17 March 2015

Haydale Graphene Industries plc
(“Haydale”, the “Company”, or the “Group”)

Half Yearly Report for the six months ended 31 December 2014

Haydale (AIM: HAYD), the Group focused on the commercialisation of graphene and other nano particle products using their proprietary plasma process, announces its unaudited results for the six months ended 31 December 2014. Haydale’s HDPlas® plasma technology provides a rapid and highly cost-efficient method of supplying tailored solutions for both raw material suppliers and product manufacturers.

Operational Highlights

- Acquisition of EPL Composite Solutions Limited (“EPL”) who design, develop, and commercialise advanced composite polymer materials. EPL offers the Group an immediate access to the growing composite market for graphene;
- Innovative commercial agreement with the Welsh Centre for Printing and Coating (“WCPC”) for the development and commercialisation of electronic ink;
- Established marketing and distribution partners with commercial agents in USA and Far East plus specialist web based supplier Goodfellow; and
- Successful factory acceptance test and commissioning of new second generation plasma reactor offering greater control, precision, processing flexibility and improved performance.

Post Period End Events

- Delivery of two more R&D plasma reactors and a larger capacity technology demonstrator (HD200);
- EPL awarded £261,000 Regional Growth Fund (“RGF”) grant;
- Exclusive 5-year commercial agreement with Swansea University to acquire their internally funded research projects which produce prototype applications using a range of Haydale materials, the first of which is a flexible, large area, intelligent pressure sensor; and
- Commercial collaboration with Alex Thomson Racing to develop graphene enabled composite solutions for their current and future designed Hugo Boss sponsored extreme racing boat.

Financial Summary

- Total Income (comprising revenue and other income) increased significantly to £0.48 million (1H 2013/14: £0.06 million);
- Like for like Total Income (before Income from EPL) doubled to £0.12 million;
- Loss per share in the period of 14p (1H 2013/14: 9p per share);
- Capital expenditure of £0.6 million on plant and machinery to increase capacity (1H 2013/14: £0.02 million); and
- Cash balance at period end of £4.0 million (30 June 2014: £5.7 million).

Commenting on the results Ray Gibbs, CEO of Haydale, said:

“Haydale continues to carry out the strategic aims as set out in our 2014 annual report as we begin to exploit the commercial and technical momentum started in the second half of the previous financial year. The period under review has been dominated by a number of significant events; most importantly the acquisition of EPL in early November 2014 which provides the Group with direct access to the early adopting, substantial and innovative composite market, already worth in excess of £10 billion per annum globally.

The commercial agreements reached with agents in both the USA and Far East have already started to show excellent progress following sustained product sampling in the period. To ensure we can satisfy predicted demand, we have procured a suite of new second generation plasma reactors that have been commissioned and are producing outstanding results. The build quality, engineering and subsequent performance from these second-generation reactors are significant improvements on our original units.

The remainder of the year will see our efforts focussed on generating commercial revenues and the commissioning of our latest large scale HD200 reactor."

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Introduction

I am delighted to present the first interim results of the Group for the six months ended 31 December 2014, following our AIM IPO in April 2014 and first annual report to 30 June 2014. There have been a number of key events in this period and none more so than the acquisition of EPL on 3 November 2014 (the "Acquisition").

EPL- an integrated package for a rapid route to commercialising graphene in the composite market

The Acquisition is a major component underpinning the Group's strategic plan to exploit markets that are expected to be the earliest adopters of graphene, such as composites. EPL's 20 year history, highly respected market presence and experienced employee base are expected to significantly enhance the Group's sales in this sector. In the short period of Haydale's ownership, EPL has integrated very well with our Group, such that EPL is currently being rebranded as Haydale Composite Solutions Limited.

In terms of trading over the two month period, EPL has performed strongly, with higher than anticipated Income generated, in part due to the timing of contract wins. Historically, EPL has generated annual Income in excess of £0.75 million, whilst in just the first two months under Haydale's ownership, EPL has generated income of approximately £0.36 million.

Both businesses are already positively collaborating on a number of projects, as demonstrated by the announcement in December 2014 of the award of a project grant for £0.26 million to part-finance a series of long term accelerated durability tests by EPL on fibre reinforced thermoplastic composite pipes for the oil and gas industry. The setting up of a pipeline test facility at EPL will accelerate the long term testing of thermoplastic composite pipes required by the American Petroleum Institute's recommended best practice (API 15S), as well as enabling us to fast track new materials, such as graphene enhanced thermoplastics, into the composite pipelines.

