CEO on 1 August 2018 and David Blain joined as CFO on 22 October 2018.

**Our culture**
The nature of our business means that it is critical that we bring together the different expertise and knowledge our employees possess and work together to provide the support necessary to meet our customers’ expectations. This collaborative approach sits at the heart of our culture.

As such, we view our employees as critical stakeholders. We remain committed to ensuring employees receive the required development and training opportunities to enable them to remain at the forefront of the emerging graphene market. However, in the short term we need to realign our organisation and actions have been taken to instigate this.

“...

We have continued to focus on developing close working arrangements with our commercial partners, who work to incorporate graphene into their products.”

In all aspects of our business we seek to operate in compliance with laws, rules and regulations and for our employees to work in a manner that is professional, ethical, fair and open. Our employees are encouraged to report any activities in breach of these principles through the Group’s whistle blowing policy, which includes direct access to the Non-Executive Directors of the Board.

**Corporate governance**
This year has seen changes to the AIM Rules for Companies in September 2018. The Board has fully embraced these changes, having adopted the Quoted Companies Alliance Corporate Governance Code. Further details regarding our approach to corporate governance are detailed within the Governance report on page 35.

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.
Sustainability
As a business we take our responsibility to our employees, shareholders, customers, suppliers and wider community extremely seriously. We recognise that a focused and balanced approach to all aspects of sustainability will ultimately bring benefits to all stakeholders and the Company alike, providing opportunities in a sustainable manner. Nowhere is this more evident than in the continued work we have done this year on the ongoing EU REACH programme, providing technical input on the evaluation and assessment for the safe use of graphene in industrial applications. We believe we are leading the industry in this regard.

Strategy and outlook
Since the year end we have undertaken significant actions to realign our resources and thereby extend our cash runway. This action removes the uncertainty over near term funding which we currently face in an unfavourable investment climate while AGM develops sustainable revenue growth. We have demonstrated that we do have real applications of graphene with convincing technical data and fully believe that customer acceptance will be achieved. We believe that we have positioned the Company so that it can benefit from all of the good work that has been done to date.

The Board remains confident that the Company is ideally placed to achieve long term commercial success against its stated strategy given its IP and know-how, and increasing customer momentum. 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.

Bryan Dobson
Chairman
15 October 2019

Pipeline overview
The number of programmes in the pipeline as at 31 July 2019 and the movements since 31 January 2019 are as follows:

As part of our ongoing assessment of these opportunities, the total number of active engagements has fallen during the last six months due to the elimination of early-stage projects where success was deemed less likely, allowing us to focus on projects with a greater chance of success.
OUR CURRENT PRODUCTS

**Tricolit®**
Applied Nano Surfaces has launched a new graphene enhanced low friction coatings product called Tricolit®-Go. The product can be used to reduce friction and wear from an easy-to-apply spray can.

**James Briggs**
Graphene enhanced anti-corrosion aerosols for Automotive primers under the Hycote brand.

**Genable® 1000 – paints and coatings**
Outstanding barrier properties that significantly enhance the performance of existing anti-corrosion additives and coating systems on metallic substrates.

**SHD/Century**
Century has designed, tested and fully evaluated a range of next generation, graphene reinforced, high performance fishing rods.

**Genable® 1000 – composites**
Standard dispersions in epoxy resin to enhance the key properties of fracture toughness, resin modulus and interlaminar shear strength in FRP materials.

**Genable® 2000**
Unique dual action enhanced passivation and barrier performance for aluminium substrates.

**Genable® 3000 series**
Materials are graphene based active, non-metallic, anti-corrosion additives and have been proven to deliver industry-leading performance.

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Proven outstanding barrier and anti-corrosion performance

We are confident that, with the reduced cost base and existing cash resources, the Company will have sufficient time to significantly grow revenues in the emerging graphene market.

Overview
This year the Company has made key technical progress with our commercial partners and on strengthening our graphene product offering. These are important foundations which will ultimately establish this business commercially for its sustainable future. Time to develop revenues continues to be significant, due mainly to the time that it takes to introduce and test materials rigorously for approval and adoption for eventual customer product launch.

The positive milestone momentum we are experiencing with our commercial partners gives us confidence in the outlook and commercialisation of further collaborations currently in our pipeline. The repeatable demonstration that our graphene dispersions, when correctly incorporated and used, produce substantial improvements in barrier performance in coatings, toughness in composites and thermal/mechanical performance in adhesives is encouraging – and we have seen this in product launches through the year as customers transition from testing to commercially viable products. Alongside these positive steps, we are seeing solid progress with customers who are still evaluating our products and going through scale-up trials of their own and demonstrating strong results.

We have also been able to fully launch our own new standardised products in the year which has enabled us to extend our route to market via third party distributors. We have purposely selected technically-based distributors to enable the technical sell to work well and provide the best opportunity for success.

Technical progress in the coatings sector has been excellent. We have further extended our anti-corrosion and barrier technologies using our graphene nanoplatelet dispersions and established new water based coating additives. Achieving the stable distribution of nanomaterials into water based dispersions is a major breakthrough for the industry. We are now able to participate in the significant water based coatings market which is expanding as a result of increasing regulation against environmentally detrimental solvent based alternatives. The testing by customers in this sector tends to be to a shorter timeline, potentially giving our products a faster route to market.

All participation in the coatings market requires performance data to prove products and to this end we have invested in further test equipment throughout the year to enable more efficient running of testing programmes. We have also applied industry standard accelerated testing methods to enable a faster, iterative approach to formulating optimised solutions.

Key points
A year of solid technical progress against our strategic objectives:
• Mature our product offering and range to make graphene easy to use
• Develop our volume dispersion technology as the key route to market for our products
• Secure a solid position for graphene dispersions in coatings
• Further develop our performance advantage in composites and functional materials sectors
• Develop our IP platform
• Develop leading position in regulatory matters related to 2D nanomaterials
Achieving consistent graphene performance in composite materials is a technical challenge, but we have again seen success in this area and are starting to gain further traction with two different product offerings. The direct use of Genable® dispersions has enabled companies like Infinite Composites Technologies to excel with composite structural integrity in the area of pressure vessel technology for use in space with NASA, while our Structural Ink® technology has been demonstrated in composite structures for tooling.

With specialty products such as our thermal adhesives, it has proven to be a long pathway to final qualification of the materials for use on satellites. However, the critical milestone of qualification is close and we have recently supplied trial materials for packaging in the final approved format.

We are currently in a consultation period with staff regarding this proposed restructuring. We are focused on the core strengths of the business of efficient dispersion manufacturing and development, technical strength and exceptional customer service.

**Commercial progress**

The graphene industry continues to develop as it seeks to integrate the nanoplatelet format of graphene into effective applications. We believe our strength in dispersion technology is our unique selling proposition and represents the keys to the successful technical adoption by customers seeking to realise the performance benefits which graphene as nanoplatelets has to offer.

Our technology group continues to focus on the effective realisation of graphene’s remarkable performance characteristics through its application in coatings and composite materials technology development. Around three-quarters of our activity is in the coatings space, which we regard as the key area to grow our revenue going forward. This sits alongside long-standing projects such as our qualification effort with Airbus Space and Defence with our thermal paste adhesive formulated products.

In the coatings sector, we have purposely prioritised our focus on smaller companies to gain commercial traction, whilst continuing to maintain our engagement with the majors. We find these smaller, more agile entities tend to be both hungry for innovation and also see the opportunity to integrate new technology into their market offerings in a relatively shorter timeline, notwithstanding that the product still needs testing iteratively and intensively in their own formulations. Our end-to-end technical service offering is a key enabler, often through use of our own facilities.

It clearly takes time to successfully integrate new technology to enable customer product launches and realise revenues. With coatings technology, the reality of revenue is directly tied to the time it takes to integrate graphene materials into complex coatings chemistries and then for customers to test them over many weeks and months. It is not uncommon for a test set to last for 3,000 hours (18 weeks) once a promising customer formulation has been determined and initially evaluated for a number of weeks prior to this formal testing process.

### Case study

**INFINITE COMPOSITES TECHNOLOGIES**

Applied Graphene Materials (LSE: AGM), the producer of specialty graphene materials, and Infinite Composites Technologies (“Infinite Composites”), a designer, developer and manufacturer of composite materials, have together developed a composite material technology suitable for specific space applications.

Infinite Composites has successfully incorporated AGM’s graphene technology into two resin systems for cryogenic pressure vessels being considered for use in multiple NASA spaceflight missions, including materials on the International Space Station Experiments (MISSE), Artemis, and Lunar Gateway. This achievement follows extensive product development and a rigorous testing programme as part of a long-standing relationship between AGM and Infinite Composites. Subject of a recent prestigious SBIR NASA award, the Infinite Composites team is focused on the continuing development of their cryogenic pressure vessel systems for space applications.

The addition of AGM’s graphene technology has helped enabled the tanks to complete their first liquid oxygen loading test at -300°F pressurised to 600 psi. Analysis of the composite structure using Scanning Electron Microscope techniques indicated that the addition of the graphene technology eliminated nearly all microfractures in resin samples after exposure to the extreme cryogenic environment versus the control samples.

These results once again demonstrate the ability of AGM’s technology to effectively manage fracture toughness and robustness of composite structures for long term durability.
**Commercial progress continued**

The key benefit that customers have in partnering with AGM is our integrated, end-to-end approach to customer engagement. I firmly believe we have the keys to this breakthrough technology, which are as follows:

- developing a deep understanding of each customer’s objectives and formulation;
- ensuring good clarity of the commercial viability of the product offering;
- ensuring the optimal graphene appropriate for purpose is selected;
- dispersing graphene correctly in an easy to use intermediate additive;
- active formulation effort in collaboration with the customer;
- initial testing;
- longer term testing; and
- successful results and product launch to generate revenue streams.

This model of engagement reads across to all sectors that we are involved in and reflects the depth and quality of activity we have with each customer that wants to seriously engage with our innovative graphene technology offerings.

With composite materials technology, we continue to develop the potential of graphene for mechanical performance enhancements and are also now seeing positive momentum with our innovative Structural Ink® technology. An outstanding example of mechanical performance improvements achieved with the addition of graphene has been seen in the area of damage limitation following extreme cycling of composite parts for the space industry with our customer Infinite Composite Technologies.

We also remain absolutely committed to specialty materials development such as the qualification project we have ongoing with Airbus for thermal adhesives technologies. These materials are now at a level of maturity to be promoted further afield to other potential customers in the Space and Defence sector.

We are currently managing around 100 active customer engagements that we believe have prospects for ultimately generating revenues. We selectively continue to manage the project count effectively and focus on those that are most likely to succeed. We consider newer engagements, when they appear commercially and technically viable and where we believe there is genuine appetite from the customer to engage towards a commercially viable product.

**Coatings sector**

Our teams continue to work closely with customers to realise the barrier, chemical resistance and anti-corrosion performance benefits that the impermeable nature of graphene nanoplatelets offers in coatings formulations. Key to this technology generating long term success is AGM’s unique expertise in dispersing graphene into the customer’s often unique coating chemistry.

Making graphene materials easy for coatings customers to integrate through achieving appropriate dispersions typically in matrix resins, solvents and water is foundational to a successful outcome. The integration of such dispersions is the fundamental means of enabling the transfer of the particular graphene characteristics into the customer’s host material. Our Genable® range of standard dispersions offers ease of selection and ease of use and is supported with substantial data and “how to” technical application information. We can also customise dispersions to suit their specific chemistry needs as required.

The launch of the complete range of Genable® dispersions has enabled us to develop a new route to market through technical distributors. It was particularly pleasing to be able to sign up CAME (Italy) and Carst & Walker (South Africa and Australasia), both of which operate in the coatings sector and are able to support the technical approach with novel materials. Whilst still in the early stages of the relationship, both of the new distributors have made an encouraging start with samples being issued to a range of potential new projects. We are also looking forward to announcing further distribution agreements in other territories with the expectation that these will be an additional route to revenue growth.

Following extensive and rigorous testing, James Briggs Ltd (JBL) formally launched its Hycote anti-corrosion automotive aerosol primer at the Automechanika trade event earlier in 2019. As a zinc-free primer system, the paint has positive environmental and performance features. We anticipate a sales ramp-up through both their distribution channels and direct retail selling in the current financial year. Initial production orders have been fulfilled to support early inventory.

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**CUSP OF THE GRAPHENE AGE**

**UK Prime Minister recognises expected growth of Graphene**

Prime Minister Boris Johnson highlighted the importance of graphene in his speech at the Manchester Science and Industry Museum in July 2019.

He said “…when the University of Manchester’s Andre Geim and Konstantin Novoselov said they were planning to extract a single-atom-thick crystallites from bulk graphite… to give us the super-light super-strong wonder that is graphene. I imagine that there were people who had no idea what difference it could make to their lives… Yet today, we stand on the cusp of the graphene age, with applications in everything from de-icing of aircraft wings to life-saving medicine.”
In July 2019, coatings innovator Alltimes Coatings Ltd (Stroud, UK) launched its Advantage Graphene roof coating product for construction use. The Advantage Graphene system is the result of extensive product development and a rigorous testing programme and has ultimately produced a liquid roof coating system that delivers an industry-leading level of anti-corrosion performance and life expectancy.

AGM’s graphene technology has also helped enhance other key coating performance attributes and ultimately provides building contractors and owners with a cost-effective solution. Due to its exceptional corrosion resistance performance, Advantage Graphene is being offered with an unparalleled, industry-leading 30 year product warranty, extended from 20 years with Alltimes Coatings’ previous product. As part of the promotion of this new technology, one of the buildings at the Wilton site where AGM is located is to have its roof repainted with the Alltimes Advantage Graphene paint – an early practical demonstration of the material in use.

We continue our intensive customer technical support across a large number of engagements in order to accelerate the number of products our customers can bring to market to create revenue for them and AGM.

Further product launches are anticipated from UK coatings innovators Blocksil Ltd (Lichfield, UK) and HMG. Blocksil has developed a new product, ‘Graphene Enhanced Top Coat MT’, a ground-breaking high performance, anti-corrosion coating for applications across a broad range of harsh industrial environments. The new graphene-loaded coatings system delivers leading mechanical and physical properties in a single coat. Graphene Enhanced Top Coat MT is sustainable, VOC free and easily applied. Retaining full flexibility and adhesion, the enhanced product delivers excellent UV resistance alongside improved levels of toughness and fire resistance. Blocksil is actively engaged with end users and specifiers across industries with high value assets and infrastructure operating under harsh environmental conditions.

We continue our active engagement with HMG, collaboratively formulating and testing a new graphene enhanced product for the protective coatings sector. Again, this uses graphene’s property of impermeability and AGM’s dispersion technology to deliver the possibilities of enhanced product performance. Testing should run out to early 2020 and we look forward to a positive outcome and product launch accordingly.

We are collaborating with a significant number of further coatings companies involved in assessing the performance of our dispersions in their coatings systems. The level of testing and evaluation ranges from initial formulating through to full scale-up trials on the production shop of a USA based customer working on mitigation of aluminium corrosion. Real-world use of our graphene dispersions has thus demonstrated that the materials can be added, mixed, sprayed and used practically, repeatedly and consistently which is vital proof of feasibility for customers seeking to confidently introduce this new platform technology.

Away from the world of anti-corrosion, we have qualified our A-GNPI10 nanoplatelets, supplied through a customised dispersion for Applied Nano Surfaces (Uppsala, Sweden) for its innovative graphene-fortified low friction coating Tricolit®-GO. This coating features low friction and high abrasion resistance and is an aerosolised product. ANS Tricolit®-GO is part of the ANS Tricolit® range of thermoset surface coatings serving to reduce friction and wear. Materials can be sprayed, dipped or brushed and are suitable for treatment of nonferrous materials which cannot be tribo-conditioned. We are finalising scale-up plans now that materials are ready to be promoted.

Product development continued apace in the year to support further adjacent opportunities in the coatings sector and to broaden the scope of our product range. We launched our innovative acrylic water based technology to meet the expectations of the evolving environmental pressure on the coatings industry applicable to Direct-to-Metal (DTM) applications. We see water based coating development remaining a focus for coatings industry formulators, with tightening of regulations brought in to lessen the detrimental impact that solvent based coatings have on both worker health and the environment. Water based coatings tend to inherently need improved anti-corrosion performance, and we believe this new product range has the potential to extend anti-corrosion performance, enabling broader industrial protective coating appeal. We are delighted to have presented this significant technological progress to our customers, reaffirming AGM as the leader in the development of cutting-edge graphene applications tailored to add significant value for paints and coatings manufacturers. We see good potential with a number of engagements with this new product package.

The market for coatings in the anti-corrosion general industrial sub-sector is substantial and we see good opportunity to develop revenues through:

- continuing proof of concept;
- continuing product launches from successful customer adoption;
- continuing presentations of our products and their positive advantages; and
- continuing in-depth customer engagement to enable realisation.
Composites sector

Very low density, outstanding specific performance, and durability are key attributes necessary for the composite materials sector. The inclusion of graphene can improve these fundamentals without adding significant weight. As with the coatings industry, the real challenge to success is in creating a discrete array of nanoplatelets within the host material to enable the realisation of the performance of the graphene that has been added. AGM’s dispersion technology using either our standard Genable® dispersions or a customised offering often in a specific matrix resin or such as a printable format again provides the key to successful outcomes in the end product, with the combination of performance described above being achieved.

Recent traction with our products, and typical of the technical success we aspire to, is with USA based customer Infinite Composites Technologies. AGM and Infinite Composite Technologies have a long-standing relationship in the development of innovative composite material for pressure vessel technology incorporating graphene technology. Working closely together to initially investigate the potential application of AGM’s graphene materials, the technology has been progressively developed to its current advanced state.

After the period end we announced that Infinite Composites has successfully incorporated AGM’s graphene nanoplatelets into two resin systems for cryogenic pressure vessels being considered for use in multiple NASA spaceflight missions, including Materials on the International Space Station Experiments (MISSE), Artemis, and Lunar Gateway. The addition of AGM’s graphene nanoplatelets (GNPs) has enabled the tanks to complete their first liquid oxygen loading test at -300°F pressurised to 600 psi. Analysis of the composite indicated that the addition of GNPs eliminated nearly all microfractures in resin samples after exposure to the cryogenic environment versus the control samples. These results using AGM’s graphene in real composites applications subject to extreme testing further underpin the performance and value of the use of GNPs for the effective management of attributes such as fracture toughness and robustness of composite structures for long term durability. Whether into resin formulation directly for winding processing of pressure tanks or direct integration into composite prepregs, AGM’s dispersion technology offers an appropriate solution that is easy to integrate into the resin mixing stage of the customer’s process.

AGM’s Structural Ink® technology platform as a means of selectively printing high quality formulated ink based graphene where it is needed continues to demonstrate significant performance uplifts in composite fracture toughness. We are starting to see the benefits from the equipment investment we made last year for further product optimisation and process scale-up. We are able to print graphene with high precision at very low added weight to enhance the interlaminar performance of composite structures. With potential application initially in sports and leisure applications where toughness is important, we are also investigating how to broaden the scope of applicability to other materials and sectors building on, for example, the printing work completed in the Composites Tooling Engineering Services (CTES) tooling project discussed below.

CTES and Nano Enhanced Aerospace Interiors (NEAT) projects funded under the National Aerospace Technology Exploitation Programme (NATEP) were completed in the year and yielded positive results.

CTES, with industrial partners AGM, CTES Ltd, SHD Composites Ltd and GKN Aerospace, investigated the use of graphene in composite tooling applications where carbon or glass fibre prepregs are used to create forming and curing fixtures for composite part manufacturing. Accuracy, quality of surface finish and longevity are key attributes required for composite tooling forming/curing fixtures used in the industry. The use of graphene inks printed into the tooling laminate as well as graphene in the prepreg structure have demonstrated enhanced performance for tooling applications and we anticipate further demonstration of this technology in the near future, again using graphene both in the prepreg and with using printing methods. Broader dissemination of the team’s developments are now underway.

The 18 month NEAT project with partners Composites Evolution Ltd and Coventive Composites has yielded a prepreg product that can be used in aircraft interiors with enhanced mechanical performance as well as critical fire, smoke and toxicity performance. The customer is at the early stage of field trialling these innovative materials with end users with a view to demonstrating a balance of performance advantage, optimised design, improved processing and enhanced surface finish.
Functional materials
As previously noted, the qualification of thermal paste adhesive product TP300 continues with Airbus Space and Defence, with anticipated completion and initial revenues now anticipated in calendar H1 2020. Following the four years of development effort, we are now offering materials engineers in the Space and Defence industries two unique thermally conductive epoxy paste adhesive systems, AGM TP300 and TP400. These novel epoxy adhesive systems exhibit high levels of thermal conductivity (3 and 6 W/mK respectively), combined with excellent mechanical, adhesive and outgassing performance. Most significantly, these properties are achieved with cured resin density as low as 40% of that of competitive conventional conductive adhesive systems on the market. TP300 and TP400 are therefore highly versatile, providing end users with significant savings in both mass and cost. The format of the materials makes them ideal for structural bonding and gap filling adhesive needs where payload weight is critical.

In April 2019, an independent high performance product specialist launched a graphene filled epoxy system which offers high thermal conductivity and low density. This product is ideal for bonding flat surfaces and where contact pressure can be applied. The product advantages are:

- High thermal conductivity
- Low co-efficient of thermal expansion
- High compressive strength
- Wide service temperature range
- Superior dimensional stability
- Thick non-drip consistency

The coatings industry categorises coatings depending on how harsh an environment is. C1 coatings are typically found in office buildings, schools and hotels, where the corrosive activity is very low. At the other end of the spectrum the CX type of coatings would be applied in areas of extreme humidity, aggressive atmospheres or offshore environments, such as ships or oil rigs. The Genable® range of products has been developed to provide formulating chemists with a full suite of options to cover all application types.

