

Interim Report
for the six months ended 31 January 2016

Tomorrow's material. Today.

Applied Graphene Materials works in partnership with its customers using its knowledge and expertise to provide bespoke graphene dispersions and formats to deliver enhancements and benefits for a wide range of applications.

Our mission is to become a world leader in the supply of graphene formatted for specific customer applications.

We will create value for shareholders through improving the performance of our customers' materials and products.

Highlights

Operational highlights

- Completion of placing and open offer raising £8.5 million
- Over 70 evaluation samples provided to customers in the period
- Working closely with over 20 companies via collaborations, joint development agreements and near term production opportunities
- New collaboration project with Sherwin-Williams Protective & Marine Coatings
- Progressing on production capacity expansion

Financial overview

- **EBITDA***
Loss of £2.1 million
(2015: loss of £1.8 million)
- **PBTA****
Loss of £2.2 million
(2015: loss of £1.8 million)
- **Loss before tax**
Loss of £2.3 million
(2015: loss of £1.9 million)
- **Cash at bank**
£10.2 million (2015: £6.6 million)
- **Diluted EPS**
Loss of 13.2 pence per share
(2015: loss of 11.3 pence)
- **Adjusted diluted EPS**
Loss of 12.3 pence per share
(2015: loss of 10.8 pence)

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

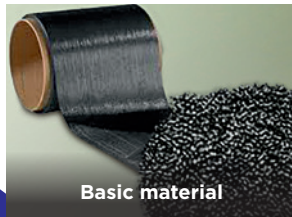
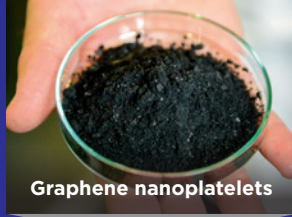
** PBTA comprises loss before tax, exceptional costs and amortisation



Learn more at appliedgraphenematerials.com

Applied Graphene Materials is concentrating on market sectors and applications where it believes its graphene dispersions can provide the greatest benefits.

Proprietary manufacturing and formatting expertise



Customers

Collaboration

Collaboration

Core target markets



Graphene formatted for specific customer applications to improve product performance

Business review

with Jon Mabbitt

Summary

- Development of our commercial platform is centred on our proprietary manufacturing processes and graphene formulation know-how
- Raising £8.5 million has allowed us to plan for a significant increase in production capacity
- We have added to the pipeline of commercial opportunities and are continuing to work closely alongside customers as we target initial production orders
- Focus on where we believe our products can add most value
- Adding graphene in a “plug-and-play” manner, to existing customer processes or with minimum change, reduces the time to commercial adoption
- Transferring the benefits of graphene is difficult and Applied Graphene Materials’ know-how over formatting graphene, combined with the use of appropriate techniques for inclusion in the host material, is critical

Overview

The Board is pleased to report that Applied Graphene Materials is striding ahead and has made further progress in the development of its commercial platform centred on its proprietary manufacturing processes and graphene formulation know-how. The successful conclusion of the placing and open offer in January 2016, raising £8.5 million from existing and new shareholders, has allowed the Group to continue to plan for a significant increase in its production capacity. The Group continues to work closely alongside customers via collaboration and joint development activities as the business targets initial production orders. The depth of our customer engagements provides sufficient confidence in the prospective demand for our graphene and supports our plans for capacity expansion.

We have continued to add to the pipeline of commercial opportunities, remaining carefully focused on the three core target market sectors where we believe our products can add most value and where we see opportunities for large scale commercial orders. As we work more closely with our development partners, several of which are leaders in their respective industries, we have built a strong understanding of what our graphene can do and how it delivers enhancements. The test data we are generating continues to provide encouraging results and builds on our knowledge and know-how.

Applied Graphene Materials is set apart from other producers of graphene by our ability to cost effectively produce a tailored portfolio of graphene nanoplatelets alongside our understanding of how to best unlock and transfer optimal property enhancements into host materials.



Business review continued with Jon Mabbitt

The depth of our customer engagements is setting the foundations for a long term, stable and highly attractive business.

