Versarien® PLC

Annual Report 2018

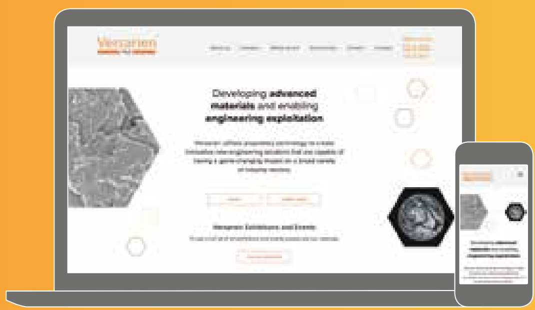
Versarien® PLC

Developing advanced materials and enabling **engineering exploitation**

We utilise proprietary materials technology to create innovative engineering solutions that are capable of having game-changing impact in a broad variety of industry sectors.

Founded in 2010, we have continued to develop advanced materials and processes to satisfy customer-specific applications whilst expanding our portfolio of intellectual property through acquisition.

Our product offerings are capable of having a game-changing impact in a broad variety of industry sectors.



For further information about our operations visit our website at **www.versarien.com**

Highlights

Financial highlights

- Group revenues increased by 52% to £9.02 million (2017: £5.93 million)
- LBITDA* decreased by 33% to £0.8 million (2017: £1.2 million)
- Loss before tax decreased by 27% to £1.6 million (2017: £2.2 million)
- Cash at 31 March 2018 of £2.3 million (2017: £1.4 million)
- Net assets increased by 23% to £8.0 million (2017: £6.5 million)
- Successful fundraising of £2.9 million gross (2017: £2.6 million gross)

* LBITDA (loss before interest, tax, depreciation and amortisation) excludes exceptional items and share-based payment charges.

Operational highlights

- Eight graphene application collaboration agreements secured during the year with a further six post period with more in pipeline
- Asian graphene expansion targeted through incorporation of intermediate Hong Kong holding company
- Continued investment in graphene manufacturing capability to support collaborative applications agreements
- Graphene interest in China ongoing with 24 potential partners now identified. Joint ventures will be determined by funding levels and IP protection
- US expansion targeted through a local sales office in Palo Alto and appointment as inaugural Council Member of the US National Graphene Association
- UK Government support provided through the secondment of its Head of Outward Direct Investment
- Hexotene™ and Graphinks™ launched to further strengthen the Group's range of commercially available two-dimensional materials
- Mature businesses showing much improved financial performance

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At a glance

Creating innovative new engineering solutions

Versarien plc is an IP-led advanced engineering materials group that utilises proprietary technology to create innovative new engineering solutions.

Group revenue

£9.02m

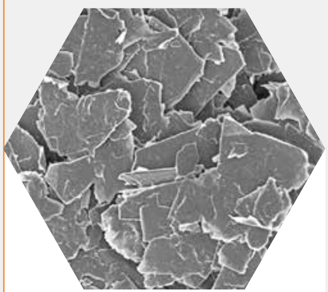
2017: £5.93m

Net assets

£8.0m

2017: £6.5m

Graphene and plastics



2-DTech Limited

2-DTech Limited, a spin-out from the University of Manchester, the birthplace of graphene and home to the Nobel Prize winning academics Geim and Novoselov, specialises in the supply of graphene products and the transfer of fundamental science to applied technology.

Core products

- Nanene – high quality few-layer graphene
- Hexotene – few-layer hexagonal boron nitride (h-Bn) nano-platelet powder

Find out more at
www.2-dtech.com

Cambridge Graphene Limited

Cambridge Graphene Limited, a spin-out from Cambridge University, supplies novel graphene inks and develops graphene/2D materials technology and applications.

Core products

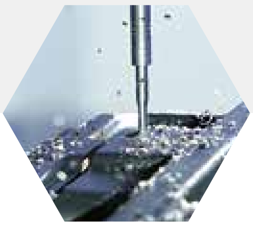
- Graphinks – a range of high performance, electrically conductive graphene inks suitable for a wide range of printing processes, substrates and applications

Find out more at
www.cambridgegraphene.com

"We have shown great progress in our graphene businesses. It is a very exciting time ahead, and we look forward to more collaborations and the commercialisation of our technology."

Neill Ricketts
Chief Executive Officer

Thermal and hard wear products

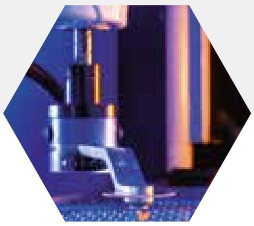


AAC Cyroma Limited

AAC Cyroma is a supplier of vacuum-formed and injection-moulded products to the automotive, construction, utilities and retail industry sectors and operates from a 45,000 sq ft facility in Banbury, Oxfordshire. Using Versarien's existing graphene manufacturing capabilities, AAC Cyroma will have the ability to produce graphene enhanced plastic products.

Core products
- Graphene enhanced mobile accessories
- Injection moulding
- Tool boxes
- Transit trays
- PU foam tanks
- Vacuum forming

Find out more at
www.aaccyroma.co.uk

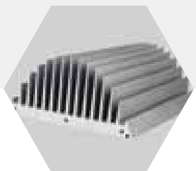


Total Carbide Limited

Total Carbide Limited is a leading European manufacturer of sintered tungsten carbide primarily for arduous environment applications in the oil and gas industry. Created in 1950, the company has a wealth of experience and focuses on world-class product quality through the latest engineering practices.

Core products
- Special inserts and blanks
- Cutting knives
- Wear-resistant parts
- Nozzles and valve inserts for flow control
- Tungsten carbide parts for defence and aerospace

Find out more at
www.totalcarbide.com



Versarien Technologies Limited

Versarien Technologies Limited has developed an additive for creating microporous metals targeting the thermal management industry and supplies extruded aluminium.

Core products
- Aluminium industrial products
- Aluminium heat sinks

Find out more at
www.versarien-technologies.co.uk

Our achievements

A year of significant achievements

Versarien has agreed significant collaborations to incorporate our developed technology into a variety of products across a spectrum of different industries.

2017

October 2017

Israel Aerospace Industries

To develop and test Versarien's Nanene few-layer graphene nano-platelets in aerospace composite structures.

November 2017

Global consumer goods company

To research, develop and test Nanene in polymer structures.

December 2017

US global chemical supplier

To use our Nanene and other 2D products in different potential applications.

January 2018

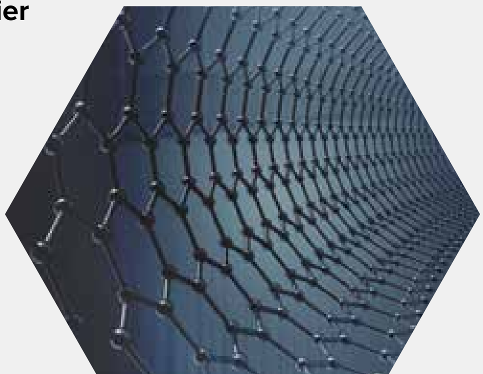
Global apparel manufacturer

To incorporate graphene into fabrics and high performance sportswear.

January 2018

Graphene manufacturing facility

A Letter of Intent was entered into with Chinese partners.



Post year end 31 March 2018

April 2018
Luxus
To incorporate graphene into polymers to enhance mechanical strength and other properties.

May 2018
European consumer products manufacturer
To test the benefits of graphene in packaging solutions for household and personal care markets.

June 2018
Arrow GreenTech
To provide our Graphinks products into the fast-growing water soluble film market.

June 2018
MediaDevil
To launch a new range of earphones and other audio equipment.

Case study on **page 7**

July 2018
Zap&Go
To incorporate our Nanene and other 2D materials in its supercapacitor-type devices to enhance performance.

August 2018
Sporting Goods collaboration
Incorporation of Nanene into polymer, leather, elastomers and textile structures in the amateur and professional football sectors.

2018

March 2018
Team Sky
To explore the benefits of adding graphene to high performance cycling equipment.

Case study on **page 10**

March 2018
Aerospace sector
To research and develop projects using Nanene in base materials and sensory devices used in a variety of products.

February 2018
Addenbrooke's Hospital
To develop a range of graphene-based sensor technologies to enable the creation of digital bandages and wound dressings.

February 2018
Vivobarefoot
To develop a range of footwear that incorporates graphene to enhance material performance.

