

Chairman's Statement

Introduction

I am pleased to present Haydale Graphene Industries Plc's ("Haydale", the "Group" or the "Company") full year audited results to 30 June 2019 ("FY19").

The year under review has been a challenging one for Haydale. At management level, we have recruited a new Executive team lead by Keith Broadbent, who was promoted from COO to CEO in March 2019, and Laura Redman-Thomas, who joined as our CFO in December 2018. At an operational level, we have streamlined the business and rationalised our cost base, created a rigorous product and commodity analysis with subsequent clear focus, both inwardly and outwardly, introducing best manufacturing procedures and processes, created a Group sales force and refinanced the business with the fundraising announced in March 2019.

Summary financials

Total income for FY19 of £4.25 million (FY18: £4.23 million), comprised commercial revenues of £3.47 million (FY18: £3.40 million) and grant income of £0.79 million (FY18: £0.83 million).

FY19 has been a year of change and rationalisation, delivering an annualised cost base reduction of £1.6 million. During the year there was significant (\$1.2 million) investment in the US blanks (SiC) business, further development of the ink market, the cost centres in the UK and Thailand were converted to profit centres and a global sales strategy was introduced.

As a result of these improvements the revenue in the second half of FY19 was up 12% on the first half of the year and 35% over the same time period in FY18 driven predominantly by the US SiC business. The FY19 £0.5 million revenue upside in the US SiC business and £0.14 million in APAC inks was offset by the £0.58 million reduction in the UK composites business where the focus was redirected towards commercial sales and well-funded, commercially viable grant related projects for longer-term growth.

The gross profit for the year was broadly in line with the prior year at £1.9 million (FY18: £2.0 million). Total administrative expenses for the year were adversely impacted by non-recurring one-off restructuring costs relating to actions by management to re-align the Group's cost base, such that total administrative expenses for the year including £0.35 million of exceptional items were £8.53 million (FY18: £8.85 million). Total comprehensive loss for the year was £7.12 million (FY18: £5.41 million), including the £2.13 million of restructuring costs and a non-cash, accounting adjustment for an impairment of intangible assets of £1.78 million. The loss from trading activities, including one-off restructuring costs, was £5.85 million (FY18: £6.02 million).

Operations

During the year under review we re-evaluated our products and services in order to align our cost base with our addressable markets. We are now using tailored advanced materials, including graphene, boron nitride and silicon carbide micro-fibre (SiC) to enable our customers to improve the quality and electrical, thermal and/or mechanical performance of their products. We have six international operating sites, with two in the UK and one in each of the USA, Thailand, South Korea and Taiwan.

In the Far East, our Thailand operation continues to grow following the successful commissioning of one of our HT60 plasma reactors for one of Thailand's leading petrochemical processors as well as our long-term consulting contracts. The customer intends to add value to certain by-products arising from their manufacturing process using our functionalisation capabilities.

Following a product review carried out in the year, we now have speciality inks and coatings capabilities in both the Far East and UK, covering the biomedical sensor market where commercial progress continues. Pleasingly, our inks and coatings expertise are now supplemented by piezo resistive and heating applications that are already in commercial applications across several sectors.

Our USA facility, Haydale Ceramic Technologies ("HCT"), manufactures a range of our proprietary SiC micro-fibres which add strength, toughness and anti-scratch properties to existing materials. Despite taking longer than we had expected to increase sales, HCT continues to supply against its existing long term contracts with world-wide businesses that incorporate HCT's SiC in the manufacture of their hard-edged cutting tools. As previously announced, in order to supplement the sale of our proprietary SiC "powder", we took the decision in FY18 to add value to our SiC micro-fibres by investing in our own in-house manufacturing capabilities at our US site to address a growing market in selling our own proprietary SiC cutting tools ("blanks"). The machinery is now commissioned, and we are expecting to ramp up production in the current financial year after positive feedback from our customers.

The graphene teams at our Loughborough and Ammanford sites have been developing customer solutions for resins that incorporate our functionalised graphene for the pre-preg carbon fibre market for enhanced electrical, thermal and mechanical applications following the positive work with NICHE and BAC Motors. In addition, following successful trials, the teams have developed a range of graphene enhanced elastomers that were launched post the period end at the IRC 2019 show at the KIA Oval earlier in September.

Chairman's Statement continued

The new Graphene Engineering Innovation Centre (GEIC) opened in December 2018 at the University of Manchester, where Haydale is a Tier 1 Partner. The GEIC has installed one of our HT60 plasma reactors for graphene functionalisation and is showcasing it to other partners and customers.

We continue to enhance the functionalisation performance of our reactors with further upgrades and are working on some exciting product improvement opportunities for the myriad of companies now looking at collaborating with the GEIC and its Tier-1 Graphene partners and with our other customers across the globe.

Outlook

We enter FY20 with two new graphene-enhanced product lines in pre-preg and Elastomers and a focussed sales force with the industry contacts to promote them.

I foresee significant growth opportunities for Haydale with the new and adapted approach of using our global footprint as one team, with cross-selling and cross R&D focus, a re-orientation to organic growth and cost monitoring. Business development surrounding the major advances we have seen in the core skills

on inks, functionalisation and dispersion of graphene, in conjunction with the new market segment of SiC, sets Haydale up for the next phase of evolution and scale up. Under the new executive team the Group has focussed its development activities on areas where it considers there to be immediate commercial potential.

The Executives strategic review of the Group's operations in the US and UK is largely complete, and the review of the group's Far East operations is ongoing.

I would like to thank our new executive team who have worked tirelessly to address the Group's challenges in order to put in place the solid foundations required to deliver on our anticipated growth. A number of challenges remain to be addressed, and I am confident in their ability to overcome them. I would also like to thank the staff, our advisors and my fellow non-executive directors for their hard work and dedication. I would also like to thank our shareholders for their continued support.

David Banks

Chairman

14 October 2019