A dashed line indicates we are making progress towards this category.

A yellow line indicates progress made in the year.

AGM’s graphene applications across coating environments
Technological and manufacturing capabilities
We launched the Genable® standard dispersions product range during the early part of the year as a result of sustained formulating effort. This enabling technology, backed by testing data, means that customers can integrate our products with confidence into their complex formulations.

Our formulations team completed development of new stabilised water based dispersion chemistry to meet the trend for improved environmentally friendly products in the coatings industry. Water based formulating is a complex process in the dispersion of graphene and I am pleased with the progress our technical team has made in overcoming this challenge to support this market opportunity. Initially with acrylics chemistry for opportunities such as the DTM (direct-to-metal) coatings market, we look forward to the imminent further release of epoxy versions to enable a fuller dialogue with customers keen to assess our materials in this format.

We continue with the product development cycle to address the challenges of harsher environmental conditions and therefore more rigorous testing in the C4/C5 categories (factories and bridges over water) for barrier technology. The testing regime is substantial, involving multi-faceted evaluation, but I am convinced that the quality of work and end results based on current performance will enable a strong opportunity to ensure a positive customer experience with our products and deliver revenue bearing engagements.

In recognition of the performance that the Genable® 3000 series product makes to anti-corrosion performance on steel coatings, AGM’s product was nominated as a finalist in the Materials Performance Corrosion Innovation Awards for 2019, a programme run in parallel with the USA based National Association of Corrosion Engineers (NACE). The product enables coatings performance enhancements in applications subject to high humidity and aggressive atmosphere, including inshore areas of medium to high salinity.

Aware of the need to see products through to end product integration in a safe and reliable manner, AGM also made a substantial commitment to evaluate the performance of nanomaterials in various coatings configurations to review the associated environmental, health and safety considerations. The results are positive thus far and again reflect the professional approach to address the regulatory requirements we are taking in the adoption of this class of materials technology into a coatings industry that is relatively conservative. We continue to be leaders in the EU REACH consortium dealing with graphene nanomaterials regulatory issues, having regular input to the evolving landscape.

Patent filings and IP protection continued in the year as we seek to protect the know-how we have generated.

Marketing our technical expertise
In the year we also made a commitment to disseminate our technical information to a much wider audience. We presented at multiple technical conferences, including the European Coatings Show and the National Association of Corrosion Engineers (NACE) conference in the USA, etc., and this has created further positive dialogue at a detailed customer level to enable consideration of both the benefits of graphene additions and also the key of “how to” integrate effectively. This quality of dialogue and information transfer is key to successful customer adoption of graphene in the future.

Realignment of resources
Whilst the Company has continued to make strong technical progress with its customers and remains well positioned in its focused sectors, revenue development takes time to realise in full. It remains challenging for the Group to predict the timing of larger-scale commercial orders as a result of the significant testing processes that AGM and its customers must undertake to enable long term adoption. During the year, the testing programmes of some of the Group’s customer graphene enhanced products have been longer than anticipated.

Experience over recent years has clearly demonstrated that AGM’s core expertise is in dispersion and application know-how to integrate the performance benefits of graphene nanoplatelets in an effective way in customer products. The Board has therefore decided to focus its resources and activities around meeting customer opportunities through the dispersion and end-use application of graphene as the best means of revenue growth.

As a result, the Board announced it has entered a period of consultation with its employees with a view to implementing a realignment of its operations towards dispersion and application know-how and customer support. The Company will focus its resources on growing revenues from its significant pipeline of approximately 100 active engagements, in particular from its more advanced customer engagements. The Group will therefore largely maintain its resources in business development and retain its strength in the technical team to support customers running product trials and in longer range product and dispersion technology development, whilst streamlining manufacturing. The objective here is to maintain an appropriate level of graphene manufacturing capability whilst focusing on our core strength in dispersion and application technology.

The cash operating cost base of the Company of £4.3 million in the year to 31 July 2019 is, subject to consultation, expected to fall by circa £0.9 million and £1.1 million for the years ending 31 July 2020 and 2021, respectively. The cost of implementation of these changes is, subject to consultation, circa £0.2 million. These actions will extend the Company’s cash runway to at least Q4 2021.
The Group is well funded, with net cash of £6.1 million as at 31 July 2019 and it received an R&D tax credit of £0.6 million in August 2019 in respect of the year ended 31 July 2018.

The Company’s absolute priority and focus remains to support its partners in successfully incorporating graphene nanoplatelets, achieving product launches and growing revenues.

The Company has built an exceptional technology base and the realignment will by no means impact its technical capabilities, nor its ability to scale up production at the appropriate time to meet future demand.

**Outlook**

The Board believes that AGM is well placed and is confident that, with the reduced cost base and existing cash resources, the Company will have sufficient time to significantly grow revenues in the emerging graphene market.

The technical progress we are making in our customer collaborations continues to be absolutely critical to our success, in light of the complexity of transferring graphene’s exceptional enhancement properties into a final customer product, which has remained a challenge for the industry. AGM remains well positioned thanks to its solid platform of graphene application and integration IP in its focused customer sectors.

The Board is encouraged by momentum in our commercial pipeline. We are seeing positive traction with the launches of graphene enhanced products by customers in all three of our operating sectors.

We look forward to the emerging graphene market developing further and to delivering on the technical promise with our products.

**Adrian Potts**

Chief Executive Officer

15 October 2019
OUR BUSINESS MODEL

COMMERCIALISING GRAPHENE

Our unique IP and know-how give us a market-leading position through enhanced graphene manufacturing, dispersion capability and testing accreditation.

OUR KEY RELATIONSHIPS

Our people
76% of our people hold a degree or a higher qualification. Having a highly skilled team of people is a key differentiator, enabling us to create value in a variety of ways. Attracting, motivating and retaining the right people is critical to our success.

Partnerships
Wherever possible we look to work hand in hand with customers as they look to incorporate our graphene into their product range. We believe this approach not only offers our customers the best opportunity to exploit the benefits graphene can offer, but ultimately reduces the time to market.

Intellectual property
Our unique IP in our production methodology along with our expertise in formatting graphene have enabled us to file a number of patent applications in the year.

Research and development
We continue to invest in our R&D capabilities as we look to further our understanding of graphene’s capabilities and develop real-world applications. Working closely with our business development team our technical staff have developed a number of new products in the year, ranging from new water based and anti-corrosion applications.

AN INTEGRATED BUSINESS MODEL

Innovation and technology
- Bottom-up process
- Successful scale-up
- Modular capacity expansion
- Consistency of product

Data
- Patent protection
- Formatting knowledge
- Structural Ink®
- Genable® product range

Conversion
- Extensive databases
- Focus on core markets
- Key partner collaborations
- Increasing range of products being promoted commercially by our customers
Our business development is directed towards identifying those markets where we believe graphene can deliver real enhancements today in a non-disruptive fashion to customers’ existing production processes. As such, we remain focused on the consistent production of a variety of high quality graphene dispersions. To achieve this it is critical that we not only have the capability to produce the raw material in house, but can then take that product and disperse it consistently in a variety of other mediums to meet customers’ requirements.

**Commercialising graphene**

Our products are supported by strong technical data which demonstrates the benefit of using graphene and also understanding why graphene is so beneficial.
Clear opportunities

Overview
The primary focus within this sector is the barrier, corrosion resistance and conductive properties that graphene can offer. Potential applications range from protective paints for industrial facilities and transportation infrastructure to high quality flooring.

Market requirements
- Excellent barrier properties giving high corrosion resistance
- UV absorption
- Electrical conductivity (anti-static)
- Resistance to scratch and abrasion
- Mechanical enhancement
- Thermal conductivity
- Foul release

Market breakdown by number of engagements

**Coatings**

Overview
The potential benefits offered by graphene to this rapidly expanding market are largely directed towards enhancements in fracture toughness, greater stiffness and improvements to fatigue characteristics. Early adopters in this market are sports goods manufacturers but, as the market develops, ever more applications are becoming apparent. These applications are in a variety of sectors ranging from aerospace and defence to medical sectors.

Market requirements
- Improved fracture toughness
- Enhanced matrix stiffness
- Thermal conductivity
- Electrical conductivity (anti-static)
- Enhanced fatigue performance
- Improved FST and heat release
- Increased moisture barrier properties
- Low shrinkage and CTE control

Market breakdown by number of engagements

**Composites**

Overview
The nature of this segment means that, by definition, customers are looking to exploit a number of different characteristics graphene may offer. Specific opportunities are very often driven by the customer and their desire to exploit the potential benefits graphene has to offer through working alongside AGM. Opportunities in this sector include thermal pastes, oils, ceramics and batteries.

Market requirements
- Low wear
- Low friction
- Low speed and extreme pressure performance
- Thermal conductivity
- Impermeable to oxygen or water
- High surface affinity
- Nanofiller for wear crevices
- Synergies with other additives

Market breakdown by number of engagements

**Functional materials**

Overview

Market requirements
- Thermal paste/adhesive
- Other
- Inks
- Oils
- Textiles
- Batteries

Market breakdown by number of engagements
Routes to market vary in many ways depending on the industry and application. Graphene’s unique properties mean that very often at every stage in the supply chain there is something that would be beneficial to the user.

Within AGM our business development team, supported closely by our technical experts, is focused on identifying the different offerings within the supply chain, many of which are complex with differing drivers. Having identified the needs, the AGM team then works closely with the potential customer to support it through its testing programme, advising where applicable.

1. Additive supplier
   • Offer complete packages
   • Differentiation
   • Market share
   • Additional benefits
   • Premium product
   • Greater returns

2. Paint manufacturer
   • Offer complete packages
   • Differentiation
   • Market share
   • Additional benefits
   • Premium product
   • Greater returns

3. OEM
   • Potential savings in manufacturing
   • Meet customer specifications
   • Market share
   • Improve environmental footprint
   • Greater returns
   • Legislative

4. Lessor
   • Better operational offering
   • Lower maintenance
   • Greater returns
   • Environmental savings
   • Legislative

5. End user
   • Lower operational costs
   • Lower maintenance costs
   • Environmental footprint improved
   • Legislative
   • Better returns
## OUR STRATEGY

### MAINTAINING STRATEGIC FOCUS

Our mission is to become a world leader in the supply of graphene formatted for specific customer applications, helping our customers improve the performance of their materials and products.

**Strategy**

<table>
<thead>
<tr>
<th>INNOVATION AND TECHNOLOGY</th>
<th>DATA</th>
<th>CONVERSION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase manufacturing capacity and produce high quality graphene</td>
<td>Maximise functionality through dispersions</td>
<td>Generate revenues from the supply of graphene</td>
</tr>
<tr>
<td>To develop in-house capability to produce high quality graphene to meet customer demand.</td>
<td>The Group has focused on the supply of graphene dispersions that can be incorporated into customers’ existing manufacturing processes.</td>
<td>The business continues to be focused on generating revenue from production related orders.</td>
</tr>
<tr>
<td>Establish customer relationships</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Group aims to establish close working relationships with a wide range of potential customers in its core markets.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Update and achievements

- Capacity developed satisfactorily and exceeds current demand.
- Capacity is in the process of being streamlined.
- Patent for manufacturing process awarded in key territory.

- Genable® product range expanded, specifically designed for the coatings industry.
- Filed a number of patent applications in relation to dispersion and formatting techniques.
- Extensive in-house and external testing carried out under a variety of conditions to increase knowledge base and provide additional supporting data.

- In excess of 100 ongoing partnerships with customers examining the potential to incorporate graphene into their product range.
- Customers launching new products include JBL, Alltimes and Applied Nano Systems and two distributors have been appointed to increase our contact with customers.
- Main focus is on the coatings sector.

- New products have been launched during the year.
- Customer testing of potential products continues to be a lengthy and iterative process.

### Outlook

- Capacity will be increased as required to meet demand.

- Formatting graphene nanoplatelets to suit the requirements of each customer’s application will help our customers gain the greatest property enhancements and performance benefits.
- Continue to add to the toolbox of formatting technologies that are utilised for including graphene in host materials.
- Additional patent applications to be filed in due course.

- Resources are to be realigned around the Group’s efficient dispersion and application technology to better support the product development of those customers that present the nearest-term revenue opportunities, in order to focus on growing sales.
- Securing production orders remains the greatest ongoing priority of the business.

- Operations are being realigned to be closely focused on helping customers complete ongoing projects and launch new products.
- Further conversion of collaborations into production orders in due course with precise timing dependent on the period to qualification, approval and adoption.

### Link to risks

- OPERATIONAL
- COMMERCIAL
- SHE
- PEOPLE
- STRATEGIC

- COMMERCIAL
- TECHNICAL
- SHE
- STRATEGIC

- COMMERCIAL
- FINANCIAL
- STRATEGIC
Realigning our resources with demand

Ultimately, the success of our business will be determined by having a well-balanced, qualified and motivated team.

Our people
We work in an industry where we are continually pushing the boundaries of knowledge in what is a technologically driven sector. Locating, attracting and retaining individuals with the right skills and drive is essential to the future of our business and we truly believe our employees are our greatest asset. Ultimately, the success of our business will be determined by having a well-balanced, qualified and motivated team capable of delivering the benefits that graphene undoubtedly has to offer.

Locating and securing talent
We employ many highly skilled individuals from a variety of backgrounds. Of our total workforce, some 76% have been educated to degree level, of which 61% have qualifications beyond this.

Being a relatively new and growing company, individuals can make a real difference and it is encouraging to see the impact the new starters are already making in our business. Unfortunately we have commenced a consultation process to realign our resources to extend our cash runway and this means we will lose some of our valued staff.

Supporting employee development
We encourage our employees to develop new and existing skills by offering training and opportunities for development. Our aim is to create, develop and lead highly motivated teams, which possess the competencies required to meet our business needs and in turn those of our customers.

Integrity and equal opportunities
AGM is an equal opportunities employer. We actively look to promote equal opportunities for all employees and we do not discriminate on grounds of colour, sex, ethnic origin, gender, age, religious belief, disability, sexual orientation or marital status. The Group expects its employees to act with a high degree of dignity, respect, integrity and commitment in all their business activities. Applications for employment by disabled persons are always fully considered bearing in mind the aptitudes of the applicant concerned. In the event of an employee becoming disabled, every effort is made to ensure that his/her employment with the Group continues and that, where necessary, appropriate retraining is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible in the circumstances of each particular case, be the same as that of other employees. Group employment policies are based on non-discrimination and equal opportunities.

In all aspects of our business we seek to operate in compliance with laws, rules and regulations and for our employees to work in a manner that is professional, ethical, fair and open. Our employees are encouraged to report any activities in breach of these principles through the Group’s whistle blowing policy, which includes direct access to the Non-Executive Directors of the Board.

Qualifications
76% of our employees at 31 July are level 6 or above

<table>
<thead>
<tr>
<th>Level</th>
<th>Qualification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level 8</td>
<td>Doctorate or equivalent</td>
</tr>
<tr>
<td>Level 7</td>
<td>Master’s degree or equivalent</td>
</tr>
<tr>
<td>Level 6</td>
<td>Degree with honours, e.g. BSc or BA or equivalent</td>
</tr>
<tr>
<td>Level 5</td>
<td>Level 5 NVQ or equivalent</td>
</tr>
<tr>
<td>Level 4</td>
<td>Level 4 NVQ or equivalent</td>
</tr>
<tr>
<td>Level 3</td>
<td>A levels or equivalent</td>
</tr>
<tr>
<td>Level 2</td>
<td>GCSEs grades C and above or equivalent</td>
</tr>
</tbody>
</table>

2019: 17% Level 8, 44% Level 7, 15% Level 6, 2% Level 5, 2% Level 4, 10% Level 3, 10% Level 2
2018: 20% Level 8, 41% Level 7, 20% Level 6, 2% Level 5, 7% Level 4, 5% Level 3, 5% Level 2
Effective communications
The Group places considerable value on the involvement of its employees and has continued to keep them informed of matters affecting them as employees and of the various issues affecting the performance of the Group. The Group has in place policies and practices of informing and consulting its employees through work based meetings and also via email. In addition to regular Company updates every employee receives an annual appraisal. The meeting is intended to be two way to enable effective communication on a variety of issues to assess, encourage and assist in the individual’s development. The Company places great emphasis on both Group and individual meetings as a way of obtaining feedback on a variety of issues, ranging from cultural to performance related matters.

Recognising and rewarding performance
We support our people through a range of benefits which, in addition to the basic financial rewards, include lifestyle and health and wellbeing rewards. All employees are entitled to life insurance, to participate in the Company pension scheme and to receive childcare vouchers. The annual performance related bonus scheme is open to all employees. Targets within the scheme are consistent across the Company for all employees, to ensure that as a team everyone is working towards the same objectives.

The Group believes in rewarding exceptional performance and outstanding contributions. We want our employees to feel part of AGM and encourage participation in the Group’s SAYE share option scheme. Through SAYE, employees can benefit from their personal contribution to the growth and prosperity of the business.

A number of key employees are eligible to join the Company’s private medical scheme and to receive share awards. This scheme is designed to align their interests with those of shareholders by linking reward to business performance.

Health and safety
Through a positive and proactive approach to health and safety management we seek to maintain a safe, healthy and sustainable working environment for all our employees and all those who come into contact with our business. Our approach to health and safety is one of identification, management and control of risks with continual improvement and the development and maintenance of a positive safety culture throughout the Group. We endorse the concept that safety is the priority at all times and convey this to our employees.

Policies relating to health and safety are in place and have been approved by the Board. Adrian Potts, as Chief Executive Officer, is the person nominated to have specific responsibility for health and safety issues. The Group’s Health and Safety Officer has direct access to the Chief Executive Officer.
PRINCIPAL RISKS AND UNCERTAINTIES

MANAGING OUR RISKS

Risk management forms an integral part of the business planning and review cycle.

As a business we strive to achieve the right balance between risk and reward. The Board reviews and updates risks within the business on a regular basis. Having identified a potential risk, each risk is assessed individually both in terms of likelihood of occurrence and for the potential financial impact on the business. A further assessment is then made to ensure that the exposure to any risk is mitigated wherever feasible.

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 are listed on the following pages.

Risk management framework

Items considered to be significant risks facing the Group

- Risk increased during the year
- Risk decreased during the year
- No change in risk
### STRATEGIC AND PLANNING

#### 1. Acceptance of the Group’s products

<table>
<thead>
<tr>
<th>Risk and description</th>
<th>Potential impact</th>
<th>Mitigating circumstances</th>
</tr>
</thead>
<tbody>
<tr>
<td>Early stage of operations and acceptance of graphene.</td>
<td>The Group continues to be 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.</td>
<td>The business remains focused on its core markets and applications where it believes graphene can offer real benefits as a high end additive. In addition to continuing to invest in and develop in-house expertise, the technical teams look to maintain close working relationships with customers, to provide technical support and thereby reduce the time to market.</td>
</tr>
</tbody>
</table>

#### Link to strategy

- The Group continues to be 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.

### OPERATIONAL AND QUALITY

#### 2. Consistency of product

<table>
<thead>
<tr>
<th>Risk and description</th>
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</thead>
<tbody>
<tr>
<td>As the business begins to supply graphene in ever larger quantities it is essential that the quality of the product is maintained.</td>
<td>Working with nanomaterials is extremely technical and if products are not produced to a consistently high quality there is a risk that the products will not deliver the potential benefits and customers may look for alternative suppliers.</td>
<td>As the business looks to gear up its manufacturing capabilities to meet expected demand, it is essential that even at higher volumes the quality of material is maintained. In addition to working under strict operating procedures the business has implemented a series of quality control measures to ensure there is no drop off in product quality. Operating and quality procedures are continually reviewed and where appropriate improved, in order to ensure the highest quality is maintained at all times.</td>
</tr>
</tbody>
</table>

#### Link to strategy

- Working with nanomaterials is extremely technical and if products are not produced to a consistently high quality there is a risk that the products will not deliver the potential benefits and customers may look for alternative suppliers.

### Key and links to strategy

- **Increase manufacturing capacity and produce high quality graphene**
- **Maximise functionality through dispersions**
- **Establish customer relationships**
- **Generate revenues from the supply of graphene**
The Board reviews and updates risks within the business on a regular basis.”

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</thead>
<tbody>
<tr>
<td><strong>TECHNICAL</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 Intellectual property</td>
<td>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, that 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, cyber-attack) which provides the Group with no recourse.</td>
<td>The Group takes protection of its intellectual property very seriously, with information restricted on a need to know basis. Confidentiality clauses are used extensively throughout the business in a variety of forms, and key files and documents are maintained separately in a secure manner.</td>
</tr>
<tr>
<td><strong>FINANCIAL AND IT</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4 Adequacy of financial resources</td>
<td>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.</td>
<td>In October 2019, the Group commenced a consultation process with its staff, with a view to extending the cash runway to at least Q4 2021.</td>
</tr>
</tbody>
</table>

Applied Graphene Materials plc
Annual Report and Financial Statements 2019
<table>
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<tbody>
<tr>
<td><strong>FINANCIAL AND IT CONTINUED</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>5 Financial, operational and management information systems</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>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 via a cyber-attack may result in a loss of control and adversely impact the Group’s ability to operate effectively. The business takes a multi-faceted approach to ensuring its systems are able to support the business. This ranges from a series of back-up procedures, training and physical and virtual defence mechanisms. Regular reviews are undertaken to assess what additional precautions if any are required.</td>
<td></td>
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| Link to strategy |

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<th>SHE AND REGULATORY</th>
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<td><strong>6 Safety, health and environment</strong></td>
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<td>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. The Group undertakes regular training programmes to ensure best operating practices are maintained. This is assessed through an extensive audit programme along with health and safety meetings, which are held on a monthly basis. Employees who work with the product in its raw form operate under strict operating procedures with designated protective clothing at all times. In addition, they are required to undertake regular health checks.</td>
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<th>PEOPLE</th>
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<td><strong>7 Key personnel</strong></td>
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<td>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 retain and attract 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. In order to both attract and retain individuals with the necessary skills and motivation, the Group has a range of incentives and support processes in place. In addition to a comprehensive financial package of both short and long term incentives, individuals receive regular updates in an open and transparent manner, both on an individual and team basis. Training and development programmes are tailored to meet the needs and aspirations of the individual.</td>
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COMMERCIAL MOMENTUM

To fully capitalise on the anticipated commercial momentum the business will look to deploy its resources in an efficient manner.