Commercial progress

Our main focus remains on driving forward opportunities to win production orders with existing commercial partners, along with new joint development agreements and collaborations. The pipeline of opportunities has grown, although the majority of our customer engagements remain commercially confidential in nature. The Group remains focused on its three core target markets and is engaged with commercial partners who, over the past six months, have produced graphene enhanced parts and products in evaluation quantities for assessment. These trials are continuing in line with our expectations.

Graphene has the potential to deliver truly disruptive technologies with applicability in many other market sectors. Applied Graphene Materials continues to remain focused on those markets and applications where we believe that the characteristics of our material are best suited to address customer requirements. In the near term, accessing our core target markets where graphene can be added in a “plug-and-play” manner, to existing customer processes or with minimum change, reduces the time to commercial adoption.

In the field of paints and coatings, we have demonstrated that graphene can be used in some existing formulations to improve barrier properties by as much as 300% through the addition of as little as 1% of graphene. We are collaborating with Sherwin Williams (a global protective and marine coatings company that delivers smarter asset protection from 4,000 locations worldwide) and TWI (a world leader in materials and corrosion management). The collaboration will target corrosion protection in an area that is estimated to cost the British economy alone £10 billion per annum, primarily affecting major infrastructure sectors such as construction, petrochemical and transport. Organic coatings loaded with hazardous or environmentally unfriendly metals such as zinc and chromates are commonly used to protect such structures and so it is desirable to find improved and sustainable alternative solutions. The corrosion resistance of a coating is not a single property but a combination of many properties such as barrier resistance, electrochemical behaviour, mechanical strength and resistance to damage. The multi-functionality of graphene makes it an attractive potential solution.

In the composites sector, we are focusing our efforts on improving mechanical strength by toughening the resinous matrix, as this is where we have demonstrated the largest property gains with customers and independent test houses. Most other additives that mechanically toughen can only do so with some other negative impact, usually in processing traits. Graphene can improve toughness at low loading levels, such that other downsides are minimised, and at the same time bring multi-functionality that can benefit electrostatic discharge, thermal management and moisture control. The NATEP (National Aerospace Technology Exploitation Programme) supported collaboration is targeted at this property benefit. Producing tougher, lighter and more damage tolerant composite structures, through the development of novel graphene processing and deployment techniques, could lead to significantly lower operating costs for the aerospace industry.

This benefit will read across to other markets using fibre reinforced composites and the Group is already engaged in the automotive, sporting goods, wind energy and marine sectors.

Applied Graphene Materials has been developing its knowledge base concerning the deployment of graphene into polymers and again we are working alongside a number of industrial and consumer brands. A range of plastics have been demonstrated to be capable of enhancement by the addition of a small amount of graphene. Injection moulding and extrusion are widely used manufacturing techniques and a variety of products containing graphene, from consumer goods to films, have already been produced in evaluation quantities.

In the functional fluids sector, the benefits that graphene can deliver in terms of lubricity and reduced wear are encouraging our customers, including Millers Oils and Puraglobe, to consider how and where to incorporate this technology into their products. Under the joint development agreement with Puraglobe we will develop and format dispersions of our graphene nanoplatelets for inclusion in Puraglobe's sustainable base oil and speciality products. It is anticipated that, as a result of the collaboration, Puraglobe's graphene loaded base oils will be used across a wide range of industrial and automotive applications, where the unique friction and wear properties of graphene will add significant performance gains as lubricants and machining fluids.

Underpinning technology and manufacturing capacity

When producing graphene nanoplatelets one thing is clear - not all graphene is equal in properties. The method and conditions of manufacture have a huge influence on the resultant properties exhibited. It is therefore essential to be able to tailor the product to optimise the augmentation of properties for specific applications. The Group owns the intellectual property for its proprietary production processes which are subject

to existing patents and patent applications. Using these processes, Applied Graphene Materials has the ability to design nanoplatelets to suit the application through our range of manufacturing processes. We have robust control systems in place and we have the proven ability to be able to scale up the processes without affecting product quality.

Understanding the mechanisms of property translation from nanoplatelets to bulk properties is essential to be able to optimally influence the enhancements that can be achieved in end products. Transferring the benefits of graphene is difficult and the know-how over formatting graphene, combined with the use of appropriate techniques for inclusion in the host material, is absolutely critical. Applied Graphene Materials has a toolbox of technologies that are utilised in order to optimally format graphene, and this knowledge base continues to be developed, for the benefit of our commercial partners.