EPL has developed a reputation for delivering innovative solutions in the commercial applications of advanced polymer composite materials working with global companies over more than 20 years. Combining Haydale's technology, EPL's skills and the outstanding technical capability of our collaboration partner, the WCPC, is a unique and powerful combination, as evidenced by the recent announcement of the heads of terms with Alex Thomson Racing ("ATR"), the HUGO BOSS sponsored extreme sailing team. Under the terms of that collaboration, EPL and the WCPC will work with ATR to incorporate Haydale enhanced graphene materials in their R&D programme with the aim that performance enhancing materials are incorporated in future boat builds and sail concepts.

Commercial Progress

Overseas expansion

We announced the appointment in July 2014 of two agents with relevant industry knowledge and strong industrial links. To date we have made significant strides in the two major overseas markets of the US and the Far East. In particular, we see significant opportunity in Korea and Japan, having provided samples to many of the key customers in that region. Corporations are seeking tailored surface functionalisation to enhance the dispersion of carbon materials into a wide range of products. Initial results look encouraging and we expect an uptake in demand for our functionalisation service and ink products over the next six months. We are reviewing how best to tackle this market in terms of its distance, culture and desire for a rapid response time for the supply of functionalised materials and inks.

The US is another major market for the Group and, as a result of the initial research conducted, we have established a wholly owned subsidiary, Haydale Technologies Inc. ("Haydale Tech"). Haydale Tech has been formed as a Delaware corporation and, whilst early days, we anticipate establishing a centre of excellence in the US in the financial year to June 2016. This is expected to be based on the East coast of the US, strategically aimed at providing the Haydale HDPlas® process to industrial corporations seeking innovative solutions.

Electronic inks

Inks, and especially electronic ink, is a market sector that we have also focused on due to it representing a fast route to market for our functionalisation skills. Establishing a formulation capability through the WCPC was critical in being able to deliver customer solutions, especially as specifications are generally different for every application and customer. In the WCPC we also have a printing and coatings capability to quickly test the inks offering a rapid turnaround in solutions.

We formally launched the conductive graphene based ink in the autumn of 2014 and provided samples to a significant quantity of potential customers. A number are evaluating the results and we expect to see increased demand for the ink over the next six months. Positive customer responses to the sampling have led us to establish our own dedicated team with the focussed remit to commercialise our conductive inks. To achieve this strategic aim we have established an ink manufacturing capability in an adjacent site to the main factory in Ammanford. At the end of December 2014, the infrastructure was complete and, as at today, we are now manufacturing a consistent quality conductive ink in commercial quantities with the in-house capability to quickly change the specification to meet individual customers' requirements.

The recently announced five year exclusive arrangement with Swansea University allows us to capture opportunities that derive from ideas and experiments by Swansea University's staff using Haydale's material but outside of our WCPC collaboration. It empowers academic staff to benefit from their ideas and ensures that we are at the forefront of research and production of graphene enhanced inks with a multitude of applications for the printing and coating markets. This, coupled with the options for Haydale to acquire all new IP rights generated, places us in a strong position in the marketplace.

Plasma Functionalisation

The increased need for sampling and materials testing during 2014 placed significant strain on our first generation plasma reactors. In early 2014, we carried out extensive evaluations of suitable suppliers of the highest quality plasma reactors and in June 2014, we took delivery of the first reactor from Tantec A/S ("Tantec"). The significantly improved and enhanced results obtained from this unit led us to place orders for two more reactors with Tantec, culminating in Haydale and Tantec entering into a rolling two year exclusive development and supply contract in October 2014.

In December 2014, Haydale announced the delivery of two new Rotovac HD60 plasma reactors from Tantec. These reactors are now both fully operational and provide increased processing capability and operational flexibility in functionalising our nano materials. Consequently, Haydale has ordered a further three Rotovac HD60 units from Tantec for delivery by the end of June 2015, two of which are expected to be shipped to overseas locations as part of the Group's strategy to create "centres of excellence" on a worldwide basis.

In February 2015, Haydale took delivery of an additional, significantly larger reactor, the HD200, to fulfil anticipated increased customer orders following successful sampling and supply from our smaller units. Commissioning of the HD200 has already commenced and we will update shareholders on progress in due course.