Key points
• Results in line with expectations
• Cash at 31 July 2019 was £6.1 million
• £0.6 million R&D tax credit received in August 2019
• Realignment process ongoing at present
• Cash runway extended to Q4 2021

Revenue
Revenue for the year was £50,000 (2018: £77,000) arising from the supply of production orders and evaluation quantities of graphene to commercial partners. Sales in the prior year included £46,000 to Airbus, but this fell to nil in this financial year due to delays in the project.

Other income
Other income, which comprises grant income and RDEC revenue, was £74,000 (2018: £26,000). Grants received generally relate to funding for the development of new graphene applications or the creation of new jobs.

Cost of sales
Cost of sales of £472,000 (2018: £250,000) reflects the costs of producing graphene dispersions. We recognise the cost of production in the income statement as it is incurred. Cost of sales includes staff costs of £230,000 (2018: £187,000). Once the Group receives more production orders, this graphene will be recognised as stock at manufacturing cost.

Operating expenses
Operating expenses of £4,554,000 remained in line with the prior year costs of £4,555,000. This reflects an increase in personnel costs of £248,000 and other R&D costs, offset by a saving in exceptional costs.

Loss on ordinary activities before interest, tax, exceptional costs, depreciation and amortisation (EBITDA)
EBITDA for the Group increased from a loss of £3,984,000 in 2018 to a loss of £4,559,000 for the year ended 31 July 2019. The loss incurred reflects the 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 Enil (2018: £307,000). The prior year costs principally relate to costs that were associated to the fundraise that were not specifically in relation to the issue of new shares (£185,000) and the disposal of licence fees and patents costs relating to a technology no longer being developed following the introduction of the A-GNP35 production facility (£122,000).
**Net finance income**

Net finance income for the year was £67,000 (2018: £57,000). The Group has benefited from interest earned on money raised from the placing that took place in the prior year.

**Loss on ordinary activities before tax**

The loss on ordinary activities before tax was £4,835,000 (2018: loss of £4,545,000). The prior year includes exceptional costs of £307,000 mainly connected to payments made in relation to the issue of new shares.

**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. There remains sufficient uncertainty that taxable profits will be available against which deductible temporary differences can be utilised.

The tax credit recognised in the current financial year of £908,000 is in relation to a calculation of R&D tax credits due for 2019 of £700,000 and the balance between the claim for R&D tax credits for 2018 which was £623,000 and the estimate which was recognised in the prior year of £415,000. The credit recognised in the prior financial year was in relation to the receipt of R&D tax credits for 2017 and an estimate of R&D tax credits due for 2018.

**Earnings per share**

Basic and diluted earnings per share was a loss of 7.9 pence per share (2018: loss of 8.2 pence per share). Adjusted basic and diluted earnings per share (before exceptional costs) was a loss of 7.9 pence per share (2018: loss of 7.5 pence per share).

**Dividend**

No dividend has been proposed for the year ended 31 July 2019 (2018: £nil).

**Cash flow**

Net cash used in operations was £4,184,000 (2018: £4,005,000). During the year, net working capital utilised reduced by £72,000 (2018: increase of £12,000).

**Balance sheet**

Net assets have reduced to £8,488,000 (2018: £12,121,000), principally reflecting the trading loss for the year.

The Group is well funded with cash at bank at 31 July 2019 of £6,135,000 (2018: £10,443,000). Cash at bank is on deposit with a small number of financial institutions for time periods ranging between instant access and up to 95 days in maturity. The R&D tax credit of £623,000 for the year ended 31 July 2018 was received in August 2019.

“The R&D tax credit of £623,000 for the year ended 31 July 2018 was received in August 2019.”

**Parent Company balance sheet (unconsolidated)**

The key matter impacting on both the financial performance and position of the Company during the year ended 31 July 2019 relates to the implementation of IFRS 9 and the impact of an impairment review undertaken during the year. The Directors concluded that expected credit loss and impairment provisions totalling £17.2 million were necessary, of which £2.0 million was in relation to prior years.

No other significant transactions or movements in balances have occurred during the year ended 31 July 2019, consistent with the Parent Company’s principal activity as a holding company.

**Post balance sheet event**

As set out in the CEO’s statement, the Company has recently entered into a period of consultation with staff regarding a realigning of the Company’s activities and reduction in costs. Whilst the full financial effect of these changes will not be achieved immediately due to the costs of implementation, the cash operating cost base of the Company of £4.3 million in the year to 31 July 2019 is forecast to fall by circa £0.9 million and £1.1 million for the years ending 31 July 2020 and 2021 respectively. Subject to consultation, there is expected to be a cash cost of circa £0.2 million to implement the restructuring.
Accounting policies

The Group’s consolidated financial information has been prepared in accordance with International Financial Reporting Standards as adopted in the EU. The Group’s significant accounting policies, which have been applied consistently throughout the year, are set out on pages 56 to 61.

For the preparation of these consolidated financial statements, the following new or amended standards are mandatory for the first time for the financial year beginning 1 August 2018.

IFRS 15 Revenue from Contracts with Customers (issued in May 2014 and amended for effective date and clarifications in September 2015 and April 2016 respectively), effective for annual periods beginning on or after 1 January 2018 (earlier application permitted), replaces IAS 11, IAS 18 and their Interpretations. It establishes a single and comprehensive framework for revenue recognition to apply consistently across transactions, industries and capital markets, with a core principle (based on a five-step model to be applied to all contracts with customers), enhanced disclosures, and new or improved guidance (e.g. the point at which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract, etc.). The application of IFRS 15 has not had a material impact on the financial statements of the Group or Company.

The Group and Company has applied IFRS 9 Financial Instruments for the first time in the year ended 31 July 2019. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement. The significant changes are set out below.

Comparatives have not been restated for financial instruments derecognised at 1 August 2018, but have otherwise been restated, subject to the transition provisions in IFRS 9.

The classification of financial assets under IFRS 9 is based on whether the contractual cash flows of the instrument are solely payments of principal and interest, and whether the business model is to collect those contractual cash flows and/or sell the financial assets.

There were no changes to the classification and measurement of financial assets on application of IFRS 9. IFRS 9 requires impairments of financial assets to be assessed using an “expected loss” model. The change from the “incurred loss” model previously applied under IAS 39 resulted in an additional impairment loss of £2,000,000 recognised at 1 August 2018, as detailed on page 61.

The application of IFRS 9 has not changed the measurement of the Group’s financial liabilities or the Group’s accounting policies for the recognition or derecognition of financial instruments, other than the Company’s recognition of a provision for expected credit losses on amounts owed by subsidiary undertakings.

The Group has also applied the consequential amendments to IAS 1 Presentation of Financial Instruments and IFRS 7 Financial Instruments: Disclosures on application of IFRS 9.

Going concern

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 the approval of the financial statements. Although the business continued to make losses throughout the year to July 2019, meaningful commercial progress has been made during the year with the development of strong technical data to underpin the product offering, the launch of new water based coating applications and the new products launched by customers. The increased level of commercial products and engagements provides the Directors with reasonable expectations that the Group continues to demonstrate meaningful progress.

At 31 July 2019, the Company and Group had cash reserves of £5.8 million and £6.1 million respectively. The Directors have prepared cash flow forecasts which show that the Group has sufficient cash on hand to satisfy the continued development of the business until at least 2021 in line with the strategic plan. Furthermore, the Directors have had regard to the consequence of further delays in generating revenue beyond the next twelve months and in this scenario the Directors remain confident that adequate resources are available for the foreseeable future.

As part of the review process, following the year end, the Directors announced the implementation of a restructuring of its operations in order to manage the Group’s cash resources effectively. Further information relating to the restructuring of the business is included in the Chief Executive Officer’s review, the Financial review and note 23 to the financial statements.

On the basis of these forecasts and the resources currently on hand, the Directors have a reasonable expectation 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 the approval of the financial statements. Therefore, the financial statements have been prepared on a going concern basis.
Principal risks and uncertainties
The principal risks and uncertainties facing the Group are set out within the Strategic report on pages 24 to 27.

Cautionary statement
The Strategic report, set out on pages 1 to 31, has been prepared for the shareholders of the Company, as a body, and no other persons. Its 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 Strategic report, containing the Business and Financial reviews, contains 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 Strategic report will be realised. The forward-looking statements reflect the knowledge and information available at the date of preparation.

By order of the Board

David Blain
Chief Financial Officer
15 October 2019

The Group is well funded with cash at bank at 31 July 2019 of £6,135,000 (2018: £10,443,000).
THE RIGHT TEAM

Dr Bryan Dobson
Non-Executive Chairman
Appointed October 2013

Previous experience
Bryan has over 35 years’ experience in the chemical industry with ICI plc and Croda International plc. Bryan started his career with ICI in 1978 and had a number of roles, both in the UK and overseas, including being European Regional Director of ICI Uniqema in the Netherlands in 2006. Following the acquisition of Uniqema by Croda International in September 2006, Bryan remained within the group and was President of Global Operations from 2008 until his retirement in 2011. He has held a broad range of senior business, technical and operational roles in the UK, the US, Belgium and the Netherlands. Bryan holds a Bachelor of Arts from the University of Cambridge and a PhD from the University of Newcastle upon Tyne.

External appointments
Bryan is currently a Non-Executive Director of Itaconix plc.

Dr Adrian Potts
Chief Executive Officer
Appointed August 2018

Previous experience
Adrian has over 29 years’ experience in advanced composite materials product development, commercialisation and manufacturing leadership. He has worked at AGM since January 2015 as Vice President Business Development, employed to promote the Company’s presence and graphene applications technology in the North American high performance coatings and composites markets. Prior to this role, Adrian worked within Cytec Industrial Materials as Global Business Development Director, President of its process materials business in California and as President of Ulmeco Structural Materials Inc in Oklahoma. Before moving to the USA in 2002, he held roles at Advanced Composites Group Ltd covering general business management, business development and research and development management activities and CML Group Ltd, where he had technical responsibility for the establishment of its composites division. Adrian holds a PhD in thermoplastics composite materials and a BSc in materials technology.

External appointments
None.

David Blain
Chief Financial Officer
Appointed October 2018

Previous experience
Prior to joining AGM David was CFO and Company Secretary for the Nanoco Group plc, a Main Market listed nanomaterials company. After qualifying as a Chartered Accountant, David joined the Newcastle office of Price Waterhouse (now PwC), where he worked for nine years in audit and business advisory services. David then spent eleven years as the Finance Director of Drew Scientific Group plc, a medical diagnostics company on the Main Market. His next role was at the AIM-traded IT business EG Solutions plc, after which he became CFO of Renovo Group plc, the Manchester based biotechnology company that later became Inspired Capital plc.

External appointments
None.

Key for Committees

R Remuneration Committee  A Audit Committee  N Nomination Committee  ● Committee Chairman
Appointed
October 2013

Previous experience
Karl achieved a PhD in chemistry at the University of Leicester in 1996 and is a Chartered Chemist, Chartered Scientist and Fellow of the Royal Society of Chemistry. His work since 2000 has focused on nanoscience and nanotechnology, particularly the chemistry of carbon nanotubes. He has been funded by the Engineering and Physical Sciences Research Council and the Royal Society and he has authored or co-authored over 75 publications in peer reviewed journals which have accumulated over 2,500 citations. His work has been recognised with numerous awards, including the international Royal Society of Chemistry Entrepreneur of the Year Award 2011 for his development of intellectual property around the production of graphene, and the Times Higher Education Research and Innovation Award 2012. Karl established the Company in 2010 and, whilst he is employed by Durham University, he is seconded to Applied Graphene Materials for part of his time.

External appointments
Karl is Head of Chemistry at Durham University, having previously been in the chemistry departments at the University of Oxford and the Université de Strasbourg. He is the Chair of the Royal Society of Chemistry chemical nanoscience and nanotechnology subject group.

Sean Christie
Non-Executive Director
Appointed
April 2014

Previous experience
Sean is a Fellow of both the Chartered Institute of Management Accountants and the Association of Corporate Treasurers. Until his retirement, Sean was Group Finance Director of Croda International plc, which is a global manufacturer of speciality chemicals. Prior to joining Croda in 2006, Sean was Group Finance Director of Northern Foods plc. He also served as a Non-Executive Director of KCOM Group plc until 2007 and of Cherry Valley Farms Limited until its sale in 2010.

External appointments
Sean is currently a Non-Executive Director of Accsys Technology plc, OptiBiotix Health plc and Turner & Townsend Limited.

Mike Townend
Non-Executive Director
Appointed
November 2014

Previous experience
Mike has 19 years’ experience in all aspects of equity capital markets and the investment process and was also a key member of the senior relationship management programme at Lehman Brothers. Prior to this, he was an Executive Director at Donaldson, Lufkin and Jenrette with responsibility for building the bank’s business with hedge funds and alternative investors. Mike has sourced, co-led or led numerous private and public transactions.

External appointments
Mike is Chief Investment Officer of IP Group, which he joined in 2007 from Lehman Brothers, where he was Managing Director of European Equities and Head of Equity Sales to hedge funds. Mike is also responsible for the fund management and corporate finance activities of IP Group, through its regulated vehicle Top Technology Ventures. Mike represents IP Group on the boards of Modern Water plc, Touchstone Innovations plc and Itaconix plc and is also a Non-Executive Director of Green Urban Transport Limited.
SENIOR MANAGEMENT TEAM

RUNNING THE BUSINESS

1. **DR ADRIAN POTTS**
   Chief Executive Officer
   August 2018
   See Board of Directors on page 32.

2. **DAVID BLAIN**
   Chief Financial Officer
   October 2018
   See Board of Directors on page 32.

3. **DR NEIL HINDLE**
   Engineering Director
   August 2014
   Neil has over 20 years’ experience in the chemical industry with ICI plc, Croda International and Centre for Process Innovation (CPI). Neil started with ICI in 1995 following completion of his DPhil and Bachelor of Arts at the University of Oxford. He is a Chartered Chemist and Member of the Royal Society of Chemistry. He has held a number of roles both in the UK and overseas, his primary focus has been the scale-up of the production process from laboratory to commercial production, as well as process improvements of existing production assets. Following the acquisition of ICI Uniqema by Croda in September 2006, Neil became Project Technical Manager for development of a commercial-scale marine bio-fermentation unit. Neil spent two years with CPI as Senior Project Manager before joining AGM in August 2014.

4. **NIGEL BLATHERWICK**
   Business Development Director
   January 2015
   Nigel has over 30 years’ commercial experience within speciality chemicals and composites manufacturing and has held previous positions at Cytec Industrial Materials (Global Strategy Marketing Director), UMECO (Strategic Marketing Director) and Advanced Composites Group (Group Commercial Director). Nigel holds a Bachelor of Science and Technology degree and an MBA from the University of Sheffield.

5. **WILLIAM WEAVER**
   Technical Director
   February 2017
   William has over 30 years’ experience in the chemical industry and has served as a senior R&D executive with international experience across a number of sectors, including coatings, adhesives and composites. Prior to joining AGM he was Vice President of Technology & Strategy for Nuplex Industries with responsibility for innovation, technology strategy and intellectual property. In this role he led developments for both coating and composite applications, frequently collaborating with major developers such as Akzo Nobel, Sherwin Williams, Nipsea and AOC. Previous appointments include roles with Akzo Nobel Resins, Resinous Chemicals Ltd and Ciba Geigy. Besides degrees in chemistry and polymer science William is also a Member of the Institute of Directors and serves on the committee of the Management Group of the Royal Society of Chemistry.
The Board is committed to ensuring the highest standards of corporate governance are maintained. During 2018 AGM adopted the latest Quoted Companies Alliance Corporate Governance Code for small and mid-size quoted companies in full.

**Introduction**

The Board of AGM recognises the importance of achieving high standards of corporate governance, integrity and business ethics for all of its activities. During the course of the year the business undertook an exercise to review and where appropriate update its corporate governance policies and procedures, to ensure it was fully compliant with the reporting changes that came into effect in September 2018. As part of this process the Board has fully adopted and is fully compliant with the Quoted Company Alliance Corporate Governance Code for small and mid-size quoted companies.

**Culture and business ethics**

At the core of AGM’s strategy to become a world leader in the supply of graphene lie our people. Identifying, attracting and retaining motivated individuals with the necessary skills underpin our business. As a business it is important we act at all times with the highest standards in all aspects of our work. There are already numerous ways in which we look to uphold these standards ranging from our procedures to our whistle blowing policy. Whilst having the right policies and procedures forms a critical part in ensuring we are true to our culture and uphold standards, these can only be truly effective if all individuals embrace these values in their entirety. As part of its ongoing programme the Board regularly assesses differing aspects of our culture and standards, mindful of the fact that it is important to lead by example. One area of particular focus this year has been to ensure that the Board itself operates effectively in a fair and transparent manner and the assessment and appraisal programme introduced last year for all members of the Board has continued to be used this year, further details of which can be found on pages 37 and 38.

**Board of Directors**

Details of the Directors are set out on pages 32 and 33. The Board comprises a Non-Executive Chairman (Bryan Dobson), two Non-Executive Directors (Sean Christie and Mike Townend) and three Executive Directors. The Board considers both Bryan Dobson and Sean Christie to be independent in that they are free from any business or other relationships that might materially interfere with their exercise of independent judgment. Mike Townend, who is also a Director and representative of IP Group plc, is not considered by the Board to be independent. Details of the Non-Executive Chairman’s other commitments can be found on page 32.

The Board of Directors considers that its size and composition are currently appropriate and that the balance of skills and experience is correct for the current requirements of the business to enable the members of the Board of Directors to discharge their respective duties and responsibilities effectively. However, the Nomination Committee, in conjunction with the Board, will continue to consider succession planning and align this with the Group’s strategy.

There is a clear division of responsibilities between the Chairman and the Chief Executive. The Chairman is primarily responsible for leading the Board, ensuring its effectiveness, setting its agenda and making certain that each Director is in receipt of adequate information prior to making decisions. The Chairman also facilitates effective communication with shareholders and makes himself available to meet with shareholders. The Chief Executive Officer is responsible for the Group’s day to day activities and leads the execution of the Group’s strategy. All Directors have access to the advice and services of the Company Secretary and both the appointment and removal of the Company Secretary are matters for the Board as a whole. Directors are entitled to take independent legal or financial advice (paid for by the Company) in relation to the performance of their duties. Training is also made available to the Directors as appropriate, in relation to the performance of their duties.

**Board skills and experience**

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<td>Bryan Dobson</td>
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<td>Adrian Potts</td>
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<td>David Blain</td>
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<td>Karl Coleman</td>
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<td>Sean Christie</td>
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<td>Mike Townend</td>
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Board of Directors continued
All new Directors receive a personalised induction programme tailored to their experience and background, which is designed to develop their knowledge and understanding of the Group’s culture and operations. Non-Executive Directors have regular opportunities to meet with Senior Managers within the business to enhance their knowledge and familiarity with the Group. Directors are also briefed by the Group’s external advisors, where appropriate, on changes to legislation, regulation or market practice.

Meeting attendance
Directors are encouraged to attend all Board meetings and meetings of Committees of which they are members. Directors’ attendance at Board and Committee meetings is shown in the table below.

Time commitment
All Directors are expected to devote such time as is necessary for the proper performance of their duties. Directors are expected to prioritise and attend Board meetings and Committee meetings of which they are members and any additional meetings wherever possible. Further details of their terms and conditions are summarised in the Remuneration report on page 40 and the terms and conditions of appointment of the Non-Executive Directors are available at the Company’s registered office.

After taking into consideration the availability and time commitment demanded of individual members, the Chairman was satisfied that the members of the Board were able to devote sufficient time and resource to perform their roles for the Group.

Board responsibilities
The Board is ultimately responsible for the business strategy and the financial robustness of the Group, for monitoring performance and for establishing a governance structure and practice which facilitates effective decision making and good governance. To enable the members of the Board to discharge these responsibilities they have full and timely access to all relevant information and Board meetings are held at the Group’s manufacturing facility allowing Directors to review the operations and meet the management teams.

The Group has established an operational board which meets regularly and is responsible for the day to day management of the business. Adrian Potts chairs the operational board, whose other members comprise David Blain together with the heads of the commercial, operational and technical functions.

Chairman – Bryan Dobson:
• primarily responsible for the leadership of the Board, ensuring that it is effective and promoting critical discussion;
• chairs the Nomination Committee and the Annual General Meeting;
• sets the Board meeting agendas in consultation with the Chief Executive and the Company Secretary, ensuring they are aligned to the business strategy;
• leads the performance evaluation of the Board and ensures its effectiveness in all aspects of its role;
• sponsors and promotes the highest corporate governance and ethical standards;
• facilitates contribution from all Directors to the discussion of the Board;
• provides a sounding board for the Chief Executive on key business decisions and challenges proposals where appropriate; and
• ensures effective communication with shareholders and other stakeholders.