A Q&A with our CEO

Q&A

Versarien's CEO, Neill Ricketts, answers key questions about the Group's performance during 2017/18.

How would you assess Versarien's financial performance in 2017/18?

It has been another year of growth for the Group, increasing our revenues by 52% to £9.02 million, from £5.93 million in 2017, and decreasing our LBITDA from £1.2 million in 2017 to £0.8 million for this accounting year.

The increase in revenue is partly due to a full year of ownership of AAC Cyroma, our plastics business, which has provided a valuable contribution to the Group. We have also seen an improvement in both sales and profitability in our Hard Wear Products business where we have targeted new industries and new material contracts.

What sets Versarien apart from its competitors?

We have an excellent team of engineers and scientists which have developed and patented technology which we believe meets the newly issued standard ISO TS 80004-13, and which is continually developing new products. During the year we launched Hexotene, which is a few-layer hexagonal boron nitride nano-platelet powder. The introduction of this product widens the focus of Versarien in developing innovative solutions for industry.

We have secured eight graphene application collaborations during the year, with a further six post year end, which reflects the quality of our products, and the potential that our collaborators' see in them. In February 2018, I was appointed to the NGA Advisory Board in the USA, and in June 2018 to the National Graphene Advisory ("NGA") Industry Council. The NGA is at the forefront of promoting the commercialisation of graphene and we look forward to working closely with the NGA and its other members.

Furthermore, we also have UK Government support through the secondment of its Head of Outward Direct Investment, which will aid our international expansion.

What have the highlights and challenges been for Versarien during the period?

The highlight has to be the many agreements we have secured in our graphene businesses with large global companies in various industries to incorporate our Nanene and Graphinks into their products. This is an exciting time for us to show the phenomenal advances in technology that graphene can bring to everyone's daily lives. Another highlight has to be winning a commercial agreement with MediaDevil, which will be launching a new range of earphones and other audio equipment and accessories which will feature Versarien's proprietary Nanene graphene nano-platelets and utilise the Nanene brand.

Although we have shown great progress in our graphene businesses, we are still very much in the embryonic stages, and with that comes its challenges. Our mature businesses showed an improved financial performance in the year, and provide an invaluable backbone to the Group's performance.

What are the top three strategic priorities for 2018/19?

1. In our graphene businesses, our focus is to continue to enter into further collaborations and increase production for those wishing to use and evaluate the benefits of using our products, both in the UK and globally, and in particular with partners we select in China. Our aim is to generate significant revenue from these collaboration agreements.

2. International expansion is also a priority for the new financial year, supported by the UK Government.
3. We are also keen to acquire companies which would strengthen the Versarien Group and accelerate routes to market for graphene.

Q What trends are you seeing within the industry?

There is an increasing focus on graphene quality as the market begins to assimilate the effect of the issue of the recent International Standard. This is resulting in global OEMs approaching us having previously tried inferior products without success.

Q Where has Versarien made the most progress?

The most progress has to be in the graphene business:

The introduction of ISO/TS 80004-13: 2017 last year was a welcome development as it defined the vocabulary for graphene and 2D related materials. We are confident that our products meet the criteria.

We have seen an increased take up in collaborations, signing eight in the last six months of 2017/18, and six in the first five months of the new financial year.

With the acquisition of new plant during the year, and additional plant on order, we will see production capacity increase to almost three tonnes per annum.

It is a very exciting time ahead, and we look forward to more collaborations and the commercialisation of our technology.

Q How do you get investors to recognise Versarien's potential?

We have a good relationship with our investors, informing them of our progress with a newsflow of confirmed collaborations.

With our strategy to focus on continual global expansion, we hope our investors will see the potential that this will bring.

Our goal is to receive our first significant order, and we believe that with our clear strategies in place, we will achieve this.

Find out more on **page 13**

We had a very successful fundraising in November 2017 where we were oversubscribed, raising £2.9 million. With these funds we are able to continue our progress towards commercialisation of graphene technology.

Case study

Developing a new range of graphene-based earphones and audio equipment

Versarien has entered into a commercial agreement with MediaDevil to launch a new range of earphones and other audio equipment and accessories which will feature Versarien's proprietary Nanene graphene nano-platelets and utilise the Nanene brand, for which Versarien will receive a royalty on each product sold. This agreement will see our Nanene brand used with consumer goods for the first time.

The products, which initially comprise earphones, will be sold on MediaDevil's "MediaDevil.com" online platform and other online retail platforms such as Amazon, along with being supplied to high street retailers and MediaDevil's distribution partners globally.

In addition, the companies are at an advanced stage of launching a range of mobile phone and tablet device accessories utilising Nanene, which will also feature the Nanene branding.

We have been working on this project for some time with MediaDevil, and the results surpassed expectations.

"We are delighted to have signed this agreement with MediaDevil, which will see our Nanene brand used with consumer goods for the first time."

Neill Ricketts
Chief Executive Officer

Building momentum

Versarien consists of two business segments: Graphene and Plastic Products focused on delivering graphene solutions through plastics and carbon fibre composites and Hard Wear and Metallic Products focused on delivering aluminium and tungsten carbide products.

Graphene and Plastic Products

It has been a year of noteworthy progress for the graphene businesses both commercially and developmentally. Our strategy remains the same, which is to be a supplier of high quality graphene through our Nanene and Graphinks branded products and to continue to enter into application collaborations to maximise the opportunity for exponential growth as the market understands the advantages that it can bring. The latter is accelerated through Government support by the secondment of the Head of Outward Direct Investment, which gives us access to a global corporate audience.

The introduction of ISO/TS 80004-13: 2017 last year was a welcome development as it defined the vocabulary for graphene and 2D related materials. We are confident that our products meet the criteria. In line with our strategy, we are pleased to have announced the following collaborations/agreements during and post the year end, and can provide an update on their current status as detailed in the table on the following page.

Initial quantities of our high quality graphene (Nanene™) have been supplied to support these collaborations, in some cases supplemented by other Versarien 2D materials. In line with the broader market, graphene sales are still at an embryonic stage with the prospect for exponential growth remaining in place.

We have continued to invest in our graphene manufacturing capability to support collaborative agreements and have also ordered additional equipment that will see our graphene capacity reach a maximum of almost three tonnes. Shareholders will be aware that we take a prudent view on capital commitments and scale-up as and when demand dictates we do so. Our European equipment supplier is aware that market-take up will require either significant quantities of standard equipment or custom designed equipment and we intend to enter into a collaboration with them at the earliest opportunity.

We have launched another two-dimensional product during the year, Hexotene, which is a few-layer hexagonal boron nitride (h-Bn) nano-platelet powder, also known as “white graphene”. With the introduction of this product, it widens the focus of Versarien in delivering innovative solutions for industry.

Our focus is now on continuing to agree further collaborations and increase production for those wishing to use and evaluate the benefits of using our products, both in the UK and globally, and in particular with partners we select in China. We entered into a letter of intent earlier in the year with Jinan, the capital of Shangdong Province, and have been in discussions since. Interestingly, the announcement of this has resulted in possible links with another 23 cities or companies in PRC and we are therefore evaluating the best options for international expansion. We are conscious that in doing so we should seek to protect, as far as possible, the IP as well as conclude the best deal for Versarien and its shareholders.

The appointment of a secondee from the UK Government’s Department for International Trade (DIT) in May 2018 is a significant step for our international development, and we are confident that we will successfully progress our overseas investment ambitions.

We purchased AAC as a strategic move to enable us to use graphene in moulded plastics. This is now progressing following the announcement of the commercial agreement with Media Devil where we are looking to incorporate Nanene into mobile phone accessories produced by AAC for the consumer market. AAC’s existing business is providing a useful contribution to the Group’s revenues.

Hard Wear and Metallic Products

Our hard wear parts business has had a successful year, returning to profitability and increasing revenues. It has continued to receive orders from the aerospace industry and, is continuing to seek contracts in other sectors.

We have taken the strategic decision to concentrate on graphene opportunities so are no longer looking to actively develop thermal copper foam, albeit interest for it is still being shown in some sectors. Sales of traditional thermal and other aluminium products have remained steady but are not expected to form a core part of the business moving forward.