The Market

At this stage in the development of the graphene industry, customers are looking for consistent quality of functionalised graphene nano platelets (GNPs) in kilograms, initially not tonnes, although volume is expected to follow after successful trialling. It is, however, crucial to the industry's acceptance of graphenes that the samples provided are capable of being repeated in larger commercial volumes. This is exactly what Haydale can provide.

At the time of writing, we now have three HD60 plasma reactors in operation providing the required flexibility to process a variety of materials for different customers simultaneously. The arrival of the larger HD200 reactor further increases our capability as the demand for volumes increase.

Over time there will be an increased supply of raw untreated nano material, especially from the mined organic market, looking to improve their price per kilo from today's base graphite material. The pricing for the sister material to GNPs, carbon nano tubes ("CNTs"), is already under $100/kg in the Far East and likely to fall further, especially as its target replacement material is carbon black. Capability to supply many hundreds of tonnes of CNTs exists in the market place today, but crucially dispersion remains the key issue for both GNPs and CNTs. This is where functionalisation plays a pivotal role in the commercialisation process.

We continue to monitor production capability, consistency, and quality for existing and new materials available for use. Understanding the performance characteristics and specifications of the multitude of differing raw material feedstock is a key component in being able to source the right material for the appropriate application. Falling prices of the raw materials opens up even more market opportunities for our solution driven enabling technology.

Financial Results

The Group's total income for the period under review, including two months contribution from EPL, was £0.48 million, an 8-fold increase on that reported in the same period in the prior year. Taking out the positive effect of EPL, Income from the core business was still double that of 12 months earlier at £0.12 million.

EPL's Income for the period of £0.36 million was higher than anticipated, including as it did a number of one-off projects not representative of its underlying run rate. Nevertheless, we are very pleased with EPL's profitable contribution to the Group since Acquisition.

Administrative costs for the period were in line with management's expectations at £2.05 million, with R&D costs representing almost a quarter of the Group's overhead. This resulted in a loss before tax of £1.57 million and a loss per share of 14p for the period under review, compared to a loss of £0.58 million and a loss per share of 9p a year earlier.

Since the last reported balance sheet at 30 June 2014, the Group has acquired the entire issued share capital of EPL for a maximum consideration of £1.193 million, of which £0.4 million has already been paid. This initial consideration, together with the costs of the Acquisition of approximately £0.15 million, was financed in part by the Group's new £0.5 million, 3-year loan facility with Silicon Valley Bank. The maximum consideration payable under the Acquisition earn out, which is dependent on EPL profits for the period from Acquisition to June 2016, is £0.79 million and this contingent liability has been recognised by Haydale in full. The Group also assumed loans owed by EPL of £0.19 million at completion.

As referenced above in this report, the Group has invested heavily in its reactor capacity and in its ink manufacturing capabilities in order to be able to satisfy the anticipated demands from customers. In the period under review, this capital expenditure amounted to £0.62 million and there has been further investment post period end, in particular, the recent delivery of the larger HD200 reactor from Tantec.

Cash at the period end was £3.95 million.

Outlook

2015 promises to be an exciting year for Haydale, particularly for tackling the next steps in the development of the Group's commercialisation plans. Investors can expect to see announcements regarding both technical and commercial progress associated with the scale up and commissioning of our outstanding plasma reactors and the Group developing commercial relationships both domestically and in our targeted geographic territories.

The management team remains focussed and committed to bringing its technology to successful conclusions and deliver attractive returns to its shareholders.

Ray Gibbs
Chief Executive Officer
17 March 2015

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 December 2014

	Note	Unaudited Six months ended 31 Dec 2014 £'000	Unaudited Six months ended 31 Dec 2013 £'000	Audited Year ended 30 Jun 2014 £'000
REVENUE		388	7	19
Other income		94	51	110
TOTAL INCOME		482	58	129
Administrative expenses				
Costs of admission to AIM		-	-	(424)
Research and development expenditure		(435)	(179)	(416)
Share based payment expense		(105)	(23)	(67)
Other administrative expenses		(1,509)	(436)	(1,424)
		(2,049)	(638)	(2,331)
LOSS FROM OPERATIONS		(1,567)	(580)	(2,202)
Finance costs		(7)	(4)	(14)
LOSS BEFORE TAXATION		(1,574)	(584)	(2,216)
Taxation		43	16	71
LOSS AND TOTAL COMPREHENSIVE LOSS ATTRIBUTABLE TO OWNERS OF THE PARENT		(1,531)	(568)	(2,145)