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<tr>
<th>Meeting attendance</th>
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<th>Audit Committee</th>
<th>Nomination Committee</th>
<th>Remuneration Committee</th>
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<tbody>
<tr>
<td>Number of meetings held</td>
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Executive Directors

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<tr>
<td>Adrian Potts</td>
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<td>3</td>
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<td>3</td>
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<tr>
<td>Gareth Jones¹</td>
<td>8</td>
<td>3</td>
<td>1</td>
<td>3</td>
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<tr>
<td>David Blain²</td>
<td>8</td>
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<td>3</td>
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<tr>
<td>Karl Coleman</td>
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Non-Executive Directors

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<tr>
<td>Bryan Dobson</td>
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<tr>
<td>Sean Christie</td>
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<td>3</td>
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<td>3</td>
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<tr>
<td>Mike Townend</td>
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¹ Gareth Jones resigned as a Director on 29 October 2018 and attended all Board meetings prior to his resignation.
² David Blain was appointed as a Director on 30 October 2018 and attended all Board meetings since his appointment.
Chief Executive (CEO) – Adrian Potts:
• develops and implements the Group’s strategy with input from the rest of the Board, management team and its advisors;
• responsible for the overall operational activity of the Group;
• manages the day to day business of the Group, leads its direction and promotes its culture and values;
• brings matters of particular significance or risk to the Chairman for discussion and consideration by the Board where appropriate; and
• responsible for overseeing the delivery of the sustainability agenda within the Group.

Executive Directors – Karl Coleman and David Blain:
• provide specialist knowledge and experience to the Board;
• support the CEO in the implementation of the Group’s strategic policies;
• responsible for the budgeting process and reporting of the financial performance of the Group (David Blain);
• responsible for scientific input relating to the Group (Karl Coleman); and
• responsible for the successful leadership and management of scientific, risk and finance functions across the Group.

Non-Executive Directors – Mike Townend and Sean Christie:
• bring complementary skills and experience to the Board;
• constructively challenge the Executive Directors on matters affecting the Group;
• provide a sounding board for the Chairman and support him with the leadership of the Board;
• are available if shareholders want to raise concerns which normal channels have failed to resolve;
• chairs the Audit Committee (Sean Christie);
• chairs the Remuneration Committee (Sean Christie);
• satisfy themselves as to the accuracy of the financial performance of the Group and the robustness and effectiveness of financial controls and risk management processes; and
• help develop strategy with an independent outlook.

Company Secretary – David Blain:
• responsible to the Board;
• acts as secretary to the Board and each of its Committees ensuring compliance with procedures;
• responsible, under the direction of the Chairman, for ensuring the Board receives timely and accurate information;
• provides support to the Non-Executive Directors; and
• responsible for advising the Board on all governance matters.

Leadership and effectiveness
The Board has extensive operational experience coupled with a detailed understanding of the chemical industry both within the UK and abroad. As a team the Board of Directors also benefits from significant financial, public company, risk management, commercial and transactional expertise.

During the previous twelve months, the Chairman undertook a detailed review of the effectiveness of the Board. This review encompassed two main elements, namely:
• an assessment of the overall effectiveness of the Board; and
• individual assessments of performance for each Board member.

Case study
AGM has made significant technical progress in the last twelve months and its graphene products demonstrably work. Our dispersion expertise is class leading and is our key to generating revenues.”

INTRODUCING DAVID BLAIN
David joined AGM as CFO in October 2018 from Nanoco Group plc and he has substantial experience in PLCs and the nanomaterials industry. David’s experience has meant that he hit the ground running at AGM and makes a great team with CEO, Adrian Potts.

INTRODUCING DAVID BLAIN
David Blain
Chief Financial Officer

David Blain
Chief Financial Officer

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Leadership and effectiveness continued
Each Director completed an individual questionnaire, which covered many aspects of good governance, including an assessment of the Board’s performance overall. In addition to questions on culture, performance and effectiveness the questionnaire included detailed questions on strategic objectives, stakeholder engagement, audit and internal control assessment. The responses were then collated and discussed.

The second element of the assessment involved individual performance assessments for each Director. This involved the Chairman meeting individually with each Board member during the year. As well as assessing individual expertise and contribution, the review also encompassed governance, attendance and any areas for improvement. A Senior Independent Director, Sean Christie, having consulted with other members of the Board, undertook a review of the Chairman’s performance.

Having completed this exercise it was concluded that the Board was operating in an effective manner and all members are considered to have made valuable contributions to the Board. Overall, it was determined that the Board meets its regulatory requirements and that the appropriate processes are in place for setting the strategic direction of the Group as well as maintaining the highest standards at all times. Furthermore, Board meetings are open to discussion, and are constructive and this forum enables all members to express their views.

Board Committees
The Board has delegated certain authorities to three Committees, whose duties are as set out in this report. Appointments to each Committee are made by the Board. The Company Secretary is secretary to each Board Committee. The Board is kept fully updated on the work undertaken by the Committees and terms of reference have been adopted by each Committee that set out clearly the Committee’s authority and duties. Copies of the terms of reference for each Committee can be found on the Company’s website (www.appliedgraphenematerials.com). The Chairman of each Committee will be present at the Annual General Meeting to answer questions from shareholders.

Investor relations
The Board places significant importance on maintaining good communications with shareholders. The Executive Directors are available to meet with institutional shareholders and analysts after the announcement of both the interim and annual results and have undertaken such meetings whenever requested by shareholders and analysts at other points during the course of the year. Each of the Non-Executive Directors are available to be contacted by, and to meet with, shareholders if required. Written investor feedback is provided to the whole Board by the Group’s nominated advisor and broker. The Interim and Annual Reports are sent to all shareholders, who are encouraged to attend and participate at the Company’s Annual General Meeting to enable it to be a forum of substantive communication. The Group’s investor relations website is regularly updated and contains information on current activities, including interim and annual results presentations. The Group also includes, on its website, audiocasts of its results presentations, for the benefit of all shareholders.

Internal control
The Board acknowledges its overall responsibility for the Group’s system of internal financial and operational controls and the ongoing review of their effectiveness. These controls are designed to safeguard the Group’s assets and the investments of shareholders. However, any system of internal control can only manage rather than eliminate risks and consequently such controls do not provide absolute assurance against misstatement or loss.

The main features of the Group’s internal control systems include:

Allocation of responsibilities
Terms of reference for Board Committees are reviewed by the Board to ensure that the delegated authority and duties are still appropriate. The Group has a clear organisational structure that includes defined delegations of authority and authorisation limits.

Risk identification
The Board is responsible for identifying the main business risks faced by the Group and for determining the appropriate actions necessary to manage those risks. These risks are categorised into seven types being: strategic and planning; financial and IT; operational and quality; people; technical; commercial and reputation; and SHE and regulatory. These are detailed on pages 24 to 27.

Financial reporting and control
Monthly management information is reported to the Board which includes comparison against budget and prior year. Functional reports are prepared for the Board and actions arising from the review of those reports and information are attributed as appropriate.

Investment appraisal
Capital expenditure is regulated by authorisation limits. The Board has reviewed the effectiveness of the Group’s framework of internal controls, including financial, operational and compliance controls and risk management systems, during the year ended 31 July 2019. The Board has also, where appropriate, ensured that appropriate actions have been taken to remedy weaknesses or failings identified from the review of the effectiveness of internal controls.

Whistle blowing policy
The Board has adopted a whistle blowing policy. The aim of the policy is to encourage all employees regardless of seniority to bring matters which cause them concern to the attention of the Non-Executive Directors.

By order of the Board

Bryan Dobson
Chairman
15 October 2019
Audit Committee report

Committee members
Sean Christie, Mike Townend, Bryan Dobson

Key responsibilities
• Reviewing significant accounting judgments
• IFRS 9 Financial Instruments was implemented this year
• Suitability of applying the going concern assumption
• Impairment review of property, plant and equipment
• Capitalisation of development expenditure
• Calculation of R&D tax credits
• Share based payments charge

Nomination Committee report

Committee members
Bryan Dobson, Mike Townend, Sean Christie

Key responsibilities
• Ensuring that the Board comprises an appropriate balance of skills, knowledge and experience
• Makes recommendations to the Board on its size, structure and composition
• Gives consideration to succession planning for Executive and Non-Executive Directors

The Audit Committee comprises Sean Christie, Mike Townend and Bryan Dobson, and is chaired by Sean Christie, who has relevant and recent financial experience. The Audit Committee operates within its agreed terms of reference. It reviews the effectiveness of financial reporting and internal financial controls and monitors the integrity of the financial statements of the Group and any significant financial reporting judgments contained therein.

The Audit Committee recommends to the Board the appointment and re-appointment of the external auditors.

The Audit Committee considers the scope and results of the external audit and its cost effectiveness. It also reviews the fees, independence and objectivity of the external auditors by analysing fees for audit and non-audit work, by discussing with the auditors their annual assessment regarding their independence, policies and procedures, and by receiving from the auditors confirmation that they have complied with the APB Ethical Standards. The Group’s external auditors have unrestricted access to the Audit Committee and attended the Audit Committee meeting held during the year. In addition the Chairman of the Audit Committee had contact with the external auditors outside those meetings. The Executive Directors attend Audit Committee meetings by invitation only.

The Audit Committee reviewed the key areas of significant accounting judgments applied to a number of significant issues on the preparation of the financial statements, as shown opposite.

Having considered the above, the Committee found the Group’s estimates and assumptions therein to be appropriate. Further information relating to these areas can be found on pages 60 to 61.

The breakdown of fees between audit and non-audit services is provided on page 62 of the Group’s financial statements. The Audit Committee is satisfied that the auditors remain independent and objective.

The Nomination Committee comprises Bryan Dobson, Mike Townend and Sean Christie, and is chaired by Bryan Dobson. The Nomination Committee is responsible for ensuring that the Board comprises an appropriate balance of skills, knowledge and experience. The Nomination Committee makes recommendations to the Board on its size, structure and composition and also gives consideration to succession planning for Executive and Non-Executive Directors. The Nomination Committee engages the services of external recruitment consultants as appropriate. The Nomination Committee was closely involved in the recruitment of the new CFO during the year.


Remuneration Committee report

This report sets out the Group’s policy on the remuneration of Directors and information on the remuneration paid to Directors for the year ended 31 July 2019 and for future years. This report is divided into two parts. The first part contains commentary on the Group’s remuneration policy, which is not subject to audit. The second part contains certain information audited in accordance with statutory requirements.

Remuneration Committee

The Remuneration Committee comprises Sean Christie, Mike Townend and Bryan Dobson, and is chaired by Sean Christie. The Remuneration Committee met on three occasions in the year. The Chief Executive Officer and the Chief Financial Officer may be invited to attend part of some meetings of the Remuneration Committee as required. No Director or other employee plays a part in any discussion regarding their own remuneration. The Remuneration Committee’s terms of reference can be found on the Company’s website (www.appliedgraphenematerials.com).

Responsibilities

The Remuneration Committee reviews and determines the remuneration package of the Executive Directors. The Remuneration Committee’s responsibilities include determining the base annual salaries, and setting and approving targets for any short term annual cash bonus or long term equity incentive schemes operated by the Group (subject to shareholder approval where appropriate). The Remuneration Committee also determines the service agreements and other employment conditions for the Executive Directors.

Remuneration policy

The remuneration policy set by the Remuneration Committee is designed to attract, retain and motivate people of high calibre and experience, which will enable the Group to fulfil its objective of increasing shareholder value. Accordingly, the Remuneration Committee seeks to provide competitive remuneration to all its employees, appropriate to business and geographic environments. The Remuneration Committee recognises the need to reward at a level that is fair but attractive, whilst ensuring that a significant proportion of the remuneration of Executive Directors is linked to performance through the operation of the annual cash bonus scheme and equity incentive schemes.

The main elements of the remuneration package for Executive Directors are base salary, annual cash bonus and participation in equity incentive schemes. Both the annual cash bonus and equity incentive schemes are subject to performance conditions. In addition, Executive Directors receive other benefits in kind, including contributions to a defined contribution pension scheme, life assurance, private medical insurance and permanent health insurance. Only base annual salaries are pensionable.

Base annual salary

When determining base annual salary for Executive Directors the Remuneration Committee takes into account the performance, experience and responsibilities of the individuals concerned, the scope and complexity of that function or business, the strategic importance of the role to the Group and the salaries of those holding similar positions and responsibilities in comparable companies.

Base salaries are reviewed annually on 1 August. On 1 August 2019 a general increase of 2.0% (2018: 2.5%) in base salary was awarded to eligible employees across the Group including the Executive Directors. At the time of the review the Remuneration Committee had reference to the base salaries of employees in the wider Group. The following table sets out the base annual salaries of the Executive Directors.

<table>
<thead>
<tr>
<th>Executive Director</th>
<th>Base salary from 1 August 2019</th>
<th>Base salary from 1 August 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gareth Jones</td>
<td>£27,740</td>
<td>£27,197</td>
</tr>
<tr>
<td>Karl Coleman</td>
<td>£234,600</td>
<td>£230,000</td>
</tr>
<tr>
<td>Adrian Potts</td>
<td>£137,700</td>
<td>£135,000</td>
</tr>
</tbody>
</table>

Committee members

Sean Christie, Mike Townend, Bryan Dobson

Key responsibilities

• Determines the remuneration of the Executive Directors
• Setting short and long term targets
• Determine service agreements and employment conditions for Executives
**Annual bonus**
The Executive Directors participate in a non-contractual annual cash bonus scheme, which is the short term incentive element of the overall remuneration package of the Executive Directors. All annual cash bonuses are subject to the discretion of the Remuneration Committee and are linked to targets set by the Remuneration Committee. Subject to the achievement of targets, Executive Directors are eligible to receive a maximum potential annual bonus of 100% of their base annual salary.

Payment of a bonus is conditional on the Executive Directors being in employment at the time of the payment and not having received, or given, notice of termination of employment. However, the Remuneration Committee may exercise its discretion in exceptional circumstances if it feels that it is appropriate to do so.

**2019 bonus**
The bonus for the year ended 31 July 2019 was based on revenue targets linked to orders, the generation of test data to support the effectiveness of graphene, the appointment of new distributors and other key business indicators. In line with the previous year, the targets set were challenging and, after taking account of actual performance compared to target, the level of bonus payment was determined to be 30% of the maximum potential annual cash bonus by the Remuneration Committee (2018: 20%). This bonus will be paid in October 2019 as a cash bonus.

**2020 bonus**
Performance targets for the annual cash bonus are set at the start of the financial year by the Remuneration Committee. Targets set in respect of the year ending 31 July 2020 will be challenging and relate to a variety of key business indicators.

**Equity incentive schemes**
The Group operates two equity incentive schemes, firstly an Enterprise Management Incentive (EMI) scheme and secondly a non-approved executive option scheme. The non-approved executive option scheme is typically used for employees who are not eligible to participate in the EMI scheme or who have received awards up to the £250,000 EMI limit for employees.

During the year, an award was made under the EMI and non-approved executive option schemes. It is expected that option awards will be made annually in November of each year following announcement of annual results, with the next award to be made in November 2019. Details of the awards previously made are set out below.

**EMI and non-approved executive options – January 2019**
The vesting of both EMI and non-approved executive options is subject to the relative performance of the Company’s share price, compared to the FTSE AIM All Share Index, for the period from the date of grant to November 2021.

In the event that the Company’s share price performs better than the FTSE AIM All Share Index, for the performance period, then 25% of the options will vest. Further vesting will be dependent upon the extent to which the Company’s share price outperforms the FTSE AIM All Share Index, with full vesting arising for performance exceeding the benchmark by 25%. Percentage vesting is weighted towards the upper parts of the vesting scale. In each case, performance will be measured using the one month average share price and FTSE AIM All Share Index value in the period prior to the end of the performance period. The starting share price and the FTSE AIM All Share Index value in respect of the options granted were £0.32 and 898.9 respectively.

Subject to vesting the options would be exercisable in the period between November 2021 and July 2029. Nil consideration is payable in respect of either the grant or exercise of these options.

Awards made under EMI and non-approved executive option schemes contain clawback provisions for a period of two years from the date of vesting. Generally, clawback may be invoked in the event of the misstatement of financial results impacting on the number of options vesting or an error being identified in the measurement of actual performance versus target, again impacting on the number of options vesting.

**EMI and non-approved executive options – July 2018**
The vesting of both EMI and non-approved executive options is subject to the relative performance of the Company’s share price, compared to the FTSE AIM All Share Index, for the period from the date of grant to November 2020.

In the event that the Company’s share price performs better than the FTSE AIM All Share Index, for the performance period, then 25% of the options will vest. Further vesting will be dependent upon the extent to which the Company’s share price outperforms the FTSE AIM All Share Index, with full vesting arising for performance exceeding the benchmark by 25%. Percentage vesting is weighted towards the upper parts of the vesting scale. In each case, performance will be measured using the one month average share price and FTSE AIM All Share Index value in the period prior to the end of the performance period. The starting share price and the FTSE AIM All Share Index value in respect of the options granted were £0.38 and 1,023.39 respectively.

Subject to vesting the options would be exercisable in the period between November 2020 and July 2028. Nil consideration is payable in respect of either the grant or exercise of these options.

Awards made under EMI and non-approved executive option schemes contain clawback provisions for a period of two years from the date of vesting. Generally, clawback may be invoked in the event of the misstatement of financial results impacting on the number of options vesting or an error being identified in the measurement of actual performance versus target, again impacting on the number of options vesting.
Remuneration policy continued
Equity incentive schemes continued

EMI and non-approved executive options – January 2017
The vesting of both EMI and non-approved executive options is subject to the relative performance of the Company’s share price, compared to the FTSE AIM All Share Index, for the period from the date of grant to November 2019.

In the event that the Company’s share price performs better than the FTSE AIM All Share Index, for the performance period, then 25% of the options will vest. Further vesting will be dependent upon the extent to which the Company’s share price outperforms the FTSE AIM All Share Index, with full vesting arising for performance exceeding the benchmark by 25%. Percentage vesting is weighted towards the upper parts of the vesting scale. In each case, performance will be measured using the one month average share price and FTSE AIM All Share Index value in the period prior to the end of the performance period. The starting share price and the FTSE AIM All Share Index value in respect of the options granted were £1.275 and 868.95 respectively.

Subject to vesting the options would be exercisable in the period between November 2019 and January 2027. Nil consideration is payable in respect of either the grant or exercise of these options.

Awards made under EMI and non-approved executive option schemes contain clawback provisions for a period of two years from the date of vesting. Generally, clawback may be invoked in the event of the misstatement of financial results impacting on the number of options vesting or an error being identified in the measurement of actual performance versus target, again impacting on the number of options vesting.

EMI and non-approved executive options – prior to AIM admission
In the period prior to the Group's admission to AIM, EMI options and non-approved executive options were granted to certain Directors.

Non-approved executive options awarded to Bryan Dobson, which were not subject to performance conditions other than remaining in post, vested during the year ended July 2014 and are now capable of being exercised.

Pension arrangements
Employer pension contributions paid to Adrian Potts are paid as salary to reflect his existing personal pension arrangements. David Blain participates in the Group’s stakeholder pension plan, which is open to all eligible UK employees. Karl Coleman is not eligible to participate in the Group’s stakeholder pension plan.

Directors' service contracts
Under the terms of the service agreements in place with Executive Directors, six months’ written notice must be given by either party to terminate those service agreements. Under the terms of the letters of appointment in place with Non-Executive Directors, three months’ written notice must be given by either party to terminate that appointment. Summary details of the service agreements and letters of appointment are shown below:

<table>
<thead>
<tr>
<th>Effective date of service agreement/ letter of appointment</th>
<th>Notice period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Directors</td>
<td></td>
</tr>
<tr>
<td>Adrian Potts</td>
<td>1 August 2018</td>
</tr>
<tr>
<td>David Blain</td>
<td>22 October 2018</td>
</tr>
<tr>
<td>Karl Coleman</td>
<td>14 November 2013</td>
</tr>
<tr>
<td>Non-Executive Directors</td>
<td></td>
</tr>
<tr>
<td>Bryan Dobson</td>
<td>14 November 2013</td>
</tr>
<tr>
<td>Sean Christie</td>
<td>24 April 2014</td>
</tr>
<tr>
<td>Mike Townend</td>
<td>24 November 2014</td>
</tr>
</tbody>
</table>

Compensation for early termination for Executive Directors is generally limited to six months’ base salary and benefits. Any entitlements under incentive plans would ordinarily lapse in accordance with the terms of the relevant plan, unless the Remuneration Committee exercises its discretion as provided under the incentive scheme rules.

The Company believes that exposure of its Executive Directors to other company boards can be beneficial and can help to broaden their experience and knowledge. The Directors are therefore permitted to join other company boards as Non-Executive Directors, subject to prior approval of the Board.

Non-Executive Directors
Remuneration of the Non-Executive Directors is determined by the Board and is designed both to recognise the responsibilities of Non-Executive Directors and to attract individuals with the skills and experience to contribute to the business. Non-Executive Directors receive an annual fee paid monthly.

Generally, Non-Executive Directors are not entitled to share based incentives, pensions or annual bonuses. Expenses incurred by the Non-Executive Directors in the performance of their duties are reimbursed by the Company.
Performance graph

The graph below shows the performance of Applied Graphene Materials’ share price relative to the FTSE AIM All Share Index for the period between November 2013, when the Group’s shares first became publicly traded, and July 2019. This index has been selected for comparison because the Company is a constituent of it.