Outlook

Our focus is on putting formatted graphene into our customers' hands such that they can adopt this readily into their production processes and benefit from the performance enhancements in their existing markets. The depth of our customer engagements is setting the foundations for a long term, stable and highly attractive business. Our intent remains to become a global graphene market leader. The Board believes that Applied Graphene Materials remains well placed to meet its ambitions.

Jon Mabbitt
Chief Executive Officer
 23 March 2016

Financial review

with Oliver Lightowlers

Summary

- Revenue and other income – £0.1 million
- PBTA – loss of £2.2 million, reflecting ongoing costs of working with commercial partners
- Adjusted diluted EPS – loss of 12.3 pence per share
- Net proceeds from the issue of shares of £8.0 million
- Capital expenditure of £0.4 million mainly relating to the development of the production process
- Cash at bank of £10.2 million

Revenue

Revenue for the period was £18,000 (2015: £13,000) arising from the supply of evaluation quantities of graphene to commercial partners.

Other income

Other income, which comprises grant income, was £65,000 (2015: £16,000). Grants received generally relate to funding for the development of new graphene applications, the creation of new jobs or the purchase of assets.

Loss on ordinary activities before tax

A loss on ordinary activities before tax of £2,326,000 (2015: loss of £1,919,000) was recognised. This includes exceptional costs of £161,000 mainly connected to fees paid in relation to the issue of new shares.

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

EBITDA for the Group increased from a loss of £1,816,000 in 2015 to a loss of £2,108,000 for the period ended 31 January 2016. This increase in losses reflects ongoing costs of working with commercial partners together with the costs of continued investments in production and overheads, including headcount and business infrastructure, to support the anticipated future growth and development of the business.

Exceptional costs

Exceptional costs recognised in the period were £161,000 (2015: £90,000). These costs principally relate to fees paid in relation to the issue of new shares in the current year whilst the prior year costs principally relate to payments made as compensation for loss of office.

Net finance income

Net finance income for the period was £18,000 (2015: £36,000). The reduction in net finance income arises from having lower cash balances on deposit during the period.



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

PBTA for the period increased from a loss of £1,829,000 in 2015 to a loss of £2,165,000 for the period ended 31 January 2016. This increase in losses reflects ongoing costs of working with commercial partners together with the costs of continued investments in production and overheads, including headcount and business infrastructure, to support the anticipated future growth and development of the business.

Tax

The Group has not recognised any tax assets in respect of trading losses arising in the current financial year or accumulated losses in previous financial years. The tax credit recognised in respect of the previous financial year arises from the receipt of R&D tax credits. In due course, the Group expects to receive R&D tax credits in respect of other financial years.

Earnings per share

Diluted earnings per share were a loss of 13.2 pence per share (2015: loss of 11.3 pence per share). Adjusted diluted earnings per share (before exceptional costs) were a loss of 12.3 pence per share (2015: loss of 10.8 pence per share). Earnings per share have been adversely impacted by increases in operating costs.

Dividend

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

Cash flow

Net cash used in operations was £2,122,000 (2015: £1,662,000). During the period, net working capital utilised reduced by £34,000 (2015: reduction of £119,000). This reduction principally relates to an increase in trade creditors and accruals reflecting growth in the activities of the business.

Capital expenditure of £408,000 (2015: £234,000) has been incurred in the period mainly relating to the development of the production process and related production assets. Net proceeds arising from the issue of shares totalled £8,031,000 (2015: £13,000).

Balance sheet

Net assets have increased to £10,408,000 (2015: £6,540,000), principally reflecting the cash generated from the issue of shares offset by the trading loss for the period.

Cash at bank at 31 January 2016 was £10,231,000 (2015: £6,641,000). The proceeds from the issue of shares have been placed on deposit with a small number of financial institutions for time periods ranging between instant access and up to one year in maturity.

Accounting policies

The Group's consolidated financial information has been prepared in accordance with International Financial Reporting Standards as adopted in the EU. The Group's significant accounting policies, which are consistent with those set out in the audited financial statements for the year ended 31 July 2015, have been applied consistently throughout the period.