Graphene and Plastic Products – collaborations/agreements

Date	Description	Current status
October 2017	Collaboration with Israel Aerospace Industries	Test panels have been produced and tested with additional surfactants now being added.
November 2017	Collaboration with global consumer goods company	Plastic bottles have been produced using graphene enhanced polymers which are currently undergoing physical testing. Blown film trials are being conducted with results expected in the next two months.
December 2017	Agreement with global chemical major	Blown film trials have been conducted. Performance results and film material has been analysed. A second round of trials are underway with results experienced in the next two months.
January 2018	Agreement with global apparel manufacturer	Fabric samples enhanced with graphene have been delivered which show a significant improvement in thermal conductivity of the fabric. Larger scale trials are underway which will include the production process.
February 2018	Medical technology collaboration at Addebrooke's Hospital	Electronics and printing medical bandages have been developed to produce demonstration devices. The electronics will be available for other medical, sports or clothing related applications.
February 2018	Agreement with the shoemaker Vivobarefoot	Initial testing concluded and further testing now being carried out with various graphene loadings. Results expected shortly.
March 2018	Collaboration with Team Sky for cycling equipment	Applications and potential benefits have been reviewed and specific applications are being developed.
March 2018	Collaboration with world leading aerospace group	Applications of graphene into a propeller have been reviewed and a schedule of initial works with a total value of £0.2 million has been defined.
April 2018	Agreement with Luxus	Graphene enhanced polymers and recycled polymers are being evaluated for customer projects. Initial results are expected shortly.
May 2018	Consumer goods collaboration for polymer structures in plastics	Polymers compounded with graphene have been shipped to customer with test results expected shortly.
June 2018	Agreement with Arrow GreenTech	Samples have been shipped to the customer who has conducted tests.
June 2018	Commercial agreement with MediaDevil	Earphones have been tested, demonstrating significant benefits. The product is now ready for production. Prototype phone accessories are being produced at AAC Cyroma and production units under development.
July 2018	Collaboration with ZapGo Ltd	Development of supercapacitors by the addition of Nanene to improve electrical conductivity of supercapacitor cells.
August 2018	Sporting Goods collaboration	Incorporation of Nanene into polymer, leather, elastomers and textile structures in the amateur and professional football sectors.

Showcasing the benefits of **graphene in elite sport**

> "This collaboration with Versarien provides us with a unique opportunity to explore the application of new and emerging materials in high performance cycling."

Carsten Jeppesen
Head of Technical Operations, Team Sky

Team Sky

Versarien and Team Sky have agreed to collaborate to explore the benefits of adding graphene to high performance cycling equipment used by Team Sky. These products may include cycle frames, wheels and tyres, together with rider helmets and further rider apparel.

It is intended that Versarien's proprietary Nanene few-layer graphene nano-platelets and graphene inks will be evaluated in the design and development of new and future products to ascertain any performance benefits that can be gained from improvements in material strength and impact absorption, material weight, and thermal radiation properties through the addition of graphene.

“The opportunities that Graphene technologies offer within the sports industry are extremely exciting. We are delighted to be working with Versarien plc in exploring these opportunities.”

Dr Kristan Bromley
CEO of Bromley Technologies

Bromley Technologies Limited

Versarien has been collaborating with Bromley Technologies Limited since May 2016 to incorporate its graphene enhanced carbon fibre into Bromley’s skeleton sleds.

British Skeleton World Cup competitor, Dominic Parsons, recently set the fastest speed of 137.3 km/hr at the International Bobsleigh & Skeleton Federation World Cup Race in St. Moritz utilising one of three Bromley X22 prototype sleds designed by former World Champion – and four time Olympian – Dr Kristan Bromley. A significant contribution to this speed is attributed to the addition of the new sled ‘pan’ (baseplate/ underside fairing), which was aerodynamically designed for Parsons to reduce drag.

For further information visit our website at **www.versarien.com**

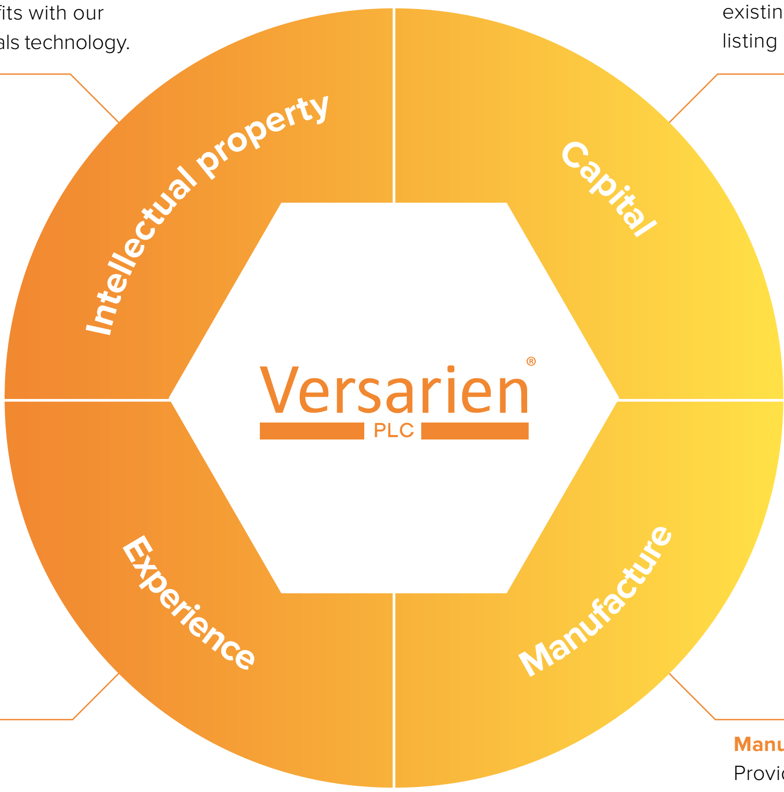
Our business model

A clear and focused business model

Versarien plc seeks to capitalise on innovative IP, transforming it into commercially viable products that can tackle the technological challenges faced by modern manufacturers.

Intellectual property
A continual deal flow either by establishing new licence arrangements with research institutions or by identifying embryonic companies in early stages of development whose intellectual property fits with our definition of advanced materials technology.

Capital
Providing working capital facilities either from existing reserves, its public listing or via banking facilities.



Experience
Applying the management team's experience to developing and commercialising the advanced materials technology.

Manufacture
Providing the plant and equipment to get into production either via its existing production facilities or by funding new facilities.

Our well defined set of strategic objectives

We are looking to continue and build upon the momentum created last year, to make significant progress this year.

Our objectives for the current financial year are to:

1

Identify and acquire majority stakes in companies capable of commercialising graphene applications

We are continually looking at potential acquisitions both in the UK and Europe to further expand our global presence and add to our range of 2-D materials.

2

Sign application development agreements with customer

We are continually looking to build new relationships with global companies to incorporate graphene into their applications.

We have signed six new collaborations already in the current year, and expect this trend to continue.

3

Commence commercial production of graphene in quantity for specific applications

We look forward to receiving the results of our current collaborations and be in a position to commence production on a larger scale when required.

Through purchase of plant in the year and more on order, we will be well positioned to fulfil potential orders.

4

Identify opportunities for international expansion

With the support from the UK Government provided through the secondment of its Head of Outward Direct Investment, we have a great opportunity to be able to seek and progress markets overseas.

Key performance indicators

As a group that consists of mature products supporting the development of early stage technology products, we concentrate on the following financial metrics:

	2018	2017
Group revenue	**£9.02m**	£5.93m
Gross margin percentage	**28%**	24%
Loss before interest, tax, depreciation, amortisation, exceptional costs and share-based charges	**(£0.80m)**	(£1.24m)
Cash (used)/generated by Graphene and Plastic Products	**(£1.09m)**	£0.05m
Cash (used) by Hard Wear and Metallic Products	**(£0.08m)**	(£0.85m)
Cash raised by parent (before loans to/from subsidiaries)	**£2.10m**	£0.52m
Net cash generated/(used) by the Group	**£0.93m**	(£0.28m)

Principal risks and uncertainties

Managing risks effectively

Versarien's businesses are subject to a number of risks and uncertainties and the Board continually considers how to identify and mitigate the key business risks that could impact the Group's performance. The following risks are those that the Group considers could have the most serious adverse effect on its performance and reputation.