![Share price graph]

Audited information

Directors’ emoluments

The aggregate emoluments of the Directors of the Company who served during the year ended 31 July 2019, paid by the Group, were:

<table>
<thead>
<tr>
<th>Directors</th>
<th>Salary and fees £’000</th>
<th>Benefits £’000</th>
<th>Annual bonus £’000</th>
<th>Pension contributions £’000</th>
<th>Total £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Directors</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adrian Potts</td>
<td>178</td>
<td>28</td>
<td>53</td>
<td>18</td>
<td>277</td>
</tr>
<tr>
<td>Gareth Jones</td>
<td>32</td>
<td>—</td>
<td>—</td>
<td>3</td>
<td>35</td>
</tr>
<tr>
<td>Karl Coleman</td>
<td>27</td>
<td>2</td>
<td>8</td>
<td>—</td>
<td>37</td>
</tr>
<tr>
<td>David Blain</td>
<td>105</td>
<td>2</td>
<td>30</td>
<td>7</td>
<td>142</td>
</tr>
<tr>
<td>Non-Executive Directors</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bryan Dobson</td>
<td>45</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>45</td>
</tr>
<tr>
<td>Sean Christie</td>
<td>35</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>35</td>
</tr>
<tr>
<td>Mike Townend</td>
<td>15</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>15</td>
</tr>
<tr>
<td>Total</td>
<td>437</td>
<td>30</td>
<td>91</td>
<td>28</td>
<td>586</td>
</tr>
</tbody>
</table>

1 Employer pension contributions paid to Adrian Potts are paid as salary to reflect his existing personal pension arrangements.
2 Gareth Jones resigned on 29 October 2018.
3 David Blain was appointed on 30 October 2018.
4 Fees payable to Mike Townend were paid to Top Technology Ventures Limited, which is a wholly owned subsidiary of IP Group plc, which Mike represents.
Corporate governance

REMUNERATION REPORT CONTINUED

Audited information continued
Directors’ emoluments continued

The aggregate emoluments of the Directors of the Company who served during the year ended 31 July 2018, paid by the Group, were:

<table>
<thead>
<tr>
<th></th>
<th>Salary and fees £’000</th>
<th>Benefits £’000</th>
<th>Annual bonus £’000</th>
<th>Pension contributions £’000</th>
<th>Total £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Executive Directors</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jon Mabbitt(^1)</td>
<td>159</td>
<td>7</td>
<td>32</td>
<td>16</td>
<td>214</td>
</tr>
<tr>
<td>Gareth Jones</td>
<td>128</td>
<td>—</td>
<td>26</td>
<td>13</td>
<td>167</td>
</tr>
<tr>
<td>Karl Coleman</td>
<td>27</td>
<td>2</td>
<td>5</td>
<td>—</td>
<td>34</td>
</tr>
<tr>
<td><strong>Non-Executive Directors</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bryan Dobson</td>
<td>45</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>45</td>
</tr>
<tr>
<td>Sean Christie</td>
<td>35</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>35</td>
</tr>
<tr>
<td>Mike Townend(^2)</td>
<td>15</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>15</td>
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<tr>
<td></td>
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<td></td>
<td>409</td>
</tr>
</tbody>
</table>

|                           |                       |                |                   |                             | 63          |
|                           |                       |                |                   |                             | 29          |
|                           |                       |                |                   |                             | 510         |

1. Employer pension contributions paid to Jon Mabbitt are paid as salary to reflect his existing personal pension arrangements. Jon Mabbitt resigned on 31 July 2018.
2. Fees payable to Mike Townend were paid to Top Technology Ventures Limited, which is a wholly owned subsidiary of IP Group plc, which Mike represents.

Share options

The number of options over Applied Graphene Materials’ shares held by Directors at 31 July 2019 is set out below.

<table>
<thead>
<tr>
<th></th>
<th>Options at start of year or appointment</th>
<th>Number of options cancelled or lapsed in the year</th>
<th>Number of options exercised in the year</th>
<th>Number of options granted in the year</th>
<th>Options at end of year</th>
<th>Option price</th>
<th>Exercisable</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Adrian Potts</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-approved executive(^1)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SAYE</td>
<td></td>
<td></td>
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<tr>
<td><strong>David Blain</strong></td>
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<tr>
<td>EMI(^1)</td>
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<tr>
<td>SAYE</td>
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<tr>
<td><strong>Karl Coleman</strong></td>
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<tr>
<td>Non-approved executive(^1)</td>
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<td>Non-approved executive(^1)</td>
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<tr>
<td><strong>Bryan Dobson</strong></td>
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</tr>
<tr>
<td>Non-approved executive</td>
<td>491,874</td>
<td></td>
<td></td>
<td></td>
<td>491,874</td>
<td>0.20</td>
<td>May 14 to Jul 22</td>
</tr>
<tr>
<td></td>
<td>491,874</td>
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<td>491,874</td>
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<tr>
<td><strong>Sean Christie</strong></td>
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</tr>
<tr>
<td>Non-approved executive</td>
<td>15,000</td>
<td></td>
<td></td>
<td></td>
<td>15,000</td>
<td>0.55</td>
<td>Apr 15 to Apr 24</td>
</tr>
<tr>
<td></td>
<td>15,000</td>
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<td></td>
<td>15,000</td>
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</tr>
</tbody>
</table>

1. Options remain subject to satisfaction of conditions.

The market price of the shares on 31 July 2019 was £0.305 and the shares traded in the range of £0.55 to £0.23 during the year.
The number of options over Applied Graphene Materials’ shares held by Directors at 31 July 2018 is set out below.

<table>
<thead>
<tr>
<th>Name</th>
<th>Type</th>
<th>Options at start of year or appointment</th>
<th>Number of options cancelled or lapsed in the year</th>
<th>Number of options exercised in the year</th>
<th>Number of options granted in the year</th>
<th>Options at end of year</th>
<th>Option price</th>
<th>Exercisable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jon Mabbitt</td>
<td>EMI¹</td>
<td>323,424</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>323,424</td>
<td>£0.33</td>
<td>Oct 14 to Oct 23</td>
</tr>
<tr>
<td></td>
<td>EMI¹</td>
<td>20,214</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>20,214</td>
<td>£0.58</td>
<td>Oct 14 to Oct 23</td>
</tr>
<tr>
<td></td>
<td>SAYE</td>
<td>9,574</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>9,574</td>
<td>£1.88</td>
<td>Aug 18 to Jan 19</td>
</tr>
<tr>
<td></td>
<td>Non-approved executive</td>
<td>84,443</td>
<td>(84,443)</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td></td>
<td>Non-approved executive</td>
<td>122,421</td>
<td>(122,421)</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
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<tr>
<td></td>
<td></td>
<td>560,076</td>
<td>(206,864)</td>
<td>—</td>
<td>—</td>
<td>353,212</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gareth Jones</td>
<td>Non-approved executive¹</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>585,265</td>
<td>585,265</td>
<td>£nil</td>
<td>Nov 20 to Jul 28</td>
</tr>
<tr>
<td></td>
<td>Non-approved executive¹</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>585,265</td>
<td>585,265</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Karl Coleman</td>
<td>Non-approved executive¹</td>
<td>10,555</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>10,555</td>
<td>£nil</td>
<td>Nov 18 to Jan 26</td>
</tr>
<tr>
<td></td>
<td>Non-approved executive¹</td>
<td>17,388</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>17,388</td>
<td>£nil</td>
<td>Nov 19 to Jan 27</td>
</tr>
<tr>
<td></td>
<td>Non-approved executive¹</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>45,673</td>
<td>45,673</td>
<td>£nil</td>
<td>Nov 20 to Jul 28</td>
</tr>
<tr>
<td></td>
<td></td>
<td>27,943</td>
<td>—</td>
<td>—</td>
<td>45,673</td>
<td>73,616</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bryan Dobson</td>
<td>Non-approved executive</td>
<td>491,874</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>491,874</td>
<td>£0.20</td>
<td>May 14 to Jul 22</td>
</tr>
<tr>
<td></td>
<td></td>
<td>491,874</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>491,874</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sean Christie</td>
<td>Non-approved executive</td>
<td>15,000</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>15,000</td>
<td>£1.55</td>
<td>Apr 15 to Apr 24</td>
</tr>
<tr>
<td></td>
<td></td>
<td>15,000</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>15,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1 Options remain subject to satisfaction of conditions.

Directors’ interests
The interests of the Directors in the shares of the Company as recorded in the register of Directors’ interests at 31 July 2019 were as follows:

<table>
<thead>
<tr>
<th>Name</th>
<th>Number of Ordinary shares 2019</th>
<th>Number of Ordinary shares 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Directors</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adrian Potts</td>
<td>18,109</td>
<td>18,109</td>
</tr>
<tr>
<td>David Blain</td>
<td>17,800</td>
<td>—</td>
</tr>
<tr>
<td>Karl Coleman</td>
<td>1,779,682</td>
<td>1,779,682</td>
</tr>
<tr>
<td>Non-Executive Directors</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bryan Dobson</td>
<td>134,316</td>
<td>134,316</td>
</tr>
<tr>
<td>Sean Christie</td>
<td>35,397</td>
<td>35,397</td>
</tr>
<tr>
<td>Mike Townend</td>
<td>22,619</td>
<td>22,619</td>
</tr>
</tbody>
</table>

Sean Christie
Chairman of the Remuneration Committee
15 October 2019
The Directors present their Annual Report and the audited financial statements of Applied Graphene Materials plc (the Company) and of the Group (the Company and its subsidiary undertakings) for the year ended 31 July 2019.

Principal activities
The principal activity of the Group is the manufacture, dispersion and development of applications for graphene. The Group’s operations are primarily within the United Kingdom. The subsidiary undertakings principally affecting the results or net assets of the Group are listed in note 11 to the financial statements.

Review of business and future developments
The Chairman’s statement (pages 4 to 6), the Chief Executive Officer’s review (pages 8 to 15) and the Financial review (pages 28 to 31) report on the performance of the Group during the year ended 31 July 2019 and its prospects for the future.

Key performance indicators (KPIs)
Due to the early stage of the development of the business, it is difficult to measure progress made purely in financial terms. However, in due course the Directors expect that EBITDA, adjusted diluted EPS and cash conversion will be the principal measures of financial performance in relation to the Group. Performance for these KPIs, which is explained in the Chairman’s statement, the Chief Executive Officer’s review and the Financial review, was as follows:

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBITDA (£’000)</td>
<td>(4,559)</td>
<td>(3,984)</td>
</tr>
<tr>
<td>Adjusted diluted EPS (pence)</td>
<td>(7.9)</td>
<td>(7.5)</td>
</tr>
<tr>
<td>Cash balance (£’000)</td>
<td>6,135</td>
<td>10,443</td>
</tr>
</tbody>
</table>

Directors and their interests
The Directors who served during the year (unless indicated) were as follows:

- Bryan Dobson
- Karl Coleman
- Gareth Jones (resigned on 29 October 2018)
- Sean Christie
- Mike Townend
- Adrian Potts (appointed on 1 August 2018)
- David Blain (appointed on 30 October 2018)

Biographical details of the Directors can be found on pages 32 and 33.

In accordance with the provisions of the Articles of Association of the Company, Mike Townend and Sean Christie will retire by rotation and, being eligible, will offer themselves for re-election at the 2019 Annual General Meeting. The Directors’ service agreements and letters of appointment will be available for inspection prior to and at the end of the Annual General Meeting.

Details of Directors’ interests in the shares of the Company are shown in the Remuneration report.

Share capital
At 31 July 2019, the Group had 49,429,380 Ordinary shares of 2 pence each in issue (2018: 49,429,380). These shares are admitted to trading on AIM. The rights and obligations attaching to the Company’s Ordinary shares are set out in its Articles of Association, which are available on its website. Each share in issue has equal rights and there are no restrictions on the voting rights attaching to the Company’s Ordinary shares or on the transfer of securities in the Company. Full details of the issued share capital of the Company, including movements in the year, are set out in the notes to the financial statements. Details of share option schemes in place within the Group are set out in the notes to the financial statements.

Substantial share interests
At 31 July 2019, the Directors are aware of the following interests amounting to 3% or more of the Company’s issued share capital:

<table>
<thead>
<tr>
<th>Name of shareholder</th>
<th>Number of Ordinary shares million</th>
<th>Percentage of issued share capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>IP Group</td>
<td>9.4</td>
<td>19.09</td>
</tr>
<tr>
<td>Insight Investments</td>
<td>3.9</td>
<td>7.80</td>
</tr>
<tr>
<td>Herald Investment Management</td>
<td>4.8</td>
<td>9.61</td>
</tr>
<tr>
<td>Hargreaves Lansdown, stockbrokers</td>
<td>4.6</td>
<td>9.34</td>
</tr>
<tr>
<td>Eden Tree Investment Management</td>
<td>3.8</td>
<td>7.59</td>
</tr>
<tr>
<td>Ruffer Investments</td>
<td>3.5</td>
<td>7.05</td>
</tr>
<tr>
<td>Baillie Gifford</td>
<td>2.4</td>
<td>4.84</td>
</tr>
<tr>
<td>Directors</td>
<td>2.0</td>
<td>4.06</td>
</tr>
<tr>
<td>Halifax Share Dealing</td>
<td>1.7</td>
<td>3.52</td>
</tr>
<tr>
<td>Interactive Investor</td>
<td>1.6</td>
<td>3.22</td>
</tr>
</tbody>
</table>
Financial instruments
Full details of the Group’s risk management policies and its exposure to financial risk are set out in note 15 to the financial statements.

Post balance sheet events
Post balance sheet events are disclosed in note 23 to the financial statements.

Directors’ indemnities and directors’ and officers’ liability insurance
The Company’s Articles of Association permit the Company to indemnify Directors of the Company in accordance with the Companies Act 2006. Directors’ and officers’ liability insurance is also in place.

Employees
Further details regarding employees can be found in the Sustainability report (pages 22 and 23).

Health and safety
Further details regarding health and safety can be found in the Sustainability report (pages 22 and 23).

Corporate governance
The Corporate governance report is set out on pages 35 to 38.

Audit information
The Directors confirm that, in so far as they are aware, there is no relevant audit information of which the auditors are unaware and that each Director has taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information. A statement by the Directors of their responsibilities for preparing the financial statements is included in the Statement of Directors’ responsibilities.

Information presented in other sections
As permitted by Section 414C(11) of the Companies Act 2006, certain information required by Schedule 7 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 to be included in a Directors’ report can be found in the Strategic report on pages 1 to 31. This is the case for future developments and R&D activities which is included in the Chief Executive Officer’s review on pages 8 to 15. Information regarding dividends is contained within the Financial review on pages 28 to 31.

Independent auditors
Our auditors, RSM UK Audit LLP, have indicated their willingness to continue in office. In accordance with the recommendation of the Audit Committee and Section 489 of the Companies Act 2006, a resolution to re-appoint RSM UK Audit LLP as the Company’s auditors will be proposed at the forthcoming Annual General Meeting.

Annual General Meeting
The 2019 Annual General Meeting is to be held at The Farndale Room, The Wilton Centre, Redcar, Cleveland TS10 4RF on 17 December 2019. The Notice of Meeting and an explanation of the business to be conducted at the Annual General Meeting are set out in a separate document circulated to shareholders with this report. Any shareholder intending to attend the Annual General Meeting is advised to arrive early, and well before 11am, in order to allow time to pass through The Wilton Centre’s security and admission procedures.

By order of the Board

David Blain
Company Secretary
15 October 2019
STATEMENT OF DIRECTORS’ RESPONSIBILITIES

Statement of Directors’ responsibilities
The Directors are responsible for preparing the Strategic Report, Director’s Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare Group and Company financial statements for each financial year. The Directors are required by the AIM Rules of the London Stock Exchange to prepare Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and have elected under company law to prepare the Company financial statements in accordance with IFRS as adopted by the EU.

The financial statements are required by law and IFRS adopted by the EU to present fairly the financial position of the Group and the Company and the financial performance of the Group. The Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

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 the Company and of the profit or loss of the Group for that period.

In preparing each of the Group and Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group’s and the Company’s transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Applied Graphene Materials plc website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.
Opinion
We have audited the financial statements of Applied Graphene Materials plc (the Parent Company) and its subsidiaries (the Group) for the year ended 31 July 2019 which comprise the consolidated income statement and statement of comprehensive income, the consolidated and Parent Company statement of financial position, the consolidated and Parent Company statement of changes in equity, the consolidated and Parent Company statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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 31 July 2019 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 IFRSs as adopted by the European Union and as applied in accordance with the Companies Act 2006; 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 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 SME 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.

Conclusions relating to going concern
We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:
- the Directors’ use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group’s or the Parent Company’s ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Group and Parent Company 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 Group and Parent Company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recoverability of amounts owed by subsidiary undertakings (Parent Company only)
At 31 July 2019 the Parent Company balance sheet includes amounts owed by subsidiary undertakings which are loss making. The loans bear interest at 8% and are repayable on demand and, at the balance sheet date, the subsidiary undertakings do not have sufficient liquid assets to make repayment should the Parent Company demand repayment. The key audit matter is that the balances may not be recoverable and that an Expected Credit Loss (ECL) provision is required following the introduction of IFRS 9 Financial Instruments.

At 31 July 2019, the gross amount owed by subsidiary undertakings was £25,587,000, before recognition of an ECL totalling £11,197,000 as disclosed in the Critical accounting estimates and judgments and in note 13.

We obtained management’s calculation of the ECL and the underlying calculations prepared to support the carrying value of the balance and performed work as follows:
- assessed the reasonableness of the recovery scenarios considered by management and the probabilities assigned thereon;
- reviewed and challenged the assumptions and estimates utilised in the model;
- recalculated the computation of the ECL;
- considered the sensitivity of key assumptions and estimates;
- considered the adequacy of disclosures in the notes to the financial statements; and
- challenged the assumptions used in calculating the allocation of the ECL to respective periods.
Key audit matters continued
Impairment of investment and Parent Company balance sheet (Parent Company only)
At 31 July 2019 the Parent Company has significant investments in, and amounts owed by a subsidiary undertaking (Applied Graphene Materials UK Limited) which is currently loss making. The market capitalisation of the Group at 31 July 2019 of £15,076,000 was lower than the net assets of the Parent Company which is an indicator of potential impairment under IAS 36. The key audit matter is that the net assets of the Parent Company balance sheet may be impaired and require an impairment provision.

Impairment testing requires management to determine the higher of fair value less cost to sell and value in use (through performing net present value calculations). As described in the Critical accounting estimates and judgments and note 13, management concluded that fair value less cost to sell was higher than value in use and the Company financial statements include a further provision of £6,057,000 to reduce the Company net assets at 31 July 2019 to the market capitalisation of £15,076,000.

We obtained management’s impairment assessment and the underlying calculations prepared to support the carrying value and performed work as follows:

• reviewed and challenged the assumptions and estimates used by management in assessing value in use;

• reviewed and considered management’s assessment of fair value less costs of disposal with reference to market capitalisation at 31 July 2019; and

• considered the adequacy of disclosures in the notes to the financial statements.

Our application of materiality
When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures. When evaluating whether the effects of misstatements, both individually and on the financial statements as a whole, could reasonably influence the economic decisions of the users we take into account the qualitative nature and size of the misstatements. During planning materiality for the Group financial statements as a whole was calculated as £474,000, which was not significantly changed during the course of our audit. Materiality for the Parent Company financial statements as a whole was calculated as £237,000, which was not significantly changed during the course of our audit. We agreed with the Audit Committee that we would report to them all unadjusted differences in excess of £24,000, as well as differences below those thresholds that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit
Our audit approach covered 100% of Group revenue and expenditure, Group profit, and total Group assets and liabilities. It was performed to the materiality levels set out above.

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 light of the knowledge and understanding of the Group and the Parent Company and their 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 by the Parent Company, 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, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group’s and the Parent Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor’s responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the 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 Company’s members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company’s members those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company’s members as a body, for our audit work, for this report, or for the opinions we have formed.