Loss per share attributable to owners of the Parent

	Note			
Basic (£)	2	(0.14)	(0.09)	(0.28)
Diluted (£)	2	(0.14)	(0.09)	(0.28)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Unaudited 31 Dec 2014 £'000	Unaudited 31 Dec 2013 £'000	Audited 30 Jun 2014 £'000
ASSETS			
Non-current assets			
Intangible assets	1,518	623	605
Property, plant and equipment	1,227	473	527
	2,745	1,096	1,132
Current assets			
Inventories	185	23	22
Trade receivables	443	-	8
Other receivables	250	86	244
Corporation tax	109	80	63
Cash and bank balances	3,951	758	5,677
	4,938	947	6,014
TOTAL ASSETS	7,683	2,043	7,146
LIABILITIES			
Non-current liabilities			
Bank loans – due after one year	338	-	-
Current liabilities			
Bank loans – due within one year	162	-	-
Trade and other payables	855	281	300
Deferred income	29	92	46
Corporation tax	7	-	-
Provision for contingent consideration	793	-	-
Convertible loan notes	-	82	-
	1,846	455	346
TOTAL LIABILITIES	2,184	455	346
TOTAL NET ASSETS	5,499	1,588	6,800
EQUITY			
Capital and reserves attributable to equity holders of the parent			
Share capital	229	2	225
Share premium account	6,255	4,355	6,134
Share-based payment reserve	176	26	71
Retained (deficits) / profits	(1,161)	(2,795)	370
TOTAL EQUITY	5,499	1,588	6,800

CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31 December 2014

	Unaudited Six months ended 31 Dec 2014 £'000	Unaudited Six months ended 31 Dec 2013 £'000	Audited Year ended 30 Jun 2014 £'000
Cash flow from operating activities			
Loss before taxation	(1,574)	(584)	(2,216)
Adjustments for:-			
Amortisation of intangible assets	18	19	36
Depreciation of property, plant and equipment	116	63	137
Share-based payment charge	105	22	67
Profit on disposal of property, plant and equipment	-	(1)	-
Finance costs	7	4	14
Operating cash flow before working capital changes	(1,328)	(477)	(1,962)
(Increase) / decrease in inventories	-	2	(2)
(Increase) / decrease in trade and other receivables	(167)	1	(165)
Increase / (decrease) in payables and deferred income	17	(25)	(51)
Cash used in operations	(150)	(22)	(218)
Income tax (paid) / received	(3)	-	72
Net cash flow from operating activities	(1,481)	(499)	(2,108)
Cash flow used in investing activities			
Purchase of property, plant and equipment	(618)	(17)	(147)
Acquisition of subsidiary (note 3)	(244)	-	-
Proceeds from disposal of property, plant and equipment	-	1	2
Finance costs	(8)	(2)	(5)
Net cash flow in investing activities	(870)	(18)	(150)
Cash flow used in financing activities			
Proceeds from issue of share capital	125	1,195	8,425
Share issue costs	-	(53)	(623)
New bank loans raised	500	-	-
Issue of convertible debt	-	79	79
Net cash flow from financing activities	625	1,221	7,881
Net (decrease) / increase in cash and cash equivalents	(1,726)	704	5,623
Cash and cash equivalents at beginning of the financial period	5,677	54	54
Cash and cash equivalents at end of the financial period	3,951	758	5,677

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Share capital £'000	Share premium £'000	Share-based payment reserve £'000	Retained profits £'000	Total £'000
At 1 July 2013	1	3,214	4	(2,227)	992
Total comprehensive loss for the period	-	-	-	(568)	(568)
Recognition of share-based payments	-	-	22	-	22
Issue of ordinary share capital	1	1,194	-	-	1,195
Transaction costs in respect of share issues	-	(53)	-	-	(53)
At 31 December 2013	2	4,355	26	(2,795)	1,588
Total comprehensive loss for the period	-	-	-	(1,577)	(1,577)
Recognition of share-based payments	-	-	45	-	45
Issue of ordinary share capital	65	7,249	-	-	7,314
Transaction costs in respect of share issues	-	(570)	-	-	(570)
Bonus issue of £0.02 ordinary shares	158	(158)	-	-	-
Reduction in share premium	-	(4,742)	-	4,742	-
At 30 June 2014	225	6,134	71	370	6,800
Total comprehensive loss for the period	-	-	-	(1,531)	(1,531)
Recognition of share-based payments	-	-	105	-	105
Issue of ordinary share capital	4	121	-	-	125
At 31 December 2014	229	6,255	176	(1,161)	5,499