Principal risks and uncertainties

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

Financial review continued with Oliver Lightowers

Principal risks and uncertainties continued

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

- Acceptance of the Group's products – early stage of operations and acceptance of graphene. The Group is at an early stage of development and the success of the Group will depend on the acceptance and attribution of value to graphene produced by the business. There can be no guarantee that either acceptance of graphene or attribution of value will be forthcoming.
- Early stage of operations – existing capacity and scale up. The Group has not yet demonstrated its technology at either nameplate production capacity or increased capacities and is planning to scale up its production processes. There can be no guarantee that scaled up production processes will be operational to any anticipated timeframe or budget. Furthermore, the operation of the Group's production processes following scale up involves risks and uncertainties beyond the Group's control. Failure to operate at either current or increased nameplate capacities would adversely impact the Group's business and financial position.
- Intellectual property – the Group's business is based on a combination of patent applications and know-how. The Group's success will depend in part on its ability to maintain adequate protection of its intellectual property and know-how. There is no certainty that patent applications will be granted, such applications and know-how will be a source of competitive advantage to the Group, or that others have not developed similar or better applications or know-how. Significant costs may be incurred in asserting intellectual property rights and there is no certainty that intellectual property could not become known in a manner (for example, cyber attack) which provided the Group with no recourse.
- Commercialisation, competition and pricing – technological advances may impede the commercial progress of graphene and may also result in worldwide production capacity exceeding demand. This could adversely impact the price of, or demand for, graphene. There is no guarantee that graphene will become an accepted material for use on a commercial scale or that demand for graphene will develop at all. The Group may also be unsuccessful in its efforts to realise benefits from the commercialisation of graphene. In such situations, the Group's business and financial position would be adversely impacted.
- Adequacy of financial resources – the available funding required to support the business through to profitability and cash generation may be insufficient. Currently, it is expected that additional capital will be required in future to fund the business. The Group may be unable to access additional debt or equity capital, or to raise funds on acceptable terms. In the event that the resources available to the Group are inadequate then this could have a materially adverse impact on the implementation of the Group's strategy, its business, financial condition and operations.
- Financial, operational and management information systems – the efficient operation and management of the Group depends on the proper operation and performance of financial, operational and management information systems. Any failure in such systems may result in a loss of control and adversely impact the Group's ability to operate effectively and to fulfil its contractual obligations.

Our intent remains to become a global graphene market leader. The Board believes that Applied Graphene Materials remains well placed to meet its ambitions.

- Safety, health and environment – the Group’s operations are subject to numerous safety, health and environmental (SHE) and regulatory requirements, both in the UK and overseas, which are likely to become more complicated, stringent and onerous as the Group grows or as time passes. Failure to comply in any way with SHE or regulatory requirements could result in the Group being unable to manufacture or supply graphene, incurring significant costs and liabilities, or being subject to claims and lawsuits which could adversely affect its operations and financial condition. Graphene is also a relatively new material with a limited number of studies having been undertaken into its effects on biological systems. If evidence emerges that graphene has a deleterious effect then this may adversely impact the Group’s business and financial position.
- Key personnel – the Group has in place an experienced and motivated senior management team and is beginning to build strength in depth. If the Group is unable to attract and retain suitably skilled and qualified people, then the Group’s performance and prospects may be adversely impacted. The loss of one or more key personnel could have an adverse impact on the Group’s operations, reputation, relationships and future prospects.

Cautionary statement

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

Oliver Lightowers
Chief Financial Officer
23 March 2016

Consolidated income statement and statement of comprehensive income

for the six months ended 31 January 2016

	Note	Unaudited 6 months to 31 January 2016 £'000	Unaudited 6 months to 31 January 2015 £'000	Audited year ended 31 July 2015 £'000
Revenue	5	18	13	41
Other income		65	16	60
		83	29	101
Cost of sales		(214)	(142)	(341)
Gross loss		(131)	(113)	(240)
Operating expenses		(2,213)	(1,842)	(3,822)
EBITDA		(2,108)	(1,816)	(3,860)
Exceptional costs		(161)	(90)	(91)
Depreciation of tangible fixed assets		(75)	(49)	(111)
Operating loss		(2,344)	(1,955)	(4,062)
Net finance income		18	36	62
PBTA		(2,165)	(1,829)	(3,909)
Exceptional costs		(161)	(90)	(91)
Loss on ordinary activities before tax	5	(2,326)	(1,919)	(4,000)
Tax on loss on ordinary activities	3	—	—	100
Loss for the period attributable to equity shareholders		(2,326)	(1,919)	(3,900)
Other comprehensive income		—	—	—
Total comprehensive loss		(2,326)	(1,919)	(3,900)
Earnings per share (pence per share)				
Basic	6	(13.2)	(11.3)	(22.9)
Diluted	6	(13.2)	(11.3)	(22.9)