Michael Thornton FCA (Senior Statutory Auditor)
for and on behalf of RSM UK Audit LLP
Chartered Accountants and Statutory Auditors
Central Square, 5th Floor, 29 Wellington Street,
Leeds LS1 4DL
15 October 2019
**CONSOLIDATED INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME**

for the year ended 31 July 2019

<table>
<thead>
<tr>
<th>Note</th>
<th>2019 £’000</th>
<th>2018 £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>50</td>
<td>77</td>
</tr>
<tr>
<td>4</td>
<td>74</td>
<td>126</td>
</tr>
<tr>
<td><strong>Other income</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>124</td>
<td>203</td>
</tr>
<tr>
<td><strong>Cost of sales</strong></td>
<td>(472)</td>
<td>(250)</td>
</tr>
<tr>
<td><strong>Gross loss</strong></td>
<td>(348)</td>
<td>(47)</td>
</tr>
<tr>
<td><strong>Operating expenses</strong></td>
<td>(4,554)</td>
<td>(4,555)</td>
</tr>
<tr>
<td><strong>EBITDA</strong></td>
<td>(4,559)</td>
<td>(3,984)</td>
</tr>
<tr>
<td>Exceptional costs</td>
<td>2</td>
<td>—</td>
</tr>
<tr>
<td>Depreciation of property, plant and equipment</td>
<td>10</td>
<td>(343)</td>
</tr>
<tr>
<td><strong>Operating loss</strong></td>
<td>2</td>
<td>(4,902)</td>
</tr>
<tr>
<td>Finance income</td>
<td>6</td>
<td>67</td>
</tr>
<tr>
<td><strong>Loss before tax</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax credit</td>
<td>7</td>
<td>908</td>
</tr>
<tr>
<td><strong>Loss for the year attributable to equity shareholders</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td></td>
<td>—</td>
</tr>
<tr>
<td><strong>Total comprehensive expense</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(3,927)</td>
<td>(3,499)</td>
</tr>
</tbody>
</table>

**Earnings per share (pence per share)**

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic</td>
<td>(7.9)</td>
<td>(7.9)</td>
</tr>
<tr>
<td>Diluted</td>
<td>(7.9)</td>
<td>(7.9)</td>
</tr>
</tbody>
</table>

EBITDA comprises loss before finance income, tax, exceptional costs and depreciation.
## STATEMENT OF FINANCIAL POSITION

as at 31 July 2019

<table>
<thead>
<tr>
<th>Note</th>
<th>Group 2019 £’000</th>
<th>Company 2019 £’000</th>
<th>Group 2018 £’000</th>
<th>Company 2018 £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Non-current assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intangible assets</td>
<td>9</td>
<td>155</td>
<td>—</td>
<td>78</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>10</td>
<td>1,645</td>
<td>—</td>
<td>1,881</td>
</tr>
<tr>
<td>Investments</td>
<td>11</td>
<td>—</td>
<td>196</td>
<td>—</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>13</td>
<td>—</td>
<td>8,332</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>1,800</td>
<td>8,528</td>
<td>1,959</td>
<td>19,928</td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td>7,681</td>
<td>6,789</td>
<td>11,111</td>
<td>11,009</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>9,481</td>
<td>15,317</td>
<td>13,070</td>
<td>30,937</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>14</td>
<td>(993)</td>
<td>(241)</td>
<td>(949)</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>(993)</td>
<td>(241)</td>
<td>(949)</td>
<td>(283)</td>
</tr>
<tr>
<td><strong>Net current assets</strong></td>
<td>6,688</td>
<td>6,548</td>
<td>10,162</td>
<td>10,726</td>
</tr>
<tr>
<td><strong>Net assets</strong></td>
<td>8,488</td>
<td>15,076</td>
<td>12,121</td>
<td>30,654</td>
</tr>
<tr>
<td><strong>Equity</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Called up share capital</td>
<td>16</td>
<td>989</td>
<td>989</td>
<td>989</td>
</tr>
<tr>
<td>Share premium account</td>
<td>17</td>
<td>27,473</td>
<td>27,473</td>
<td>27,473</td>
</tr>
<tr>
<td>Merger reserve</td>
<td>18</td>
<td>1,231</td>
<td>—</td>
<td>1,231</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>—</td>
<td>(21,205)</td>
<td>(13,386)</td>
<td>(17,572)</td>
</tr>
<tr>
<td><strong>Total equity</strong></td>
<td>8,488</td>
<td>15,076</td>
<td>12,121</td>
<td>30,654</td>
</tr>
</tbody>
</table>

The Parent Company’s loss for the financial year was £13,872,000 (2018: profit of £1,005,000).

The financial statements on pages 52 to 72 were approved by the Board of Directors on 15 October 2019 and were signed on its behalf by:

**Adrian Potts**
Chief Executive Officer

**David Blain**
Chief Financial Officer

**Applied Graphene Materials plc**
Registered number 08708426
### CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS’ EQUITY

for the year ended 31 July 2019

<table>
<thead>
<tr>
<th></th>
<th>Called up share capital £’000</th>
<th>Share premium account £’000</th>
<th>Merger reserve £’000</th>
<th>Retained earnings £’000</th>
<th>Total equity £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>As at 1 August 2017</td>
<td>446</td>
<td>18,641</td>
<td>1,231</td>
<td>(14,250)</td>
<td>6,068</td>
</tr>
<tr>
<td>Loss for the year and total comprehensive expense</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>(3,499)</td>
<td>(3,499)</td>
</tr>
<tr>
<td>IFRS 2 share based payments</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>177</td>
<td>177</td>
</tr>
<tr>
<td>Issue of shares (net)</td>
<td>543</td>
<td>8,832</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>As at 31 July 2018</td>
<td>989</td>
<td>27,473</td>
<td>1,231</td>
<td>(17,572)</td>
<td>12,121</td>
</tr>
<tr>
<td>Loss for the year and total comprehensive expense</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>(3,927)</td>
<td>(3,927)</td>
</tr>
<tr>
<td>IFRS 2 share based payments</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>294</td>
<td>294</td>
</tr>
<tr>
<td>Issue of shares (net)</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>As at 31 July 2019</td>
<td>989</td>
<td>27,473</td>
<td>1,231</td>
<td>(21,205)</td>
<td>8,488</td>
</tr>
</tbody>
</table>

### COMPANY STATEMENT OF CHANGES IN SHAREHOLDERS’ EQUITY

for the year ended 31 July 2019

<table>
<thead>
<tr>
<th></th>
<th>Called up share capital £’000</th>
<th>Share premium account £’000</th>
<th>Retained earnings £’000</th>
<th>Total equity £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>As at 1 August 2017</td>
<td>446</td>
<td>18,641</td>
<td>1,010</td>
<td>20,097</td>
</tr>
<tr>
<td>Profit for the year and total comprehensive income</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>1,005</td>
</tr>
<tr>
<td>IFRS 2 share based payments</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>177</td>
</tr>
<tr>
<td>Issue of shares (net)</td>
<td>543</td>
<td>8,832</td>
<td>—</td>
<td>9,375</td>
</tr>
<tr>
<td>As at 31 July 2018</td>
<td>989</td>
<td>27,473</td>
<td>2,192</td>
<td>30,654</td>
</tr>
<tr>
<td>Aggregate adjustments on adoption of IFRS 9</td>
<td>—</td>
<td>—</td>
<td>(2,000)</td>
<td>(2,000)</td>
</tr>
<tr>
<td>Balance at 1 August 2018 as restated</td>
<td>989</td>
<td>27,473</td>
<td>192</td>
<td>28,654</td>
</tr>
<tr>
<td>Loss for the year and total comprehensive expense</td>
<td>—</td>
<td>—</td>
<td>(13,872)</td>
<td>(13,872)</td>
</tr>
<tr>
<td>IFRS 2 share based payments</td>
<td>—</td>
<td>—</td>
<td>294</td>
<td>294</td>
</tr>
<tr>
<td>Issue of shares (net)</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>As at 31 July 2019</td>
<td>989</td>
<td>27,473</td>
<td>(13,386)</td>
<td>15,076</td>
</tr>
</tbody>
</table>
## CASH FLOW STATEMENT
for the year ended 31 July 2019

<table>
<thead>
<tr>
<th>Note</th>
<th>Operating activities</th>
<th>Group 2019 £’000</th>
<th>Company 2019 £’000</th>
<th>Group 2018 £’000</th>
<th>Company 2018 £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Net cash used in operations</td>
<td>(4,115)</td>
<td>(215)</td>
<td>(3,321)</td>
<td>(261)</td>
</tr>
<tr>
<td></td>
<td>Corporation tax received</td>
<td>—</td>
<td>69</td>
<td>53</td>
<td>53</td>
</tr>
<tr>
<td></td>
<td>Finance income</td>
<td>69</td>
<td>69</td>
<td>53</td>
<td>53</td>
</tr>
<tr>
<td></td>
<td><strong>Net cash used in operating activities</strong></td>
<td><strong>(4,115)</strong></td>
<td><strong>(215)</strong></td>
<td><strong>(3,321)</strong></td>
<td><strong>(261)</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Investing activities</th>
<th>Group 2019 £’000</th>
<th>Company 2019 £’000</th>
<th>Group 2018 £’000</th>
<th>Company 2018 £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase of intangible assets</td>
<td>(77)</td>
<td>—</td>
<td>(62)</td>
<td>—</td>
</tr>
<tr>
<td>Purchase of property, plant and equipment</td>
<td>(116)</td>
<td>—</td>
<td>(257)</td>
<td>—</td>
</tr>
<tr>
<td><strong>Net cash used in investing activities</strong></td>
<td><strong>(193)</strong></td>
<td><strong>—</strong></td>
<td><strong>(319)</strong></td>
<td><strong>—</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Financing activities</th>
<th>Group 2019 £’000</th>
<th>Company 2019 £’000</th>
<th>Group 2018 £’000</th>
<th>Company 2018 £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans advanced to subsidiary undertakings</td>
<td>—</td>
<td>(4,125)</td>
<td>—</td>
<td>(3,445)</td>
</tr>
<tr>
<td>Net proceeds from issue of Ordinary shares</td>
<td>—</td>
<td>—</td>
<td>9,375</td>
<td>9,375</td>
</tr>
<tr>
<td><strong>Net cash (used in)/generated from financing activities</strong></td>
<td><strong>—</strong></td>
<td><strong>(4,125)</strong></td>
<td><strong>9,375</strong></td>
<td><strong>5,930</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Net (decrease)/increase in net cash and cash deposits</th>
<th>Group 2019 £’000</th>
<th>Company 2019 £’000</th>
<th>Group 2018 £’000</th>
<th>Company 2018 £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net cash and cash deposits at 31 July 2018</td>
<td>10,443</td>
<td>10,177</td>
<td>4,708</td>
<td>4,508</td>
</tr>
<tr>
<td><strong>Net cash and cash deposits at 31 July 2019</strong></td>
<td><strong>6,135</strong></td>
<td><strong>5,837</strong></td>
<td><strong>10,443</strong></td>
<td><strong>10,177</strong></td>
</tr>
</tbody>
</table>

Net cash and cash deposits include:

<table>
<thead>
<tr>
<th>Description</th>
<th>Group 2019 £’000</th>
<th>Company 2019 £’000</th>
<th>Group 2018 £’000</th>
<th>Company 2018 £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash (maturity less than 95 days)</td>
<td>6,135</td>
<td>5,837</td>
<td>10,443</td>
<td>10,177</td>
</tr>
<tr>
<td><strong>Net cash and cash deposits at 31 July 2019</strong></td>
<td><strong>6,135</strong></td>
<td><strong>5,837</strong></td>
<td><strong>10,443</strong></td>
<td><strong>10,177</strong></td>
</tr>
</tbody>
</table>
GROUP AND COMPANY ACCOUNTING POLICIES

General information
The principal activity of Applied Graphene Materials plc (the Company) is that of a holding company for a group of companies which is involved in the manufacture, dispersion and development of applications for graphene. The Company and the Group operates principally in the United Kingdom.

The Company is limited by shares, incorporated and domiciled in the United Kingdom and its registered number is 08708426. The address of the registered office is The Wilton Centre, Redcar, Cleveland TS10 4RF. The Company was incorporated on 27 September 2013.

The Company has elected to take the exemption permitted by Section 408 of the Companies Act 2006 not to present the Parent Company’s income statement.

For the preparation of these consolidated financial statements, the following new or amended standards are mandatory for the first time for the financial year beginning 1 August 2018.

IFRS 15 Revenue from Contracts with Customers (issued in May 2014 and amended for effective date and clarifications in September 2015 and April 2016 respectively), effective for annual periods beginning on or after 1 January 2018 (earlier application permitted), replaces IAS 11, IAS 18 and their Interpretations. It establishes a single and comprehensive framework for revenue recognition to apply consistently across transactions, industries and capital markets, with a core principle (based on a five-step model to be applied to all contracts with customers), enhanced disclosures, and new or improved guidance (e.g. the point at which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract, etc.). The application of IFRS 15 has not had a material impact on the financial statements of the Group or Company.

The Group and Company have applied IFRS 9 Financial Instruments for the first time in the year ended 31 July 2019. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement. The significant changes are set out below.

Comparatives have not been restated for financial instruments derecognised at 1 August 2018, but have otherwise been restated, subject to the transition provisions in IFRS 9.

The classification of financial assets under IFRS 9 is based on whether the contractual cash flows of the instrument are solely payments of principal and interest, and whether the business model is to collect those contractual cash flows and/or sell the financial assets.

There were no changes to the classification and measurement of financial assets on application of IFRS 9. IFRS 9 requires impairments of financial assets to be assessed using an “expected loss” model. The change from the “incurred loss” model previously applied under IAS 39 resulted in an additional impairment loss of £2,000,000 recognised at 1 August 2018, as detailed on page 61.

The application of IFRS 9 has not changed the measurement of the Group’s financial liabilities or the Group’s accounting policies for the recognition or derecognition of financial instruments, other than the Company’s recognition of a provision for expected credit losses on amounts owed by subsidiary undertakings.

The Group has also applied the consequential amendments to IAS 1 Presentation of Financial Instruments and IFRS 7 Financial Instruments: Disclosures on application of IFRS 9.

At the date of authorisation of these financial statements, the following IFRSs, IASs and IFRS IC interpretations were in issue but not yet effective. Their adoption is not expected to have a material effect on the financial statements at this time, but will be considered by the Board going forward:

• IFRS 16 Leases (effective date 1 January 2019);
• IFRS 17 Insurance Contracts (effective date 1 January 2021);
• IFRIC 23 Uncertainty over Income Tax Treatments (effective date 1 January 2019); and
• IAS 28 Sale of Contribution of Assets Between an Investor and its Associates or Joint Venture (effective date 1 January 2019).

Basis of accounting
The consolidated financial statements of the Group have been presented under the historical cost accounting convention, and share based payments at fair value, and in accordance with IFRS as adopted by the European Union, IFRS IC interpretations and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The significant accounting policies set out below have, unless otherwise stated, been applied consistently to all years presented in these financial statements.

The financial statements are prepared in Pounds Sterling, which is also the functional currency. Monetary amounts in the financial statements have been rounded to the nearest £’000.

Going concern
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 the approval of the financial statements. Although the business continued to make losses throughout the year to July 2019, meaningful commercial progress has been made during the year with the development of strong technical data to underpin the product offering, the launch of new water based coating applications and the new products launched by customers. The increased level of commercial products and engagements provides the Directors with reasonable expectations that the Group continues to demonstrate meaningful progress.
Going concern continued
At 31 July 2019, the Company and Group had cash reserves of £5.8 million and £6.1 million respectively. The Directors have prepared cash flow forecasts which show that the Group has sufficient cash on hand to satisfy the continued development of the business until at least 2021 in line with the strategic plan. Furthermore, the Directors have had regard to the consequence of further delays in generating revenue beyond the next twelve months and in this scenario the Directors remain confident that adequate resources are available for the foreseeable future.

As part of the review process, following the year end, the Directors announced the implementation of a restructuring of its operations in order to manage the Group’s cash resources effectively. Further information relating to the restructuring of the business is included in the Chief Executive Officer’s review, the Financial review and note 23 to the financial statements.

On the basis of these forecasts and the resources currently on hand, the Directors have a reasonable expectation 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 the approval of the financial statements. Therefore, the financial statements have been prepared on a going concern basis.

Basis of consolidation
Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Transactions eliminated on consolidation
Intra-group balances and transactions, and any unrealised income and expenses from intra-group transactions, are eliminated.

Foreign currencies
Transactions and balances
Transactions in foreign currencies are recorded at the exchange rates prevailing on the dates of the transactions. Assets and liabilities denominated in foreign currencies are translated into Pounds Sterling at the relevant exchange rates prevailing at the balance sheet date. Exchange gains and losses are taken to the income statement.

Revenue
Revenue is recognised at the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of business and is shown net of value-added tax. The Group primarily earns revenues from the sale of graphene based products and dispersions. Product sales revenues are recognised following dispatch.

Government grants
Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as other income on a systematic basis over the time periods that the costs, which it is intended to compensate, are expensed (including any periods of grant monitoring). Where the grant relates to an asset, it is recognised as deferred income and released in equal amounts over the expected useful life of the related asset (after also taking account of any periods of grant monitoring). Owing to the stage of the Group’s development as a business primarily engaged in research, management attributes this income to the Group’s principal activities and has presented grant income above the gross profit line in the income statement.

Investments
Investments are stated at cost, less any provisions for impairment, which the Directors consider to be a reasonable approximation to fair value.

Intangible assets
Intangible assets are stated at cost less accumulated amortisation and any impairment losses. Intangible assets, which comprise licences and intellectual property, are amortised to the income statement using the straight line method over the shorter of their estimated useful life and period of contractual rights. The estimated useful life and period of contractual rights is expected to be 20 years.

Property, plant and equipment
Property, plant and equipment is stated at cost less accumulated depreciation and any impairment losses. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation is charged so as to write off the costs of assets over their estimated useful lives, on the following basis:

- Plant and machinery: five to ten years straight line
- Fixtures and fittings: five years straight line
- Computer equipment: three years straight line
- Construction in progress: not depreciated

The gain or loss arising on the disposal of an asset is determined as the difference between the sales proceeds and the carrying value of the asset and is recognised in the income statement.

Government grants
Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as other income on a systematic basis over the time periods that the costs, which it is intended to compensate, are expensed (including any periods of grant monitoring). Where the grant relates to an asset, it is recognised as deferred income and released in equal amounts over the expected useful life of the related asset (after also taking account of any periods of grant monitoring). Owing to the stage of the Group’s development as a business primarily engaged in research, management attributes this income to the Group’s principal activities and has presented grant income above the gross profit line in the income statement.

Investments
Investments are stated at cost, less any provisions for impairment, which the Directors consider to be a reasonable approximation to fair value.

Intangible assets
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Property, plant and equipment is stated at cost less accumulated depreciation and any impairment losses. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation is charged so as to write off the costs of assets over their estimated useful lives, on the following basis:

- Plant and machinery: five to ten years straight line
- Fixtures and fittings: five years straight line
- Computer equipment: three years straight line
- Construction in progress: not depreciated

The gain or loss arising on the disposal of an asset is determined as the difference between the sales proceeds and the carrying value of the asset and is recognised in the income statement.
Impairment of non-current assets
At each reporting date, the Group and Company reviews the carrying values of its non-current assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable value of the asset is estimated in order to determine the extent of any impairment loss. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

If the recoverable value of an asset (or cash-generating unit) is estimated to be less than its carrying value, the carrying value of the asset (or cash-generating unit) is reduced to its recoverable value. Any impairment loss identified is immediately recognised in the income statement.

Inventories
Inventories are recognised at the lower of cost and net realisable value. Cost is determined using the first in, first out method. Appropriate provisions for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the assets are impaired.

Financial instruments
The Group classifies its financial assets in the following measurement categories:
• those to be measured subsequently at fair value (either through OCI or through profit or loss); and
• those to be measured at amortised cost.

The classification depends on the entity’s business model for managing the financial assets and the contractual terms of the cash flows. All financial instruments are currently measured at amortised cost.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

Recognition of financial assets and financial liabilities
Financial assets and financial liabilities are recognised on the Group’s balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Derecognition of financial assets and financial liabilities
The Group derecognises a financial asset only when the contractual rights to cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for the amount it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

The Group derecognises financial liabilities when the Group’s obligations are discharged, cancelled or expired.

Measurement
At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Subsequent measurement of debt instruments depends on the Group’s business model for managing the asset and the cash flow characteristics of the asset. Assets that are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

Impairment
The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Trade receivables
Trade receivables are recognised initially at fair value and subsequently measured at amortised cost less provision for impairment. Appropriate provisions for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the assets are impaired.

Intra-group receivables
Intra-group receivables are recognised initially at fair value and subsequently measured at amortised cost less provision for impairment. Appropriate provisions for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the assets are impaired.
Financial instruments continued

Cash
Cash comprises cash on hand, demand deposits and other short term, highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Cash has a maturity period of 95 days or less which are used to meet working capital requirements. The Directors therefore judge it appropriate to treat these as cash.

Trade and other payables
Trade and other payables are initially measured at their fair value and are subsequently measured at their amortised cost using the effective interest rate method. This method allocates interest expense over the relevant period by applying the "effective interest rate" to the carrying amount of the liability.

Share capital
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Share based payments
The Group issues share options to certain employees which are measured at fair value and are recognised as an expense in the income statement with a corresponding increase in retained earnings. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted. The options are equity settled.

The fair value of these payments is measured at the date of each grant using an appropriate option pricing model, and is recognised over the period during which employees become unconditionally entitled to the awards. At each balance sheet date, the Group revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to retained earnings.

Operating leases
Rents payable under operating leases are charged to the income statement on a straight line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed.

Employee benefits
The Group operates a defined contribution pension scheme. Contributions to the defined contribution pension scheme are charged to the income statement in the financial year to which the contributions relate. The contributions paid by the Group and the employees are invested within the individual pension funds in the month following the month of deduction.

Exceptional costs
Items that are both material and non-recurring and whose significance is sufficient to warrant separate disclosure and identification within the consolidated financial statements are referred to as exceptional costs. Such items are disclosed separately within the financial statements.

Research and development
In accordance with IAS 38, it is the Group’s policy to recognise an intangible asset for development of its product once the criteria have been met. Otherwise all costs in the research phase will be recognised in the Group statement of comprehensive income for the period in which they are incurred. Costs that are directly attributable to the development phase of a product are recognised as intangible assets, provided they meet the following recognition requirements:

• completion of the intangible asset is technically feasible so that it will be available for use or sale;
• the Group intends to complete the intangible asset and use or sell it;
• the Group has the ability to use or sell the intangible asset;
• the intangible asset will generate probable future economic benefits. Among other things, this requires that there is a market for the output from the intangible asset or for the intangible asset itself, or, if it is to be used internally, the asset will be used in generating such benefits;
• there are adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
• the expenditure attributable to the intangible asset during its development can be measured reliably.

Development costs not meeting these criteria for capitalisation are expensed as incurred. No development costs have been capitalised to date.

Current and deferred tax
The tax expense or credit represents the sum of the tax currently payable or receivable together with the movement in deferred tax.