Risk	Mitigation	Change
Technological risks Versarien plc operates in an industry where competitive advantage is heavily dependent on technology. It is possible that technological development may reduce the importance of the Group's function(s) in the market or render the patents and licences on which it relies redundant. The Group's existing products may become obsolete or may be superseded by new technologies or changes in customer or end-user requirements.	Versarien plc continually monitors the market in which it operates and has the resources to invest in new technology as appropriate.	
Competition risks New competitive products, designs or solutions may enter the market with different benefits or using different technologies, making them equally or more attractive than the Group's current range of products. Competitors may also be able to devote greater resources to the promotion and sale of their products, designs or solutions than the Group, which would give them a competitive advantage.	The Group continues to provide resources with the aim of improving each generation of products it develops. If the Group is unable to compete successfully with existing or new competitors, it may have to reduce prices on products, which would lead to reduced profits.	
Intellectual property protection risks Failure to protect the Group's IP may result in another party copying or otherwise obtaining and using its proprietary content and technology without authorisation. There may not be adequate protection for IP in every country in which the enlarged Group's products are or will be made available and policing unauthorised use of proprietary information is difficult and expensive.	The Group monitors products brought to market as far as reasonably possible and will take cost-effective legal action to protect its intellectual property.	
Development risk The rate at which the development of the Group's technology is adopted by potential customers is dependent upon the rate at which those customers wish to progress.	The Group mitigates this risk as far as possible by ensuring that it responds rapidly to technical changes that may be required.	

Key:

Decrease   No change   Increase

Risk	Mitigation	Change
Attraction and retention of key employees risks The Group depends upon the continued service and performance of the Executive Officers and key employees and, whilst it has entered into contractual arrangements with these individuals with the aim of securing the services of each of them, retention of these services cannot be guaranteed. The loss of the services of any of the Executive Officers or other key employees could damage the Group's business. Equally, the ability to attract new employees and senior employees with the appropriate expertise and skills cannot be guaranteed.	Risk is mitigated by providing share options to key employees, together with significant opportunities for career advancement.	
Future funding risks It is possible that the Group will need to raise extra capital in the future to develop fully the Company's business or to take advantage of future acquisition opportunities. No assurance can be given that any such additional financing will be available or that, if available, it will be available on terms favourable to the Group or to the Group's shareholders.	Risk is mitigated by maintaining relationships with more than one bank and by dialogue with its institutional shareholders.	
General economic conditions risks Market conditions, particularly those affecting technology companies, may affect the ultimate value of the Group's share price regardless of operating performance. Market perception of technology companies may change, which could impact on the value of investors' holdings and impact on the ability of the Group to raise further funds by an issue of further shares. General economic conditions may affect exchange rates, interest rates and inflation rates. Movements in these rates will have an impact on the Group's cost of raising and maintaining debt financing.	Risk is mitigated by seeking to expand the products and technologies for sale within the Group and by seeking to sell the Group's products to wider geographical areas both directly and through distribution.	
Commodity prices risks A significant amount of Versarien's purchases are metallurgical powders. Consequently, exposure to movements in underlying commodity prices affects profitability.	Where possible we purchase from more than one source under medium to long-term contracts and manage our stock levels accordingly.	

Current trading and outlook

The current financial year has started positively, with the graphene businesses having entered into six collaborations since the year end, including an agreement with MediaDevil to launch a new range of earphones and audio equipment which will utilise our Nanene brand. This is the first time it has been used with consumer goods, and will see Versarien receive a royalty on each product sold.

We have also received initial purchase orders for Nanene both in the UK and China. We anticipate this trend of new collaboration agreements being secured continuing. We therefore look forward with real optimism and confidence to the year ahead.

Neill Ricketts
Chief Executive Officer

17 August 2018

Chief Financial Officer's review

Versarien's revenue for the year ended 31 March 2018 was £9.0 million (2017: £5.9 million) with operating losses before exceptional costs, depreciation, amortisation and share-based payment charges of £0.8 million (2017: £1.2 million).

Net exceptional costs were minimal at £0.03 million (2017: £0.26 million) and the loss before tax for the year was £1.6 million (2017: £2.2 million).

We have seen the value that AAC Cyroma has brought to the Group, having owned it for the whole financial year with revenues of £4.6 million (2017: £2.5 million; 6 months to 31 March 2017) and EBITDA of £0.4 million (2017: £0.1 million; 6 months to 31 March 2017).

Total Carbide returned to profitability with revenues up 45% to £3.2 million (2017: £2.2 million) returning EBITDA of £0.5 million (2017: LBITDA of £0.1 million) and Versarien Technologies revenues of £1.2 million (2017: £1.1 million) and LBITDA of £0.1 million (2017: £0.3 million).

We have continued to invest heavily in our graphene technology businesses as the level of collaborations has increased. Whilst these have yet to produce revenues of any material amount, the quality and size of our collaboration partners gives us more than reasonable expectation that significant future revenues may be achieved. LBITDA for the year was £0.9 million (2017: £0.4 million).

Group net assets at 31 March 2018 were £8.0 million (2017: £6.5 million) including cash of £2.30 million (2017: £1.37 million) with £0.7 million of headroom on our invoice finance facilities (2017: £0.7 million). The Directors consider this sufficient for our current activities over the coming twelve months having made certain assumptions, further details of which are set out below.

In November 2017 we successfully raised £2.9 million before expenses, with the issue being oversubscribed. This has allowed the Company to use the proceeds of the fundraising to purchase capital equipment and provide working capital to enable the various existing and prospective graphene related collaborations with global OEMs to be progressed.

Financed plant and machinery additions, included in the Graphene and Plastic Products business, amounted to £0.3 million.

Cash outflow from operating activities was £1.9 million (2017: £1.3 million) including an increase in working capital of £1.3 million (2017: £0.2 million decrease) arising mainly from increased revenues and the refinancing of plant at AAC. The Group invested £nil, net of cash, in acquisitions (2017: £1.3 million), £0.1 million (2017: £0.05 million) in capitalised development costs, and £0.3 million (2017: £1.0 million) in plant and machinery.

Going concern

The financial statements have been prepared on a going concern basis, which the Directors believe to be appropriate for the following reasons:

- The Group meets its day-to-day working capital requirements through careful cash management and the use of its invoice discounting facilities.
- As at 31 March 2018, the Group had bank balances totalling £2.3 million with £0.7 million of headroom on its invoice discounting facilities.
- The Directors have prepared detailed projections of expected future cash flows for a period of twelve months from the date of issue of the financial statements. These show that the Group is expected to have sufficient cash available to meet its obligations as they fall due for the foreseeable future (at least twelve months).
- These projections assure modest sales growth in the mature revenue generating business.

After due consideration, the Directors have concluded that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future (at least twelve months). For this reason, they continue to adopt the going concern basis in preparing the consolidated financial statements.

Christopher Leigh
Chief Financial Officer

17 August 2018

Corporate governance

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Introduction to corporate governance

Compliance approach

The London Stock Exchange has recently revised Rule 26 for AIM companies to disclose details of a recognised corporate governance code on the Company's website, how it complies with the chosen code, where it departs from it and why. These new disclosures have to be in place by 28 September 2018 and are currently being reviewed by us. The Company intends adopting the revised QCA code issued in 2018. In the meantime, the Company continues to report against the QCA Corporate Governance code issued in 2013, details of which can be found at www.versarien.com/governance/qca-corporate-goverance-code/. As a small company there are some provisions within the code that are not complied with.

Board effectiveness

The Board meets regularly to determine the policy and business strategy of the Group and has adopted a schedule of matters that are reserved as the responsibility of the Board.

The Chief Executive Officer leads the development of business strategies within the Group's operations.

The Audit Committee meets twice a year to consider the scope of the annual audit and the interim financial statements and to assess the effectiveness of the Group's system of internal controls. It reviews the results of the external audit, its cost effectiveness and the objectives of the auditor. Given the size of the Group, the Audit Committee considers an internal audit function is not currently justified. The Audit Committee is chaired by Iain Gray CBE.

The Non-executive Director(s) are the members of the Remuneration Committee. It meets at least once a year to determine Company policy on senior Executive remuneration, to make detailed recommendations to the Board regarding the remuneration packages of the Executive Directors and to consider awards under the Group's option schemes. The Chief Executive Officer is consulted on remuneration packages and policy but does not attend discussions regarding his own package.

The remuneration and terms and conditions of the appointment of Non-executive Directors are determined by the Board. The Remuneration Committee is currently chaired by Iain Gray CBE.