EBITDA comprises loss on ordinary activities before interest, tax, exceptional costs, depreciation and amortisation.

PBTA comprises loss on ordinary activities before tax, exceptional costs and amortisation.

Consolidated statement of changes in shareholders' equity

for the six months ended 31 January 2016

	Share capital £'000	Share premium £'000	Merger reserve £'000	Retained earnings £'000	Unaudited Total £'000
As at 31 July 2014	340	10,296	1,231	(3,546)	8,321
Comprehensive loss	—	—	—	(1,919)	(1,919)
IFRS 2 share based payments	—	—	—	125	125
Issue of shares (net)	—	13	—	—	13
As at 31 January 2015	340	10,309	1,231	(5,340)	6,540
Comprehensive loss	—	—	—	(1,981)	(1,981)
IFRS 2 share based payments	—	—	—	31	31
As at 31 July 2015	340	10,309	1,231	(7,290)	4,590
Comprehensive loss	—	—	—	(2,326)	(2,326)
IFRS 2 share based payments	—	—	—	113	113
Issue of shares (net)	97	7,934	—	—	8,031
As at 31 January 2016	437	18,243	1,231	(9,503)	10,408

Consolidated balance sheet

as at 31 January 2016

	Note	Unaudited 31 January 2016 £'000	Unaudited 31 January 2015 £'000	Audited 31 July 2015 £'000
Assets				
Non-current assets				
Property, plant and equipment		1,064	468	641
		1,064	468	641
Current assets				
Inventories		40	22	25
Trade and other receivables		158	140	156
Cash deposits		5,589	2,504	1,000
Cash		4,642	4,137	3,709
		10,429	6,803	4,890
Liabilities				
Current liabilities				
Trade and other payables		(1,085)	(731)	(941)
		(1,085)	(731)	(941)
Non-current liabilities				
Provisions for other liabilities and charges		—	—	—
		—	—	—
Net assets				
		10,408	6,540	4,590
Shareholders' equity				
Called up share capital	8	437	340	340
Share premium account		18,243	10,309	10,309
Merger reserve		1,231	1,231	1,231
Retained earnings		(9,503)	(5,340)	(7,290)
Equity shareholders' funds				
		10,408	6,540	4,590

Consolidated cash flow statement

for the six months ended 31 January 2016

	Note	Unaudited 6 months to 31 January 2016 £'000	Unaudited 6 months to 31 January 2015 £'000	Audited year ended 31 July 2015 £'000
Operating activities				
Net cash used in operations	7	(2,122)	(1,662)	(3,589)
Net finance income		21	47	82
Tax received		—	—	111
Net cash used in operating activities		(2,101)	(1,615)	(3,396)
Investing activities				
Purchase of property, plant and equipment		(408)	(234)	(385)
Net cash used in investing activities		(408)	(234)	(385)
Financing activities				
Net proceeds from issue of Ordinary shares		8,031	13	13
Net cash generated from financing activities		8,031	13	13
Net increase/(decrease) in net cash and cash deposits		5,522	(1,836)	(3,768)
Net cash and cash deposits at 31 July 2015		4,709	8,477	8,477
Net cash and cash deposits at 31 January 2016		10,231	6,641	4,709
Net cash and cash deposits include:				
Cash deposits (maturity greater than three months)		5,589	2,504	1,000
Cash (maturity less than three months)		4,642	4,137	3,709
Net cash and cash deposits at 31 January 2016		10,231	6,641	4,709

Notes to the Interim Report

for the six months ended 31 January 2016

1 General information

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

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

The interim financial information was approved for issue on 23 March 2016.