The tax currently receivable is based on the taxable loss for the year and includes the benefit of research and development tax credits. Taxable loss differs from the loss before tax as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items of income or expense that are never taxable or deductible. The Group’s receivable for current tax is calculated using tax rates that have been enacted or substantively enacted as at the balance sheet date.

Research and development tax credits for the year are calculated after having taken into account the level of research and development work carried out during the year. There has been an adjustment of £208,000 for 2018 due to the actual level of research and development being higher than what was estimated.
Current and deferred tax continued
Deferred tax is the tax expected to be payable or recoverable on differences between the carrying value of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated with reference to rates that are substantively enacted at the balance sheet date and expected to apply in the year when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the related deferred tax is also dealt with as an addition or reduction in equity.

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

Critical accounting estimates and judgments
The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s and Company’s accounting policies. Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group and Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

The significant judgments and estimates set out below have, unless otherwise stated, been applied consistently to all years presented in these financial statements.

Judgments involving estimation – Group Equity settled share based payments
The estimation of share based payment costs requires the selection of an appropriate valuation option pricing model, consideration as to the inputs necessary for the valuation model chosen, and the estimation of the number of awards that will ultimately vest. Inputs subject to estimation relate to the future volatility of the share price which has been estimated based on the historical observed volatility from trading in the Company’s shares, over a historical period of time between the date of the grant and the date of exercise.

In the current year, management has elected to use the Monte-Carlo model to calculate the fair value of the awards to reflect the reality that the awards include market based performance conditions. The share based payment charge for the period was £294,000 (2018: £177,000) and further disclosure of inputs relevant to the calculations are set out in note 19 to the financial statements.

Research and development tax credits
Research and development tax credits for the year ended 31 July 2019 totalling £700,000 have been calculated using the basis of the prior year detailed computation submitted to HMRC. Estimation is applied in assessing the amount of time allocated to R&D programmes and is used in concluding upon the extent to which the Group's activity will qualify for the enhanced relief. Further disclosures relating to research and development tax credits are included in note 7 to the financial statements.

Impairment of non-current assets
At each reporting date the Directors review the carrying values of the Group’s non-current assets to determine whether there is any indication that those assets have suffered an impairment loss. Having completed this review the Directors have concluded that there is no impairment charge during the year.

In the prior year, the Directors concluded that a disposal charge of £122,000 should be made in relation to a licence agreement which was terminated during the year and patent costs associated with this technology which is no longer being developed following the successful introduction of the A-GNP35 production facility.

In drawing their conclusions on this matter, the Directors have considered the market capitalisation of the Group at 31 July 2019. They note that Group net assets of £8.5 million are substantially below market capitalisation of £15.1 million. On the assumption that market capitalisation is a reliable proxy for fair value, this would suggest that there is no impairment within the Group balance sheet. The carrying value of non-current assets totalled £1,800,000 (2018: £1,959,000) and are disclosed in notes 9 and 10 to the financial statements.

Deferred tax asset
Deferred tax assets and liabilities require management judgment in determining the amounts to be recognised. In particular, judgment is used when assessing the extent to which deferred tax assets should be recognised with consideration given to the timing and level of future taxable income.

In previous years the Group has not recognised a deferred tax asset in relation to the Group’s cumulative tax losses. Having given due consideration to whether it is pertinent to recognise a deferred tax asset the Board has determined that there has been no substantive change in circumstances and as such has concluded that it is not appropriate to recognise a deferred tax asset at this time. The unprovided asset of £1,891,000 (2018: £1,747,000), as included in note 7 to the financial statements, will only be recognised once it is probable that future taxable profits will be available against which the asset can be utilised.
Judgments involving estimation – Group continued

Capitalisation of development costs

The Group’s accounting policy in respect of development costs is set out above. The Directors have exercised their judgment in assessing whether development costs incurred during the year meet the conditions set out in IAS 38. Having carefully considered the expenditure in the year and the current state of development of the business, the Directors have concluded that no such costs should be capitalised as there is currently insufficient evidence that any asset will probably generate future economic benefits. This judgment will be reviewed on an ongoing basis.

Research and development costs totalling £2,285,000 (2018: £2,130,000) have been expensed during the year, as disclosed in note 2 to the financial statements.

Judgments involving estimation – Company only

Recoverability of intercompany receivables

Amounts owed by subsidiary undertakings represent loans made to the Company’s main subsidiary undertaking at a rate of 8% per annum. The gross loan advanced by the Company is £25,587,000. Whilst the loan is legally repayable on demand, the Company has confirmed to the subsidiary undertaking that it does not intend to demand repayment within at least one year.

In accordance with IFRS 9 Financial Instruments, as the subsidiary undertaking cannot repay the loan at the reporting date, the Company has made an assessment of expected credit losses. Having considered multiple scenarios on the manner, timing, quantum and probability of recovery on the receivables, a lifetime expected credit loss (ECL) of £11,197,000 has been provided.

The calculation of the allowance for lifetime expected credit losses requires a significant degree of estimation and judgment, in particular determining the probability weighted likely outcome for each scenario considered. The Directors' assessment of ECL included repayment through future cash flows over time (which are inherently difficult to forecast for the Company at its current stage of development) and also the amount that could be realised through an immediate sale of the subsidiary undertaking. The Directors' assessment of repayment through future cash flows included a scenario where the loan was not recovered in full.

Given the quantum of the provision recorded at 31 July 2019, the outcome is materially sensitive to the key assumptions inherent in the calculation. However, in light of the IAS 36 impairment provision recorded at 31 July 2019 and described below, any change in the recorded ECL provision would be equally offset by an adjustment to the IAS 36 provision and there would be no change in Company net assets.

The carrying value of amounts owned by subsidiary undertakings at 31 July 2019 was £9,209,000 (2018: £20,496,000) and is disclosed in note 13 to the financial statements.

On application of IFRS 9 an adjustment totalling £2,000,000 was made to the opening balance sheet position at 1 August 2018.

Impairment of Parent Company net assets

Following the recording of the expected credit loss described above, the Company’s net assets totalled £21,133,000. This was above the market capitalisation of the Group at 31 July 2019 of £15,076,000. In accordance with IAS 36, the Directors have considered whether this situation was an indicator of impairment and concluded that an impairment review should be performed at 31 July 2019.

In light of the development of the Group in the period, and the delays encountered in respect of making substantive commercial progress with regard to revenue generation, the Directors concluded that value in use calculated in accordance with IAS 36 was lower than fair value. This conclusion was in part due to much of the anticipated revenue growth for the Group being in the longer term and the restrictive nature of growth assumptions permitted by IAS 36 after five years. Accordingly, the Directors have recorded a further IAS 36 impairment provision against the Company balance sheet (as part of amounts owed by subsidiary undertakings) reducing the net assets to the market capitalisation at that date of £15,076,000. The key estimate made by the Directors in this regard relates to the use of market capitalisation as a measure of fair value.
1 Segmental information
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. The Group has one operating segment: the manufacture, dispersion and development of applications for graphene. 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.

The Group currently has one operating segment, as reported revenue for the year is not considered to be of sufficient magnitude to warrant identifying different operating segments. As the business evolves this is an area that will be assessed on a regular basis and additional segmental reporting will be provided at the appropriate time.

There were two significant customers who generated revenue of £9,000 and £5,000 (2018: £46,000 and £4,000).

The Group's revenue per geographic segment based on the customer’s location is as follows:

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>12</td>
<td>54</td>
</tr>
<tr>
<td>Europe</td>
<td>18</td>
<td>12</td>
</tr>
<tr>
<td>Rest of World</td>
<td>20</td>
<td>11</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>50</td>
<td>77</td>
</tr>
</tbody>
</table>

2 Operating loss
Operating loss is stated after charging

<table>
<thead>
<tr>
<th>Operating item</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating leases – land and buildings</td>
<td>232</td>
<td>223</td>
</tr>
<tr>
<td>Wages, salaries, social security, pension costs and IFRS 2 share based payments</td>
<td>3,098</td>
<td>2,850</td>
</tr>
<tr>
<td>Research and development expense*</td>
<td>2,285</td>
<td>2,130</td>
</tr>
<tr>
<td>Depreciation of property, plant and equipment</td>
<td>343</td>
<td>311</td>
</tr>
</tbody>
</table>

* Included within research and development expense are staff costs totalling £1,678,000 (2018: £1,569,000) which are also included as part of wages and salaries included above and in note 3.

The operating loss is stated after charging exceptional costs of £nil (2018: £307,000). Exceptional costs for the previous year principally relate to costs connected to the admission of new shares and the disposal of intangible assets (see note 9).

Services provided by the Group’s auditors
During the year the Group obtained the following services from its auditors at costs as detailed below:

<table>
<thead>
<tr>
<th>Service</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Audit services</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fees payable to the Company’s auditors for the audit of the Company and consolidated financial statements</td>
<td>18</td>
<td>15</td>
</tr>
<tr>
<td>Fees payable to the Company’s auditors for the audit of the Company’s subsidiaries pursuant to legislation</td>
<td>9</td>
<td>8</td>
</tr>
<tr>
<td><strong>Non-audit services</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fees payable to the Company’s auditors and their associates for other services:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- other services</td>
<td>7</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>34</td>
<td>23</td>
</tr>
</tbody>
</table>
3 Directors and employees

The aggregate payroll costs of employees, including Directors, were:

<table>
<thead>
<tr>
<th>Description</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wages and salaries</td>
<td>2,435</td>
<td>2,335</td>
</tr>
<tr>
<td>Social security costs</td>
<td>244</td>
<td>230</td>
</tr>
<tr>
<td>Other pension costs</td>
<td>125</td>
<td>108</td>
</tr>
<tr>
<td>IFRS 2 share based payments</td>
<td>294</td>
<td>177</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>3,098</td>
<td>2,850</td>
</tr>
</tbody>
</table>

All Directors of the Group are employed by the Company, and the Company includes no other employees. The remuneration of the Directors (which forms part of these financial statements) is set out in the Remuneration report on pages 43 and 44.

At 31 July 2019 outstanding pension contributions totalling £13,000 (2018: £12,000) are included in other creditors.

The average number of persons employed by the Group during the year was:

<table>
<thead>
<tr>
<th>Group</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Engineering, technical and production</td>
<td>28</td>
<td>28</td>
</tr>
<tr>
<td>Other</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>Directors</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td><strong>Average monthly number of employees</strong></td>
<td>43</td>
<td>43</td>
</tr>
</tbody>
</table>

4 Other income

<table>
<thead>
<tr>
<th>Description</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other income - grants</td>
<td>74</td>
<td>126</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>74</td>
<td>126</td>
</tr>
</tbody>
</table>

5 Obligations under leases

Minimum future aggregate lease payments under non-cancellable operating leases are as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Group 2019</th>
<th>Group 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating leases which expire</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- not later than one year</td>
<td>157</td>
<td>—</td>
</tr>
<tr>
<td>- one to three years</td>
<td>26</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>183</td>
<td>—</td>
</tr>
</tbody>
</table>

6 Finance income

<table>
<thead>
<tr>
<th>Description</th>
<th>Group 2019</th>
<th>Group 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest receivable on bank deposits</td>
<td>67</td>
<td>57</td>
</tr>
<tr>
<td><strong>Finance income</strong></td>
<td>67</td>
<td>57</td>
</tr>
</tbody>
</table>
### 7 Tax on loss

<table>
<thead>
<tr>
<th></th>
<th>2019 £'000</th>
<th>2018 £'000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current tax</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporation tax:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current year</td>
<td>(700)</td>
<td>(415)</td>
</tr>
<tr>
<td>Adjustments in respect of prior years</td>
<td>(208)</td>
<td>(631)</td>
</tr>
<tr>
<td><strong>Total current tax</strong></td>
<td>(908)</td>
<td>(1,046)</td>
</tr>
<tr>
<td><strong>Deferred tax</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>UK deferred tax</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Adjustments in respect of prior years</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total deferred tax</strong></td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>(908)</td>
<td>(1,046)</td>
</tr>
</tbody>
</table>

The tax assessed for the year is the same (2018: lower) as the UK corporation tax rate of 19% (2018: 19%). The tax on the Group’s loss before tax differs from the theoretical amount that would arise using the weighted average tax rate as follows:

<table>
<thead>
<tr>
<th></th>
<th>2019 £'000</th>
<th>2018 £'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loss before tax</td>
<td>(4,835)</td>
<td>(4,545)</td>
</tr>
<tr>
<td>Tax at the UK corporation tax rate</td>
<td>(919)</td>
<td>(864)</td>
</tr>
<tr>
<td>Expenses not deductible for tax purposes</td>
<td>58</td>
<td>91</td>
</tr>
<tr>
<td>R&amp;D tax expenditure</td>
<td>412</td>
<td>237</td>
</tr>
<tr>
<td>Movements on unrecognised deferred tax balances</td>
<td>384</td>
<td>477</td>
</tr>
<tr>
<td>R&amp;D tax credits provision in respect of prior year</td>
<td>(208)</td>
<td>(631)</td>
</tr>
<tr>
<td>R&amp;D tax credit provision in respect of current year</td>
<td>(700)</td>
<td>(415)</td>
</tr>
<tr>
<td>Other timing differences</td>
<td>65</td>
<td>59</td>
</tr>
<tr>
<td><strong>Tax credit for the year</strong></td>
<td>(908)</td>
<td>(1,046)</td>
</tr>
</tbody>
</table>

Other timing differences relate to permanent and timing differences which are not allowable for taxation purposes.

Deferred tax assets totalling approximately £1,891,000 (2018: £1,747,000) have not been recognised.

A change to the UK corporation tax rate was announced in the Chancellor’s Budget on 16 March 2016. The change announced is to reduce the main rate to 17% from 1 April 2020. Changes to reduce the UK corporation tax rate to 19% from 1 April 2017 and to 18% from 1 April 2020 had already been substantively enacted on 26 October 2015.

The R&D tax asset at 31 July 2019 of £1,323,000 includes £623,000 in respect of the financial year ending July 2018, which was received in August 2019, and £700,000 in respect of the current financial year.

### 8 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:

<table>
<thead>
<tr>
<th></th>
<th>2019 million</th>
<th>2018 million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weighted average number of shares for basic earnings per share</td>
<td>49.4</td>
<td>42.7</td>
</tr>
</tbody>
</table>

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.
8 Earnings per share continued
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:

<table>
<thead>
<tr>
<th></th>
<th>2019 '000</th>
<th>2018 '000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic earnings</td>
<td>(3,927)</td>
<td>(3,499)</td>
</tr>
<tr>
<td>Exceptional costs</td>
<td>—</td>
<td>307</td>
</tr>
<tr>
<td>Adjusted earnings</td>
<td>(3,927)</td>
<td>(3,192)</td>
</tr>
</tbody>
</table>

Earnings per share (pence per share)

<table>
<thead>
<tr>
<th></th>
<th>Basic</th>
<th>Diluted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic earnings</td>
<td>(7.9)</td>
<td>(7.9)</td>
</tr>
<tr>
<td>Adjusted earnings</td>
<td>(7.9)</td>
<td>(7.5)</td>
</tr>
</tbody>
</table>

The Group was loss making for the years ended 31 July 2018 and 31 July 2019; 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.

9 Intangible assets

<table>
<thead>
<tr>
<th>Group</th>
<th>Licences '000</th>
<th>Intellectual property '000</th>
<th>Total '000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 1 August 2017</td>
<td>118</td>
<td>20</td>
<td>138</td>
</tr>
<tr>
<td>Additions</td>
<td>4</td>
<td>58</td>
<td>62</td>
</tr>
<tr>
<td>Disposal</td>
<td>(122)</td>
<td>—</td>
<td>(122)</td>
</tr>
<tr>
<td>At 31 July 2018</td>
<td>—</td>
<td>78</td>
<td>78</td>
</tr>
<tr>
<td>Additions</td>
<td>—</td>
<td>77</td>
<td>77</td>
</tr>
<tr>
<td>At 31 July 2019</td>
<td>—</td>
<td>155</td>
<td>155</td>
</tr>
</tbody>
</table>

Accumulated amortisation

| At 1 August 2017 | — | — | — |
| Charge for the year | — | — | — |
| At 31 July 2018  | — | — | — |
| Charge for the year | — | — | — |

Net book value

| At 31 July 2019 | — | 155 | 155 |
| At 31 July 2018 | — | 78  | 78  |

The intellectual property is in relation to patent costs. These patents that have not yet been granted; therefore, no amortisation has been charged in relation to these for the year.

Disposal costs in the prior year relate to licence fees and patents costs in connection with a technology no longer being developed following the introduction of the A-GNP35 production facility.

The Company had no intangible assets in the year ended 31 July 2018 and the year ended 31 July 2019.
## 10 Property, plant and equipment

<table>
<thead>
<tr>
<th>Group</th>
<th>Fixtures and fittings £’000</th>
<th>Plant and machinery £’000</th>
<th>Computer equipment £’000</th>
<th>Construction in progress £’000</th>
<th>Total £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cost</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 1 August 2017</td>
<td>47</td>
<td>1,843</td>
<td>43</td>
<td>577</td>
<td>2,510</td>
</tr>
<tr>
<td>Additions</td>
<td>5</td>
<td>25</td>
<td>4</td>
<td>223</td>
<td>257</td>
</tr>
<tr>
<td>Transfers</td>
<td></td>
<td>144</td>
<td></td>
<td>(144)</td>
<td></td>
</tr>
<tr>
<td>Disposals</td>
<td></td>
<td>(1)</td>
<td>(3)</td>
<td></td>
<td>(4)</td>
</tr>
<tr>
<td>At 31 July 2018</td>
<td>52</td>
<td>2,011</td>
<td>44</td>
<td>656</td>
<td>2,763</td>
</tr>
<tr>
<td>Additions</td>
<td>25</td>
<td>77</td>
<td>2</td>
<td>12</td>
<td>116</td>
</tr>
<tr>
<td>Transfers</td>
<td></td>
<td>668</td>
<td></td>
<td>(668)</td>
<td></td>
</tr>
<tr>
<td>Disposals</td>
<td></td>
<td>(12)</td>
<td>(1)</td>
<td></td>
<td>(13)</td>
</tr>
<tr>
<td><strong>At 31 July 2019</strong></td>
<td>77</td>
<td>2,744</td>
<td>45</td>
<td></td>
<td>2,866</td>
</tr>
<tr>
<td><strong>Accumulated depreciation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 1 August 2017</td>
<td>(20)</td>
<td>(515)</td>
<td>(39)</td>
<td></td>
<td>(574)</td>
</tr>
<tr>
<td>Charge for the year</td>
<td>(10)</td>
<td>(297)</td>
<td>(4)</td>
<td></td>
<td>(311)</td>
</tr>
<tr>
<td>Disposals</td>
<td></td>
<td>—</td>
<td>3</td>
<td></td>
<td>3</td>
</tr>
<tr>
<td>At 31 July 2018</td>
<td>(30)</td>
<td>(812)</td>
<td>(40)</td>
<td></td>
<td>(882)</td>
</tr>
<tr>
<td>Charge for the year</td>
<td>(13)</td>
<td>(327)</td>
<td>(3)</td>
<td></td>
<td>(343)</td>
</tr>
<tr>
<td>Disposals</td>
<td></td>
<td>—</td>
<td>1</td>
<td></td>
<td>4</td>
</tr>
<tr>
<td><strong>At 31 July 2019</strong></td>
<td>(43)</td>
<td>(1,136)</td>
<td>(42)</td>
<td></td>
<td>1,221</td>
</tr>
<tr>
<td><strong>Net book value</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 31 July 2019</td>
<td>34</td>
<td>1,608</td>
<td>3</td>
<td></td>
<td>1,645</td>
</tr>
<tr>
<td>At 31 July 2018</td>
<td>22</td>
<td>1,199</td>
<td>4</td>
<td>656</td>
<td>1,881</td>
</tr>
</tbody>
</table>

The Company had no property, plant and equipment in the year ended 31 July 2018 and the year ended 31 July 2019.

## 11 Investments

### Company

<table>
<thead>
<tr>
<th>Investment in subsidiaries £’000</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cost</strong></td>
<td></td>
</tr>
<tr>
<td>At 1 August 2017</td>
<td>196</td>
</tr>
<tr>
<td>IFRS 2 share based payments relating to subsidiary undertakings</td>
<td>121</td>
</tr>
<tr>
<td>IFRS 2 share based payments recharged to subsidiary undertakings</td>
<td>(121)</td>
</tr>
<tr>
<td>At 31 July 2018</td>
<td>196</td>
</tr>
<tr>
<td>IFRS 2 share based payments relating to subsidiary undertakings</td>
<td>262</td>
</tr>
<tr>
<td>IFRS 2 share based payments recharged to subsidiary undertakings</td>
<td>(262)</td>
</tr>
<tr>
<td><strong>At 31 July 2019</strong></td>
<td>196</td>
</tr>
<tr>
<td><strong>Provisions</strong></td>
<td></td>
</tr>
<tr>
<td>At 1 August 2017</td>
<td></td>
</tr>
<tr>
<td>At 31 July 2018</td>
<td></td>
</tr>
<tr>
<td><strong>At 31 July 2019</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Net book value</strong></td>
<td></td>
</tr>
<tr>
<td>At 31 July 2019</td>
<td>196</td>
</tr>
<tr>
<td>At 31 July 2018</td>
<td>196</td>
</tr>
</tbody>
</table>
11 Investments continued
At 31 July 2019 the Company held more than 20% of the allotted share capital of the following subsidiary undertakings:

<table>
<thead>
<tr>
<th>Country of incorporation</th>
<th>Class of share capital</th>
<th>Proportion held by Parent Company</th>
<th>Nature of business</th>
</tr>
</thead>
<tbody>
<tr>
<td>Applied Graphene Materials UK Limited, Office 2, Innovation Centre, Wilton Site, Redcar, Cleveland TS10 4RF</td>
<td>England</td>
<td>Ordinary</td>
<td>100%</td>
</tr>
<tr>
<td>Applied Graphene Ventures Limited, The Wilton Centre, Wilton, Redcar, Cleveland TS10 4RF</td>
<td>England</td>
<td>Ordinary</td>
<td>100%</td>
</tr>
</tbody>
</table>

12 Inventories

<table>
<thead>
<tr>
<th>Group</th>
<th>2019 £'000</th>
<th>2018 £'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finished goods</td>
<td>12</td>
<td>20</td>
</tr>
<tr>
<td>Spares</td>
<td>40</td>
<td>36</td>
</tr>
<tr>
<td>Total</td>
<td>52</td>
<td>56</td>
</tr>
</tbody>
</table>

The Directors believe that the carrying value of inventories is exceeded by their net realisable value.