The Board has considered mechanisms by which the business and the financial risks facing the Group are managed and reported to the Board.

The principal business and financial risks have been identified and control procedures implemented. The Board acknowledges its responsibility for reviewing the effectiveness of the systems that are in place to manage risk and to provide reasonable but not absolute assurance with regard to the safeguarding of the Group's assets against misstatement.

The key elements of the system of internal control are:

- clear definition of delegated authorities;
- preparation of annual budgets for Board approval;
- close involvement of senior management in the day-to-day business of the Group; and
- regular reporting of business performance to the Board and the review of results against budget.

Changes to the Board

With effect from 29 June 2017, Ian Balchin resigned as a Director and Non-executive Chairman of the Company, in order to be able to devote more time to his other business interests.

It is the Board's intention to appoint an additional Non-executive Director and we are in the process of commissioning advisers to assist with this. The Board considers that after the appointment of an additional Non-executive Director, there will be an appropriate balance between the Executives and Non-executives and that no individual or small group will dominate the Board's decision making. The Board's members have a wide range of expertise and experience and it is felt that concerns may be addressed to the Non-executive Director(s). The Board has delegated certain authorities to Committees, each with formal terms of reference. The whole Board acts as a Nomination Committee.

Neill Ricketts
Chief Executive Officer

17 August 2018

Leading with experience

An accomplished and experienced Board of Directors.

Neill Ricketts

Executive Chairman and CEO

Neill is a graduate engineer with over 20 years of senior level experience in manufacturing and engineering companies. He has demonstrated success in introducing and commercialising new technology, including new materials and coatings for diverse sectors from aerospace to Formula One, including significant work in the oil and gas sector.

More recently, Neil was appointed to the advisory board of the United States National Graphene Association (NGA) in February 2018.

Christopher Leigh

Chief Financial Officer

Chris is a chartered accountant with a significant track record in the manufacturing and engineering sector. His expertise covers corporate finance, mergers and acquisitions, post-acquisition integration, organisational restructuring and change management. He has previously held Board level positions in a variety of companies.

Iain Gray CBE

Non-executive Director

Iain has spent his executive career at the highest levels within the aerospace sector, initially with British Aerospace before becoming engineering director of Airbus UK. After 27 years in the sector, Iain was, in 2007, appointed chief executive of Innovate UK (formerly the Technology Strategy Board) and was responsible for its successful development into an autonomous, independent profit centre looking to drive growth from commercial investment in new areas of technical innovation. He is director of aerospace at Cranfield University and is a fellow of the Royal Aeronautical Society, the Royal Society of Edinburgh and the Royal Academy of Engineering.

Directors' report

The Directors present their Annual Report on the affairs of the Group and the Company, together with the audited consolidated financial statements and the Auditor's Report, for the period ended 31 March 2018.

Results and dividends

The Group incurred a loss after tax for the year of £1.5 million (2017: £2.2 million). The Directors do not recommend the payment of a dividend (2017: £nil). The Directors are confident of the future prospects of the Group.

Review of the business and future developments

The Directors are required to present an extended business review reporting on the development and performance of the Group and the Company during the year and their positions at the end of the year. This requirement is met by the Strategic Report on pages 1 to 16.

Research and development

Investing in research and development programmes delivers product innovation and manufacturing improvements within Versarien plc. Expenditure on research and development in the year amounted to £0.3 million (2017: £0.3 million), of which £0.05 million has been capitalised (2017: £0.1 million) as the Group focuses on commercialisation of its product portfolio.

Directors

The Directors of the Company who were in office during the year and up to the date of signing the financial statements are listed in the Directors' Remuneration Report on page 22, together with details of their interests in shares and share options.

Directors' indemnities

The Company has granted indemnities to each of its Directors in respect of losses arising out of or in connection with the execution of their powers, duties and responsibilities as Directors to the extent permitted by the Companies Act 2006 and the Company's Articles of Association.

Such qualifying third party indemnity provision remains in force at the date of approving the Directors' Report. In addition, Directors and officers of the Company and its subsidiaries are covered by directors' and officers' liability insurance.

Employees

The Group keeps its staff informed of matters affecting them through a series of informal meetings at which employees are encouraged to ask questions on any aspects of the business and at which they are updated on financial and economic factors that may affect Company performance.

Risk factors

Information on the Group's principal risks and how they are mitigated is given in the Strategic Report.

Treasury activities and financial instruments

It is the Group's policy not to speculate in derivative financial instruments. The Company is not exposed to significant foreign exchange risks. Further details on financial risk factors are included in note 1.

Political donations

No political contributions were made during the year (2017: £nil).

Going concern

The Directors have prepared and reviewed forecasts and projections for a period of not less than twelve months from the approval of the Annual Report. These are based upon assumptions, in particular with regard to the key risks and uncertainties, together with the level of borrowings and other facilities made available to the Group. The Directors have a reasonable expectation that the Group will continue in operational existence for the foreseeable future and, accordingly, continue to adopt the going concern basis in preparing the Group's financial statements. Further details are provided in the Chief Financial Officer's Review on page 16.

Significant shareholdings

In addition to the Directors' holdings disclosed in the Directors' Remuneration Report on page 22, holders of more than 3% of the issued 148,665,029 Ordinary shares of the Company at 28 June 2018 are listed below.

Awareness of relevant audit information

At the date of this report and insofar as each of the Directors is aware:

- there is no relevant audit information of which the auditor is unaware; and
- the Directors have taken all steps they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditor

A resolution to re-appoint PricewaterhouseCoopers LLP as auditor will be proposed at the Annual General Meeting.

Significant shareholdings

	Ordinary shares	% held
Hargreaves Lansdown	32,590,315	21.92
Interactive Investor Trading Limited	14,328,956	9.64
Halifax Share Dealing	9,999,287	6.73
Barclays Stockbrokers Limited	7,349,872	4.94
A J Bell Securities	5,837,553	3.93
Will Battrick	4,877,844	3.28
Equiniti Shareview	4,732,893	3.18

By order of the Board

Christopher Leigh
Company Secretary

17 August 2018

Directors' remuneration report

Directors' remuneration

Following the resignation of the Non-executive Chairman, the Remuneration Committee currently comprises the one Non-executive Director; Iain Gray CBE who chairs the Committee. The Remuneration Committee decides the remuneration policy that applies to Executive Directors.

Salaries and benefits

The Remuneration Committee meets at least once a year in order to consider and set the remuneration packages for Executive Directors. The remuneration packages are benchmarked annually to ensure comparability with companies of a similar size and complexity. Remuneration comprises basic salary, auto-enrolment pension contributions, and benefits in kind. In addition, certain Directors are paid a car allowance or receive a contribution to their travel expenses.

Remuneration also includes share options and carried interest as detailed below.

Contracts of service

The Executive Directors, Neill Ricketts and Christopher Leigh, each have a service agreement containing one year's notice. The Non-executive Director, Iain Gray CBE, has a service agreement with a three-month notice period.

Directors' interests – interests in share options (audited)

Details of options held by Directors who were in office at 31 March 2018 are set out below. Details of the Company's option schemes are set out in note 22 to the financial statements.

The market price of the Company's shares at 31 March 2018 was 79.50 pence. The range of market prices during the year was 13.13 pence to 113.50 pence.

Directors' interests – interests in shares (audited)

Directors in office at 31 March 2018 had interests in the Ordinary shares of 1 pence each in the Company as displayed in the table below.

	2018 Number	2017 Number
Neill Ricketts	**15,653,720**	15,375,000
Christopher Leigh	**315,000**	165,000

Iain Gray CBE
Non-executive Director

17 August 2018

Directors' remuneration (audited)

	Salary		Benefits and bonuses		Total	
	2018 £'000	2017 £'000	**2018 £'000**	2017 £'000	**2018 £'000**	2017 £'000
Executive						
Neill Ricketts	**195**	128	**11**	61	**206**	189
Christopher Leigh	**151**	113	**11**	61	**162**	174
	346	241	**22**	122	**368**	363
Non-executive						
Ian Balchin (resigned 29 June 2017)	**—**	26	**—**	—	**—**	26
Iain Gray CBE	**20**	20	**—**	—	**20**	20
	20	46	**—**	—	**20**	46

Directors' interests in share options (audited)

Director	Date of grant	Number	Exercise price	Expiry date
Neill Ricketts	2 October 2014	1,050,761	29.00p	2 October 2024
	2 October 2017	2,626,614	15.00p	2 October 2027
Christopher Leigh	2 October 2014	1,050,761	29.00p	2 October 2024
	2 October 2017	2,626,614	15.00p	2 October 2027

Statement of Directors' responsibilities

In respect of the financial statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 parent company and of the profit or loss of the Group and parent company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the Group financial statements and IFRSs as adopted by the European Union have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and parent company will continue in business.