2 Basis of accounting

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

The accounting policies used in the consolidated interim financial information are consistent with those set out in the audited financial statements for the year ended 31 July 2015. Further IFRS standards or interpretations may be issued that could apply to the Group's financial statements for the year ending July 2016. If any such amendments, new standards or interpretations are issued then these may require the consolidated financial information provided in this report to be changed. The Group will continue to review its accounting policies in the light of emerging industry consensus on the practical application of IFRS.

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

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

The consolidated interim financial information for the six months ended 31 January 2016 and for the six months ended 31 January 2015 contained within the Interim Report does not constitute statutory financial statements within the meaning of Section 434 of the Companies Act 2006 and is unaudited. The comparative figures for the year ended 31 July 2015 have been extracted from the audited financial statements, on which the Company's auditors have given an unqualified opinion.

3 Taxation

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

4 Dividends

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

5 Segmental analysis

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

6 Earnings per share

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

	Unaudited 6 months to 31 January 2016 'm	Unaudited 6 months to 31 January 2015 'm	Audited year ended 31 July 2015 'm
Weighted average number of shares for basic earnings per share	17.6	17.0	17.0

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

	Unaudited 6 months to 31 January 2016 'm	Unaudited 6 months to 31 January 2015 'm	Audited year ended 31 July 2015 'm
Weighted average number of shares for diluted earnings per share	18.6	18.1	17.9

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

	Unaudited 6 months to 31 January 2016 £'000	Unaudited 6 months to 31 January 2015 £'000	Audited year ended 31 July 2015 £'000
Basic earnings	(2,326)	(1,919)	(3,900)
Adjustments for taxation	—	—	—
Exceptional costs	161	90	91
Adjusted earnings	(2,165)	(1,829)	(3,809)
Earnings per share (pence per share)			
Basic	(13.2)	(11.3)	(22.9)
Diluted	(13.2)	(11.3)	(22.9)
Adjusted earnings per share (pence per share)			
Basic	(12.3)	(10.8)	(22.4)
Diluted	(12.3)	(10.8)	(22.4)

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

Notes to the Interim Report continued

for the six months ended 31 January 2016

7 Notes to the cash flow statement

	Unaudited 6 months to 31 January 2016 £'000	Unaudited 6 months to 31 January 2015 £'000	Audited year ended 31 July 2015 £'000
Loss for the period attributable to equity shareholders	(2,326)	(1,919)	(3,900)
Tax on loss	—	—	(100)
Net finance income	(18)	(36)	(62)
Depreciation of property, plant and equipment	75	49	111
Exceptional costs	161	90	91
EBITDA	(2,108)	(1,816)	(3,860)
Depreciation of property, plant and equipment	(75)	(49)	(111)
Exceptional costs	(161)	(90)	(91)
Operating loss	(2,344)	(1,955)	(4,062)
Depreciation of tangible fixed assets	75	49	111
IFRS 2 share based payments charge	113	125	156
Decrease in net working capital	34	119	206
Net cash used within operations	(2,122)	(1,662)	(3,589)

8 Share capital

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

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

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

9 Related party transactions

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

Transactions with shareholders

The following transactions with shareholders of the Group were recorded, excluding VAT, during the period:

	Unaudited 6 months to 31 January 2016 £'000	Unaudited 6 months to 31 January 2015 £'000	Audited year ended 31 July 2015 £'000
University of Durham (shareholder)			
Staff secondment, consultancy and other fees	20	20	45
IP2IPO Limited (shareholder)			
Recruitment and other fees	—	—	5
Top Technology Limited (controlled by shareholder)			
Non-Executive fees and expenses	8	3	11
Corporate finance fees	26	—	—

Remuneration of key management personnel

The remuneration of the Directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures:

	Unaudited 6 months to 31 January 2016 £'000	Unaudited 6 months to 31 January 2015 £'000	Audited year ended 31 July 2015 £'000
Short term employee benefits (excluding bonuses)	364	237	689
Payments to third parties	8	3	10
IFRS 2 share based payments charge	76	100	116
Compensation for loss of office	—	66	73
	448	406	888

10 Seasonality

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

11 Availability of Interim Report

It is anticipated that the Interim Report will be sent to all shareholders on 11 April 2016.

Electronic copies of the report will also be available on Applied Graphene Materials' website at www.appliedgraphenematerials.com.

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