The amount of inventories recognised as an expense during the year was £61,000 (2018: £31,000).

13 Trade and other receivables

<table>
<thead>
<tr>
<th>Group 2019 £'000</th>
<th>Company 2019 £'000</th>
<th>Group 2018 £'000</th>
<th>Company 2018 £'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amounts owed by subsidiary undertakings</td>
<td>—</td>
<td>9,209</td>
<td>—</td>
</tr>
<tr>
<td>Trade receivables</td>
<td>3</td>
<td>—</td>
<td>7</td>
</tr>
<tr>
<td>Other debtors</td>
<td>26</td>
<td>5</td>
<td>30</td>
</tr>
<tr>
<td>Prepayments and accrued income</td>
<td>142</td>
<td>70</td>
<td>160</td>
</tr>
<tr>
<td>Total</td>
<td>171</td>
<td>9,284</td>
<td>197</td>
</tr>
<tr>
<td>Non-current</td>
<td>—</td>
<td>8,332</td>
<td>—</td>
</tr>
<tr>
<td>Current</td>
<td>171</td>
<td>952</td>
<td>197</td>
</tr>
<tr>
<td>Total</td>
<td>171</td>
<td>9,284</td>
<td>197</td>
</tr>
</tbody>
</table>

Contractual payment terms with the Group’s customers are typically 30 days. There are no provisions for impairment losses in respect of trade and other receivables.

The Directors believe that the carrying value of trade and other receivables represents their fair value. In determining the recoverability of trade receivables the Group considers any change in the credit quality of the receivable from the date credit was granted up to the reporting date. For details on the Group’s credit risk management policies, refer to note 15. The carrying amounts of the Group’s receivables are all denominated in Pounds Sterling.

All classes within trade and other receivables do not contain assets which are considered to be impaired. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

The amounts owed by subsidiary undertakings include a loan to Applied Graphene Materials UK Limited for £25,587,000 (2018: £19,732,000) which accrues interest at a rate of 8% per annum, and is payable on the date of repayment or prepayment of the loan in full. The loan is repayable, in full, on demand by the Parent Company. The Parent Company has confirmed that it does not intend to seek repayment of the loan balance for at least twelve months from the date of these financial statements, other than in a change of control event. The intercompany loan has been impaired by £11,197,000 (2018: £2,000,000) under IFRS 9 and £6,057,000 (2018: £nil) under IAS 36. See page 61 for further details.

£877,000 (2018: £764,000) of the balance relates to trade debt to Applied Graphene Materials UK Limited, which does not accrue interest and is repayable, in full, on demand by the Parent Company.
14 Trade and other payables

<table>
<thead>
<tr>
<th></th>
<th>Group 2019 £'000</th>
<th>Company 2019 £'000</th>
<th>Group 2018 £'000</th>
<th>Company 2018 £'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amounts owed by subsidiary undertakings</td>
<td>—</td>
<td>—</td>
<td>55</td>
<td></td>
</tr>
<tr>
<td>Trade payables</td>
<td>229</td>
<td>34</td>
<td>235</td>
<td>47</td>
</tr>
<tr>
<td>Other tax and social security</td>
<td>62</td>
<td>15</td>
<td>44</td>
<td>8</td>
</tr>
<tr>
<td>Accruals and deferred income</td>
<td>689</td>
<td>192</td>
<td>656</td>
<td>171</td>
</tr>
<tr>
<td>Other creditors</td>
<td>13</td>
<td>—</td>
<td>14</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>993</strong></td>
<td><strong>241</strong></td>
<td><strong>949</strong></td>
<td><strong>283</strong></td>
</tr>
</tbody>
</table>

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. They are non-interest bearing and are normally settled on 30 to 45 day terms (2018: 30 to 45 days).

The Directors consider that the carrying value of trade and other payables approximates to their fair value. All trade and other payables are denominated in Pounds Sterling.

The Group has financial risk management policies in place to ensure that all payables are paid within the credit time frame and no interest has been charged by any suppliers as a result of late payment of invoices during the year.

In the prior year, the amounts owed to subsidiary undertakings relate to a payment owing to Applied Graphene Materials UK Limited, which does not accrue interest and is payable, in full, on demand by the subsidiary.

15 Financial instruments

The Group and Company are exposed to the risks that arise from their use of financial instruments. This note describes the objectives, policies and processes of the Group for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders. The Group is funded principally by equity. The capital structure of the Group consists of equity, comprising issued share capital. The Group has no externally imposed capital requirements.

In order to maintain or adjust the capital structure, the Group may return capital to shareholders or issue new shares.

Principal financial instruments

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

- trade and other receivables;
- trade and other payables;
- cash; and
- cash deposits.

Financial assets

At the reporting date, the Group held the following financial assets which represent the maximum risk exposure:

<table>
<thead>
<tr>
<th></th>
<th>Group 2019 £'000</th>
<th>Company 2019 £'000</th>
<th>Group 2018 £'000</th>
<th>Company 2018 £'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>6,135</td>
<td>5,837</td>
<td>10,443</td>
<td>10,177</td>
</tr>
<tr>
<td>Trade receivables</td>
<td>3</td>
<td>—</td>
<td>7</td>
<td>—</td>
</tr>
<tr>
<td>Amounts owed by subsidiary</td>
<td>—</td>
<td>877</td>
<td>—</td>
<td>764</td>
</tr>
<tr>
<td>Other receivables</td>
<td>26</td>
<td>5</td>
<td>30</td>
<td>5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>6,164</strong></td>
<td><strong>6,719</strong></td>
<td><strong>10,480</strong></td>
<td><strong>10,946</strong></td>
</tr>
</tbody>
</table>

Financial liabilities

At the reporting date, the Group held the following financial liabilities, all of which were classified as other financial liabilities:

<table>
<thead>
<tr>
<th></th>
<th>Group 2019 £'000</th>
<th>Company 2019 £'000</th>
<th>Group 2018 £'000</th>
<th>Company 2018 £'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade payables</td>
<td>229</td>
<td>34</td>
<td>235</td>
<td>47</td>
</tr>
<tr>
<td>Other payables</td>
<td>702</td>
<td>192</td>
<td>670</td>
<td>227</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>931</strong></td>
<td><strong>226</strong></td>
<td><strong>905</strong></td>
<td><strong>274</strong></td>
</tr>
</tbody>
</table>
15 Financial instruments continued

Market risk
The Group’s activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. During the year, both these risks were considered to have been minimal.

Credit risk
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Credit risk arises principally from the Group’s cash balances and trade and other receivables. The concentration of the Group’s credit risk is considered by counterparty, geography and currency.

The Group gives careful consideration to which organisation it uses for its banking services in order to minimise credit risk. The Group has significant concentrations of cash, which it has placed on deposit with four institutions, each of which has a minimum credit rating of A (long term, as assessed by Standard & Poor’s). At the year end, the cash and cash deposits at each reporting date were denominated in the following currencies:

<table>
<thead>
<tr>
<th>Currency</th>
<th>Group 2019 £’000</th>
<th>Company 2019 £’000</th>
<th>Group 2018 £’000</th>
<th>Company 2018 £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pounds Sterling</td>
<td>6,115</td>
<td>5,837</td>
<td>10,428</td>
<td>10,177</td>
</tr>
<tr>
<td>US Dollar</td>
<td>9</td>
<td>—</td>
<td>8</td>
<td>—</td>
</tr>
<tr>
<td>Euro</td>
<td>11</td>
<td>—</td>
<td>7</td>
<td>—</td>
</tr>
</tbody>
</table>

The nature of the Group’s business and the current stage of its development are such that individual customers can comprise a significant proportion of its trade and other receivables at any point in time. The Group mitigates the associated risk by close monitoring of the debtor ledger.

At 31 July 2019, the Group’s trade receivables balance was £3,000 (2018: £7,000). The carrying amount of financial assets recorded during the year represents the Group’s maximum exposure to credit risk without taking account of the value of any collateral obtained. In the Directors’ opinion, there has been no impairment of any Group financial assets at any point during the year.

No collateral is held by the Group as security in relation to its financial assets.

Liquidity risk management
Liquidity risk is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due. Ultimate responsibility for liquidity risk management rests with the Directors. The Directors manage liquidity risk by regularly reviewing the Group’s cash requirements by reference to short term cash flow forecasts and medium term working capital projections.

At 31 July 2019, the Group had £6,135,000 (2018: £10,443,000) of cash and cash deposit reserves.

Foreign currency risk management
The Group’s exposure to foreign currency risk is limited since the vast majority of its invoicing and the majority of its payments are in Pounds Sterling. There are minimal balances held in foreign currencies at each reporting date and the Group has made no payments in foreign currencies other than US Dollar and Euro. Accordingly, no sensitivity analysis has been presented as this is immaterial.

Interest rate risk management
The Group’s exposure to interest rate risk is limited since the Group has no debt, and there is little movement on deposit interest rates. Accordingly, no sensitivity analysis has been presented since this is immaterial.

Maturity of financial assets and liabilities
All of the Group’s non-derivative financial liabilities and its financial assets at each reporting date are either payable or receivable within one year.

16 Called up share capital

<table>
<thead>
<tr>
<th>Allotted, called up and fully paid</th>
<th>Number of Ordinary shares</th>
<th>Total £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>At 1 August 2017 – Ordinary shares of 2 pence each</td>
<td>22,290,763</td>
<td>446</td>
</tr>
<tr>
<td>Issue on 31 October 2017</td>
<td>27,138,617</td>
<td>543</td>
</tr>
<tr>
<td>At 31 July 2018 – Ordinary shares of 2 pence each</td>
<td>49,429,380</td>
<td>989</td>
</tr>
<tr>
<td>Issue of shares</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>At 31 July 2019 – Ordinary shares of 2 pence each</td>
<td>49,429,380</td>
<td>989</td>
</tr>
</tbody>
</table>

On 31 October 2017, 27,138,617 Ordinary shares of 2 pence each were issued at a price of £0.36 per share to institutional and other investors.
17 Share premium account

<table>
<thead>
<tr>
<th></th>
<th>£’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>At 1 August 2017</td>
<td>18,641</td>
</tr>
<tr>
<td>Issue of shares (net)</td>
<td>8,832</td>
</tr>
<tr>
<td>At 31 July 2018</td>
<td>27,473</td>
</tr>
<tr>
<td>Issue of shares (net)</td>
<td>—</td>
</tr>
<tr>
<td><strong>At 31 July 2019</strong></td>
<td><strong>27,473</strong></td>
</tr>
</tbody>
</table>

The share premium comprises the excess value recognised from the issue of Ordinary shares for consideration above par value.

18 Merger reserve

<table>
<thead>
<tr>
<th></th>
<th>£’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>At 1 August 2017</td>
<td>1,231</td>
</tr>
<tr>
<td>Movement in the year</td>
<td>—</td>
</tr>
<tr>
<td>At 31 July 2018</td>
<td>1,231</td>
</tr>
<tr>
<td>Movement in the year</td>
<td>—</td>
</tr>
<tr>
<td><strong>At 31 July 2019</strong></td>
<td><strong>1,231</strong></td>
</tr>
</tbody>
</table>

The merger reserve is a non-distributable reserve that arose through the application of merger relief to the shares issued in 2013 in connection with the acquisition of Applied Graphene Materials UK Limited.

19 Share based payments

The Group operates a number of employee share option schemes, which run over a number of different time periods to reflect when awards have been made to Directors and employees. These schemes include:

• SAYE;
• non-approved executive options; and
• EMI.

The Group’s SAYE scheme is open to UK employees of the Group and is not subject to any performance conditions. SAYE takes the form of a monthly savings contract over a three year term, at the end of which participants have the opportunity to acquire shares in the Company at the option price determined at the date of grant.

During the year, the Group has recorded an IFRS 2 charge of £294,000 (2018: £177,000). The majority of the current year charge is derived from three awards made; the fair value of options and significant assumptions used in the calculation of the Group’s IFRS 2 charge were as follows:

<table>
<thead>
<tr>
<th>Grant date</th>
<th>31 January 2019</th>
<th>19 July 2018</th>
<th>30 March 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scheme</td>
<td>EMI/non-approved</td>
<td>EMI/non-approved</td>
<td>EMI/non-approved</td>
</tr>
<tr>
<td>Share price at date of grant (£)</td>
<td>£0.32</td>
<td>£0.38</td>
<td>£1.56</td>
</tr>
<tr>
<td>Exercise price (£)</td>
<td>Enil</td>
<td>Enil</td>
<td>Enil</td>
</tr>
<tr>
<td>Number of participants</td>
<td>3</td>
<td>9</td>
<td>10</td>
</tr>
<tr>
<td>Shares under option</td>
<td>901,164</td>
<td>883,810</td>
<td>292,550</td>
</tr>
<tr>
<td>Vesting period (years)</td>
<td>2.8</td>
<td>2.4</td>
<td>2.7</td>
</tr>
<tr>
<td>Expected volatility (%)</td>
<td>56%</td>
<td>56%</td>
<td>59%</td>
</tr>
<tr>
<td>Option life (years)</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Expected life (years)</td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Risk free rate (%)</td>
<td>0.77%</td>
<td>0.71%</td>
<td>0.14%</td>
</tr>
<tr>
<td>Expected dividend yield (%)</td>
<td>Nil</td>
<td>Nil</td>
<td>Nil</td>
</tr>
<tr>
<td>Fair value per option (£)</td>
<td>£0.20</td>
<td>£0.23</td>
<td>£1.13</td>
</tr>
<tr>
<td>Valuation model</td>
<td>Monte-Carlo</td>
<td>Monte-Carlo</td>
<td>Monte-Carlo</td>
</tr>
</tbody>
</table>

The expected volatility is based on the historical observed volatility from trading in the Company’s shares, over a historical period of time between the date of the grant and the date of exercise. The expected life is the average expected period to exercise. The risk free rate of return is the implied yield on zero coupon UK government bonds as at each grant date, with a maturity equal to the expected life of the option. Certain awards will only vest in full if specific performance criteria set out in the Remuneration report are met. For non-market based performance criteria, the Directors have made their best estimate of the number of options that will ultimately vest.
19 Share based payments continued
A reconciliation of option movements over the year to 31 July 2019 is shown below:

<table>
<thead>
<tr>
<th></th>
<th>2019 Weighted average exercise price</th>
<th>2019 Number</th>
<th>2018 Weighted average exercise price</th>
<th>2018 Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>At 1 August 2018</td>
<td></td>
<td>3,464,602</td>
<td>0.18</td>
<td>1,810,194</td>
</tr>
<tr>
<td>Granted</td>
<td></td>
<td>2,044,881</td>
<td>0.12</td>
<td>2,064,353</td>
</tr>
<tr>
<td>Forfeited and lapsed</td>
<td></td>
<td>(495,562)</td>
<td>0.24</td>
<td>(261,854)</td>
</tr>
<tr>
<td>Cancelled</td>
<td></td>
<td>(991,011)</td>
<td>0.18</td>
<td>(148,091)</td>
</tr>
<tr>
<td>Exercised</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Outstanding at 31 July 2019</td>
<td></td>
<td>4,022,910</td>
<td>0.14</td>
<td>3,464,602</td>
</tr>
<tr>
<td>Exercisable at 31 July 2019</td>
<td></td>
<td>591,324</td>
<td>0.43</td>
<td>934,962</td>
</tr>
</tbody>
</table>

The weighted average exercise price of options granted in the year was £0.12 (2018: £0.09). No options were exercised in the year. Options are exercisable at prices ranging between £nil and £1.55. The contractual life of options is generally ten years, which includes a vesting period with performance conditions (other than for the Group’s SAYE scheme, where no performance conditions exist).

20 Related party transactions
Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

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

<table>
<thead>
<tr>
<th></th>
<th>2019 £’000</th>
<th>2018 £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Durham University (shareholder)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Staff secondment, consultancy and other fees</td>
<td>33</td>
<td>(4)</td>
</tr>
<tr>
<td>Top Technology Limited (controlled by shareholder)</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>Non-Executive Director fees</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>IP2IPO (shareholder)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-Executive Director expenses</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>2019 £’000</th>
<th>2018 £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Durham University</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Top Technology Limited</td>
<td>5</td>
<td>5</td>
</tr>
</tbody>
</table>
20 Related party transactions continued

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:

<table>
<thead>
<tr>
<th></th>
<th>2019 £’000</th>
<th>2018 £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short term employee benefits (excluding bonuses)</td>
<td>746</td>
<td>705</td>
</tr>
<tr>
<td>Bonuses</td>
<td>181</td>
<td>100</td>
</tr>
<tr>
<td>National Insurance contributions</td>
<td>103</td>
<td>82</td>
</tr>
<tr>
<td>Pension contributions</td>
<td>47</td>
<td>48</td>
</tr>
<tr>
<td>Payments to third parties</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>IFRS 2 share based payments</td>
<td>167</td>
<td>84</td>
</tr>
<tr>
<td></td>
<td>1,259</td>
<td>1,034</td>
</tr>
</tbody>
</table>

Remuneration of key management includes remuneration paid by subsidiary undertakings in the current and prior financial years. At 31 July 2019 £1,000 was owed to Adrian Potts in respect of business expenses incurred.

21 Cash flow statement

Net cash generated from operations

<table>
<thead>
<tr>
<th>Continuing operations</th>
<th>Group 2019 £’000</th>
<th>Company 2019 £’000</th>
<th>Group 2018 £’000</th>
<th>Company 2018 £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loss for the year attributable to equity shareholders</td>
<td>(3,927)</td>
<td>(13,872)</td>
<td>(3,499)</td>
<td>1,005</td>
</tr>
<tr>
<td>Tax credit</td>
<td>(908)</td>
<td>—</td>
<td>(1,046)</td>
<td>—</td>
</tr>
<tr>
<td>Finance income</td>
<td>(67)</td>
<td>(1,797)</td>
<td>(57)</td>
<td>(1,422)</td>
</tr>
<tr>
<td>Depreciation of property, plant and equipment</td>
<td>343</td>
<td>—</td>
<td>311</td>
<td>—</td>
</tr>
<tr>
<td>Exceptional costs</td>
<td>—</td>
<td>—</td>
<td>307</td>
<td>185</td>
</tr>
<tr>
<td>EBITDA</td>
<td>(4,559)</td>
<td>(15,669)</td>
<td>(3,984)</td>
<td>(232)</td>
</tr>
<tr>
<td>Depreciation of property, plant and equipment</td>
<td>(343)</td>
<td>—</td>
<td>(311)</td>
<td>—</td>
</tr>
<tr>
<td>Exceptional costs</td>
<td>—</td>
<td>—</td>
<td>(307)</td>
<td>(185)</td>
</tr>
<tr>
<td>Operating loss</td>
<td>(4,902)</td>
<td>(15,669)</td>
<td>(4,602)</td>
<td>(417)</td>
</tr>
<tr>
<td>Depreciation of property, plant and equipment</td>
<td>343</td>
<td>—</td>
<td>311</td>
<td>—</td>
</tr>
<tr>
<td>Disposal of property, plant and equipment</td>
<td>9</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Disposal of intangible assets</td>
<td>—</td>
<td>—</td>
<td>121</td>
<td>—</td>
</tr>
<tr>
<td>IFRS 2 share based payments</td>
<td>294</td>
<td>294</td>
<td>177</td>
<td>177</td>
</tr>
<tr>
<td>Impairment of intercompany loan</td>
<td>—</td>
<td>15,255</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Increase/(decrease) in inventories</td>
<td>4</td>
<td>—</td>
<td>(10)</td>
<td>—</td>
</tr>
<tr>
<td>Decrease/(increase) in receivables</td>
<td>24</td>
<td>(123)</td>
<td>(96)</td>
<td>(98)</td>
</tr>
<tr>
<td>Increase/(decrease) in payables</td>
<td>44</td>
<td>(41)</td>
<td>94</td>
<td>24</td>
</tr>
<tr>
<td>Net cash used in operations</td>
<td>(4,184)</td>
<td>(284)</td>
<td>(4,005)</td>
<td>(314)</td>
</tr>
</tbody>
</table>

22 Availability of Annual Report

It is anticipated that the Annual Report will be sent to all shareholders on 11 November 2019. Copies may be obtained from the Company Secretary at the registered office of the Company.

23 Post balance sheet events

As set out in the CEO’s statement, the Company has recently entered into a period of consultation with staff regarding a realigning of the Company’s activities and reduction in costs. Whilst the full financial effect of these changes will not be achieved immediately due to the costs of implementation, the cash operating cost base of the Company of £4.3 million in the year to 31 July 2019 is forecast to fall by circa £0.9 million and £1.1 million for the years ending 31 July 2020 and 2021 respectively. Subject to consultation, there is expected to be a cash cost of circa £0.2 million to implement the restructuring.
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