The Directors are also responsible for safeguarding the assets of the Group and parent company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and parent company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and parent company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The Annual Report and Accounts will be available to download from the investor relations section on the Company's website at www.versarien.com.

Directors' confirmations

In the case of each Director in office at the date the Directors' Report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Group and parent company's auditor is unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group and parent company's auditor is aware of that information.

Financial statements

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Independent auditor's report
To the members of Versarien plc

Report on the financial statements
Opinion
In our opinion, Versarien plc's group financial statements and company financial statements (the "financial statements"):

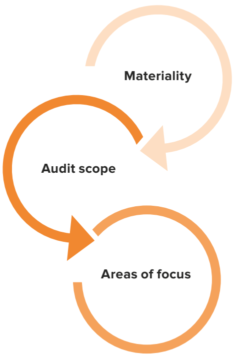
- give a true and fair view of the state of the group's and of the company's affairs as at 31 March 2018 and of the group's loss and the group's and the company's cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union and, as regards the company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the group and company statements of financial position as at 31 March 2018; the group statement of comprehensive income, the statements of group and company cash flows, and the group and company statements of changes in equity for the year then ended; the accounting policies; and the notes to the financial statements.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach
Overview



- Overall group materiality: £78,000, based on 5% of loss before tax.
- Overall company materiality: £35,000, based on 5% of loss before tax.
- We performed full scope audit procedures in respect of the group's largest trading subsidiaries throughout the UK.
- Our audit procedures over significant components covered subsidiaries contributing 89% of the group's loss before tax for the year ended 31 March 2018.
- Goodwill impairment assessment (Group).
- Capitalisation of development costs (Group).

The scope of our audit
As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Independent auditor's report continued

To the members of Versarien plc

Report on the financial statements continued

Independence continued

Our audit approach continued

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, 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, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Goodwill impairment assessment (Group) At 31 March 2018, the Consolidated Statement of Financial Position includes £2,200,000 of goodwill (2017: £2,200,000). In accordance with the requirements of IFRS, management has performed impairment reviews in relation to the goodwill held in the group's cash generating units (CGUs). The value of the goodwill is supported by multiple-year profitability projections based on the budget for 2018. The impairment reviews include significant estimates and judgements in respect of future growth rates and cash flows and the discount rate employed.	We obtained the group's cash flow forecasts supporting its assessments and evaluated the appropriateness of key assumptions. We assessed the methodology used by management in performing the assessments and challenged and evaluated key inputs including: • the projected growth rates used; • the discount rate used; and • other key inputs, including the applicable tax rate, forecast capital expenditure and forecast margins. We considered the post year end financial performance against budget. We performed a range of sensitivity analyses to assess the impact of alternative assumptions to those used by management. We also considered the market capitalisation of the group given the early stage nature of the group's graphene businesses. We concur with management's assertion that no impairment charge is required in respect of goodwill.
Intangible assets (development expenditure) impairment assessment (Group) We focussed on this area because of the magnitude of capitalised development expenditure of £235,000 and the risk that amounts may not be recoverable if adequate future sales are not generated. During the year, within Versarien Technologies, some capitalised costs of £191,000 relating to certain projects were written off as the projects had not progressed. In particular we have focussed on the capitalised development costs relating to graphene projects, given the amounts held in the balance sheet and the stage of development of the technology.	We tested a sample of capitalised development costs against the criteria set out in IAS38 'Intangible assets' including the technical feasibility and the viability of the completion of the projects and the ability for the projects to generate future economic benefits and gain necessary regulatory approvals. We updated our understanding of the purpose and status of the projects in order to gain comfort over the future economic benefit of the projects and reviewed collaboration agreements in place related to each project. Where applicable, we also obtained the grant income documentation that directly relates to these projects. We assessed individually each of the major projects for indicators of impairment, such as ongoing progress of commercialisation. As a result of our work we determined that the judgement by management to fully impair the intangibles within Versarien Technologies Limited was appropriate and that no impairment was required for the major graphene development projects.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

The group is made up of a number of entities which operate at different locations throughout the United Kingdom. The significant operations include the development and commercialisation of graphene technology. Other significant revenue generating activities include the manufacture and sale of tungsten carbide hard metal products, the sale and manufacture of vacuum formed and injection moulded plastics and the sale of aluminium products.

We have assessed Versarien plc, Total Carbide Ltd, Versarien Technologies Limited and 2-DTech Limited to be financially significant components of the group due to their individual contributions to the overall loss before tax. AAC Cyroma Limited has also been determined as a significant component due to the materiality of individual financial statement line items to the overall group. The audit of each of these entities was completed by the same team and thus there has been no requirement to engage with component auditors.

Report on the financial statements continued

Independence continued

Our audit approach continued

How we tailored the audit scope continued

Our audit of these five significant components addresses 89% of the group loss before tax, as well as 100% of revenue.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements
Overall materiality	£78,000	£35,000
How we determined it	5% of loss before tax.	5% of loss before tax.
Rationale for benchmark applied	Loss before tax is considered a key focus for management and the directors as the group has reduced losses in the current year.	The entity does not generate any external revenue and therefore, loss before tax is considered to be an appropriate benchmark.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £26,000 and £74,000. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £4,000 (Group audit) and £2,000 (Company audit) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- 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 and 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.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 March 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Independent auditor's report continued

To the members of Versarien plc

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities set out on page 23, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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 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 company or to cease operations, or have no realistic alternative but to do so.

Auditors' 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 auditors' 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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Other voluntary reporting

Directors' remuneration

The company voluntarily prepares a Directors' Remuneration Report in accordance with the provisions of the Companies Act 2006. The directors requested that we audit the part of the Directors' Remuneration Report specified by the Companies Act 2006 to be audited as if the company were a quoted company.

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Colin Bates (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol

17 August 2018

Group statement of comprehensive income

For the year ended 31 March 2018

	Note	2018 £'000	2017 £'000
Continuing operations			
Revenue	3	**9,024**	5,928
Cost of sales		**(6,496)**	(4,531)
Gross profit		**2,528**	1,397
Other operating income	4	**63**	180
Operating expenses (including exceptional items)	5	**(4,102)**	(3,769)
Loss from operations before exceptional items		**(1,477)**	(1,929)
Exceptional items	6	**(34)**	(263)
Loss from operations		**(1,511)**	(2,192)
Finance costs	7	**(50)**	(11)
Finance income	7	**—**	1
Loss before income tax		**(1,561)**	(2,202)
Income tax	9	**63**	—
Loss for the year		**(1,498)**	(2,202)
Loss attributable to:			
– Owners of the parent company		**(1,381)**	(2,132)
– Non-controlling interest		**(117)**	(70)
		(1,498)	(2,202)
Loss per share attributable to the equity holders of the Company:			
Basic and diluted loss per share	10	**(1.00)p**	(1.85)p

There is no other comprehensive income for the year.

The accompanying notes are an integral part of these financial statements. The Company has elected to take the exemption under Section 408 of the Companies Act 2006 to not present the Company Income Statement.

Group statement of financial position

At 31 March 2018

	Note	2018 £'000	2017 £'000
Assets			
Non-current assets			
Intangible assets	11	**2,678**	2,923
Property, plant and equipment	12	**2,980**	3,106
Deferred taxation	9	**25**	25
		5,683	6,054
Current assets			
Inventory	14	**1,961**	1,888
Trade and other receivables	15	**2,437**	1,906
Current tax		**77**	39
Cash and cash equivalents		**2,296**	1,367
		6,771	5,200
Total assets		**12,454**	11,254
Equity			
Called up share capital	21	**1,486**	1,313
Share premium account	21	**12,529**	9,762
Merger reserve		**1,256**	1,256
Share-based payment reserve		**187**	115
Accumulated losses		**(7,225)**	(5,844)
Equity attributable to owners of the parent company		**8,233**	6,602
Non-controlling interest		**(254)**	(137)
Total equity		**7,979**	6,465
Liabilities			
Non-current liabilities			
Trade and other payables	18	**167**	271
Provisions	19	**—**	80
Deferred tax liabilities	9	**64**	64
Long-term borrowings	20	**456**	657
		687	1,072
Current liabilities			
Trade and other payables	16	**1,849**	2,363
Provisions	17	**80**	—
Current tax		**284**	363
Invoice discounting advances	20	**1,117**	735
Current portion of long-term borrowings	20	**458**	256
		3,788	3,717
Total liabilities		**4,475**	4,789
Total equity and liabilities		**12,454**	11,254

The accompanying notes are an integral part of these financial statements.