Equity share capital and share premium

The balance classified as share capital and share premium includes the total net proceeds on issue of the Company's equity share capital, comprising £0.02 ordinary shares. The share premium accounts can only be used for bonus issues, to provide for the premium payable on redemption of debentures or to write off preliminary expenses, or expenses of, or commissions paid on, or discounts allowed on, any issues of shares or debentures of the company.

Share premium account

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

Share-based payment reserve

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

Retained profits

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2014

1. Accounting policies

Basis of preparation

The interim financial statements, which are unaudited, have been prepared on the basis of the accounting policies expected to apply for the financial year to 30 June 2015 and in accordance with recognition and measurement principles of International Financial Reporting Standards (IFRSs) as endorsed by the European Union. The accounting policies applied in the preparation of these interim financial statements are consistent with those used in the financial statements for the year ended 30 June 2014.

The interim financial statements do not include all of the information required for full annual financial statements and do not comply with all of the disclosures in IAS34 ‘Interim Financial Reporting’. Accordingly while the interim financial statements have been prepared in accordance with IFRS they cannot be construed as being in full compliance with IFRS.

The financial information for the year ended 30 June 2014 does not constitute the full statutory accounts for that period. The Annual Report and Accounts for 30 June 2014 have been filed with the Registrar of Companies. The Independent Auditors’ Report on the Annual Report and Accounts for 2014 was unqualified and did not include references to any matters which the auditors drew attention to by way of emphasis without qualifying their report and did not contain statements under Section 498(2) or 498(3) of the Companies Act 2006.

Going concern

The consolidated financial statements are prepared on a going concern basis which the Directors believe continues to be appropriate. The Group meets its day-to-day working capital requirements through existing cash resources which at 31 December 2014, amounted to £3.95 million. The Directors have prepared cash flow projections for the period ending no less than 12 months from the date of their approval of these financial statements. On the basis of those projections, the Directors believe that the Group will be able to continue to trade for the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 31 December 2014

2. Loss per share

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

	Unaudited Six months ended 31 Dec 2014 £'000	**Unaudited Six months ended 31 Dec 2013 £'000**	**Audited Year ended 30 Jun 2014 £'000**
Loss after tax attributable to owners of the Haydale Graphene Industries Group	(1,531)	(568)	(2,145)
Weighted average number of shares:			
- Basic	11,307,194	6,190,182	7,755,175
- Diluted	11,307,194	6,190,182	7,755,175
Loss per share:			
- Basic (£)	(0.14)	(0.09)	(0.28)
- Diluted (£)	(0.14)	(0.09)	(0.28)

The loss attributable to ordinary shareholders and weighted average number of ordinary shares for the purpose of calculating the diluted earnings per ordinary share are identical to those used for basic earnings per share. This is because the exercise of share options would have the effect of reducing the loss per ordinary share and is therefore not dilutive under the terms of IAS 33.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 31 December 2014

3. Acquisition

On 3 November 2014, the Company announced that it had acquired the entire issued share capital of EPL for a maximum consideration of £1,193,000 comprising £400,000 cash with up to £792,500 payable in either cash and/or shares in the Company based on earnings targets to 30 June 2016. Direct acquisition costs amounting to £143,000 have been written off to the consolidated statement of comprehensive income.

The provisional fair values of EPL are detailed below:-

	£'000
ASSETS	
Intangible assets	931
Property, plant and equipment	198
Inventories	163
Trade and other receivables	274
Cash and bank balances	163
TOTAL ASSETS	1,729
LIABILITIES	
Trade and other payables	522
Corporation tax	7
TOTAL LIABILITIES	529
NET ASSETS ACQUIRED	1,200
Consideration	
Cash consideration (including £7,000 costs)	407
Maximum contingent consideration	793
	1,200
Effect within consolidated statement of cashflows:-	
Cash consideration	407
Less: cash and bank balances acquired	(163)
	244

4. Approval

The 31 December 2014 interim financial statements were approved by a duly appointed and authorised committee of the Board of Directors on 16 March 2015.