The financial statements on pages 29 to 53 were approved by the Board of Directors on 17 August 2018 and signed on its behalf by:

Neill Ricketts
Chief Executive Officer

Christopher Leigh
Chief Financial Officer

Registered number 8418328

Company statement of financial position

At 31 March 2018

	Notes	2018 £'000	2017 £'000
Assets			
Non-current assets			
Investment in subsidiaries	13	**4,875**	4,875
Property, plant and equipment	12	**5**	8
		4,880	4,883
Current assets			
Trade and other receivables	15	**2,668**	1,263
Current tax		**—**	1
Cash and cash equivalents		**1,716**	950
		4,384	2,214
Total assets		**9,264**	7,097
Equity			
Called up share capital	21	**1,486**	1,313
Share premium account	21	**12,529**	9,762
Merger relief reserve		**1,203**	1,203
Other reserve		**(431)**	(431)
Share-based payment reserve		**187**	115
Loss for the year and total comprehensive income		**(702)**	(1,836)
Accumulated losses		**(5,905)**	(4,069)
Total equity		**8,367**	6,057
Liabilities			
Non-current liabilities			
Provisions	19	**—**	80
Current liabilities			
Trade and other payables	16	**796**	932
Provisions	17	**80**	—
Current tax		**21**	28
Total liabilities		**897**	1,040
Total equity and liabilities		**9,264**	7,097

The accompanying notes are an integral part of these financial statements.

The financial statements on pages 29 to 53 were approved by the Board of Directors on 17 August 2018 and signed on its behalf by:

Neill Ricketts
Chief Executive Officer

Christopher Leigh
Chief Financial Officer

Registered number 8418328

Group statement of changes in equity

For the year ended 31 March 2018

	Share capital £'000	Share premium account £'000	Merger reserve £'000	Share-based payment reserve £'000	Accumulated losses £'000	Non-controlling interest £'000	Total equity £'000
At 1 April 2016	1,056	7,163	1,017	91	(3,712)	(67)	5,548
Loss for the year and total comprehensive income	—	—	—	—	(2,132)	(70)	(2,202)
Issue of shares (note 21)	257	2,599	239	—	—	—	3,095
Share-based payments (note 22)	—	—	—	24	—	—	24
At 31 March 2017 and 1 April 2017	1,313	9,762	1,256	115	(5,844)	(137)	6,465
Loss for the year and total comprehensive income	—	—	—	—	(1,381)	(117)	(1,498)
Issue of shares (note 21)	173	2,767	—	—	—	—	2,940
Share-based payments (note 22)	—	—	—	72	—	—	72
At 31 March 2018	**1,486**	**12,529**	**1,256**	**187**	**(7,225)**	**(254)**	**7,979**

Included within the merger reserve is £53,000 in respect of the merger with Versarien Technologies Limited, £964,000 in respect of the acquisition of Total Carbide Limited and £239,000 in respect of the acquisition of AAC Cyroma Limited.

Company statement of changes in equity

For the year ended 31 March 2018

	Share capital £'000	Share premium account £'000	Merger reserve £'000	Other reserve £'000	Share-based payment reserve £'000	Retained earnings £'000	Total equity £'000
At 1 April 2016	1,056	7,163	964	(431)	91	(4,069)	4,774
Loss for the year and total comprehensive income	—	—	—	—	—	(1,836)	(1,836)
Issue of shares (note 21)	257	2,599	239	—	—	—	3,095
Share-based payments (note 22)	—	—	—	—	24	—	24
At 31 March 2017 and 1 April 2017	1,313	9,762	1,203	(431)	115	(5,905)	6,057
Loss for the year and total comprehensive income	—	—	—	—	—	(702)	(702)
Issue of shares (note 21)	173	2,767	—	—	—	—	2,940
Share-based payments (note 22)	—	—	—	—	72	—	72
At 31 March 2018	**1,486**	**12,529**	**1,203**	**(431)**	**187**	**(6,607)**	**8,367**

Other reserve represents the difference between the nominal value of shares on the acquisition of Versarien Technologies Limited and the carrying amount of Versarien plc's share of the net assets of Versarien Technologies Limited at that date.

Statement of Group and Company cash flows

For the year ended 31 March 2018

	Note	Group 2018 £'000	Group 2017 £'000	Company 2018 £'000	Company 2017 £'000
Cash flows from operating activities					
Cash used in operations	25	**(1,907)**	(1,250)	**(845)**	(609)
Interest paid		**(50)**	(10)	**—**	(1)
Corporation tax paid		**(9)**	—	**—**	—
Net cash used in operating activities		**(1,966)**	(1,260)	**(845)**	(610)
Cash flows from investing activities					
Acquisition of subsidiaries (net of cash acquired)		**—**	(1,324)	**—**	(1,364)
Loans to subsidiaries		**—**	—	**(1,327)**	(359)
Purchase of intangible assets		**(148)**	(52)	**—**	—
Purchase of property, plant and equipment		**(280)**	(977)	**(2)**	(4)
Net cash used in investing activities		**(428)**	(2,353)	**(1,329)**	(1,727)
Cash flows from financing activities					
Share issue		**3,069**	2,560	**3,069**	2,560
Share issue costs		**(129)**	(67)	**(129)**	(67)
Finance leases (net of repayments)		**1**	776	**—**	—
Invoice discounting loan proceeds		**382**	63	**—**	—
Net cash generated from financing activities		**3,323**	3,332	**2,940**	2,493
Increase/(decrease) in cash and cash equivalents		**929**	(281)	**766**	156
Cash and cash equivalents at beginning of year		**1,367**	1,648	**950**	794
Cash and cash equivalents at end of year		**2,296**	1,367	**1,716**	950

The accompanying notes are an integral part of these financial statements.

Accounting policies
For the year ended 31 March 2018

General information
Versarien plc is a public limited liability company incorporated in the United Kingdom. The address of its registered office is Unit 2, Chosen View Road, Cheltenham, Gloucestershire GL51 9LT. The nature of the Group's operations and its principal activities are set out in the Strategic Report on pages 1 to 16.

These financial statements are presented in Sterling, the currency of the primary economic environment in which the Group operates, and all values are rounded to the nearest thousand (£'000) except where otherwise stated.

Summary of significant accounting policies
The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

Basis of accounting
The financial statements have been prepared on a going concern basis. The business model of the Group, together with the principal risks and uncertainties, is set out in the Strategic Report and the Group's financial risk management is covered in note 1 to the Notes to the financial statements. The progress of the Group since the balance sheet date is described in the Strategic Report. Having reviewed cash flow projections, the Directors believe that the Company has adequate resources to continue in operation for the foreseeable future and have therefore adopted the going concern basis in preparing these financial statements as described in the Chief Financial Officer's Review on page 16.

The financial statements of the Group and the Company have been prepared in accordance with The Companies Act 2006 as applicable to companies using International Financial Reporting Standards (IFRSs) as adopted for use in the European Union issued by the IFRS Interpretations Committee (IFRS IC).

The financial statements have been prepared on the historical cost basis, except where IFRSs require an alternative treatment. The principal variations from historical cost relate to financial instruments (IAS 39).

IAS 7 (Revised) became effective for the current reporting period and requires that changes in liabilities arising from financing activities must be disclosed separately from changes in other assets and liabilities. As such, this has been done in the notes to the financial statements.

Certain changes to IFRSs will be applicable to the consolidated financial statements in future years. IFRS 15 "Revenue from Contracts with Customers" is effective for the Group for its 2019 financial statements and is not expected to have a material impact on the Group financial statements.

IFRS 9 "Financial Instruments" is also effective for the Group for its 2019 financial statements and IFRS 16 "Leases" will be effective for the Group for its 2020 financial statements, both of which are not expected to have a material impact on the Group financial statements. There are no other standards or interpretations that are expected to have a material effect on the Group's net assets or results.

On adoption of IFRS 16, the adjustments expected are:

- an increase of £1.0 million to opening non-current assets and current liabilities as at 1 April 2019, and a closing non-current assets and current liabilities of £0.7 million; and
- a decrease to operating costs of £0.33 million, and an inclusion of £0.29 million amortisation charge and £0.04 million of finance costs.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

Basis of consolidation
The Group financial statements consolidate the financial statements of Versarien plc and its subsidiary undertakings. The Company acquired the entire share capital of Versarien Technologies Limited in a share-for-share exchange on 21 March 2013. The Directors note that transactions under common control are outside the scope of IFRS 3 and that there is no guidance elsewhere in IFRSs covering such transactions. IFRSs contain specific guidance to be followed where a transaction falls outside the scope of IFRSs. This guidance is included in paragraphs 10 to 12 of IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". This requires, inter alia, that, where IFRSs do not include guidance for a particular issue, the Directors may also consider the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework to develop accounting standards. In this regard, it is noted that the United Kingdom Financial Accounting Standards Board (ASB) had issued an accounting standard covering business combinations (FRS 6) that is similar in a number of respects to IFRS 3. FRS 6 (and US GAAP) does include guidance for accounting for Group reconstructions of this nature. Having considered the requirements of IAS 8 and the related UK and US guidance, the transaction by which the Company acquired the entire share capital of Versarien Technologies Limited was accounted for on a merger or pooling of interest basis as if both entities had always been combined. The combination was accounted for using book values, with no fair value adjustments made nor goodwill created. All other subsidiary undertakings are consolidated using acquisition accounting from the date of acquisition.

Goodwill arising on the acquisition of subsidiaries represents the fair value of the consideration less the fair value of the identifiable assets and liabilities acquired and is recognised as an intangible asset. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

Accounting policies continued
For the year ended 31 March 2018

Segmental reporting
The Directors regard the Group's reportable segments of the business to be the manufacture of thermal aluminium, other aluminium and tungsten carbide hard wear products ("Hard Wear and Metallic Products"), the development and manufacture of graphene and plastics ("Graphene and Plastic Products") and holding company activities ("Central Activities"). The business has no significant geographical aspect. Costs are allocated to the appropriate segment as they arise with central overheads apportioned on the basis of estimated time spent by central staff on subsidiary affairs. This segmentation is consistent with internal reports to the chief operating decision maker for use in assessing business performance and allocating Group resources. The chief operating decision maker is the Chief Executive Officer of the Group and the activity of each segment is explained in the Strategic Report.

Borrowings
Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Group Statement of Comprehensive Income over the period of the borrowings using the effective interest method.

Provisions
Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation discounted using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. Any increase in the provision due to passage of time is recognised as interest expense.

Intangible assets
Goodwill

Goodwill arising on consolidation represents the excess of the consideration payable over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill is recognised as an asset and reviewed for impairment annually. For the purposes of assessing impairment, assets are grouped into cash-generating units (CGU) being the lowest levels for which there are separately identifiable cash flows. Any impairment is recognised immediately in the Group Statement of Comprehensive Income and is not subsequently reversed. When the Group disposes of an interest in a subsidiary, the value of goodwill is reduced by the proportion that relates to the interest being disposed of.

Acquired intangible assets

Intangible assets are recognised on business combinations if they are separable from the acquired entity or give rise to other contractual/legal rights. The amounts ascribed to such intangibles are arrived at by using appropriate valuation techniques.

The intangible assets acquired and referred to in note 11 represent the estimated present value of the acquired company's customer relationships in respect of the acquisition of the share capital of Total Carbide Limited, the acquisition of the business of Custom Systems Limited and the acquisition of AAC Cyroma Limited. Amortisation of intangible assets is charged on a straight line basis over five years and is reviewed annually for impairment.

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. Capitalised development costs are written off over a period of four years from the point at which commercial production commences.

Licence accounting

In line with IAS 38 it is the Company's policy to recognise an acquired license when:

(a) a financial instrument is deemed separable from the entity and can be sold, transferred, licensed, rented or exchanged;

(b) a financial instrument arises from a contractual or other legal right;

(c) future economic benefits are expected from the financial instrument; and

(d) the cost of the asset can be measured reliably.

Management believes the commitment to purchase the licence to sell graphene inks meets the criteria above.

Amortisation is applied to an intangible asset where management believes the useful life of the asset is finite; in accordance with IAS 38, the useful life shall not exceed the period of contractual or other legal rights. As such, management believes the appropriate amortisation rate for the licence of metal foam and graphene ink technologies is as follows:

- Licence – straight line over five years

The amortisation charge for the year is included in administration expenses.

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and any provision for impairment.

Depreciation

Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset on a straight line basis over its expected useful life. The rates of depreciation are as follows:

Leasehold improvements – over the term of the lease
Plant and equipment – three to 15 years

Financial instruments

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

Inventories

Inventory is valued at the lower of cost and net realisable value. Cost comprises all direct expenditure and production overheads based on a normal level of activity. Provision is made for obsolete, slow-moving and defective inventory. Cost is calculated on a first-in, first-out basis and net realisable value represents the estimated sales value less costs to completion.

Trade and other receivables

Trade and other receivables do not carry any interest and are stated at amortised cost as reduced by appropriate allowances for estimated irrecoverable amounts. Provisions for losses are made when there is objective evidence that settlement according to original conditions will not be received.

Cash

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits.

Trade payables

Trade payables are not interest bearing and are stated at their amortised cost.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Accounting policies continued
For the year ended 31 March 2018

Current and deferred tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the Group Statement of Comprehensive Income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Deferred taxation is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Deferred taxation liabilities are generally recognised on all taxable temporary differences. Deferred taxation assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred taxation is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted at the balance sheet date. The carrying value of deferred taxation 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 against which taxable temporary differences can be utilised. Deferred tax is charged or credited to the Group Statement of Comprehensive Income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Share-based payments

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight line basis over the vesting period, based on the Group's estimate of shares or options that will eventually vest.

Employer's National Insurance in the United Kingdom and equivalent taxes in other jurisdictions are payable on the exercise of certain share options. In accordance with IFRS 2, this is treated as a cash-settled transaction. A provision is made, calculated using the fair value of the Company's shares at the balance sheer date and pro-rated over the vesting period of the options.

Fair value is measured using the Black-Scholes pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group's activities and is shown net of value-added tax, returns, rebates and discounts. The Group recognises revenue when the amount of revenue can be reliably measured upon despatch to the customer and it is probable that future economic benefits will flow to the entity.

Grant income recognition

Grant income is recognised in the Group Statement of Comprehensive Income on a receivable basis. A grant, contribution or donated asset may be received subject to a condition that it be returned to the transferor if a specified future event does or does not occur. A return obligation does not arise until such time as it is expected that the condition will be breached and a liability is not recognised until that time. Such conditions do not prevent the grant, contribution or donated asset being recognised as income in the Statement of Comprehensive Income. Capital grants are recognised over the useful life of the funded asset.

Foreign currencies

Assets and liabilities in foreign currencies are translated into Sterling at the rates of exchange ruling at the Statement of Financial Position date. Transactions in foreign currencies are translated into Sterling at the rate of exchange ruling at the date of transaction. Exchange differences are taken into account in arriving at the operating result.

Operating leases

Amounts due under operating leases are charged to the Group Statement of Comprehensive Income in equal annual instalments over the period of the lease.

Finance leases

Tangible fixed assets acquired under finance leases and hire purchase agreements are recognised and disclosed under tangible fixed assets at their fair value or the present value of minimum lease payments if lower. The capital element of the future payments is treated as a liability and the interest is charged to the Group Statement of Comprehensive Income on a straight line basis.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its property and equipment and intangible assets with finite lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Goodwill arising on acquisition is allocated to cash-generating units. The recoverable amount of the cash-generating unit to which goodwill has been allocated is tested for impairment annually, or on such other occasions that events or changes in circumstances indicate that it might be impaired. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. Impairment losses relating to goodwill are not reversed.

Exceptional items

Exceptional items are defined as items of income and expenditure which, in the opinion of the Directors, are material and unusual in nature or of such significance that, in order to give a full understanding of the Group's underlying financial performance, they require separate disclosure on the face of the Group Statement of Comprehensive Income in accordance with IAS 1 "Presentation of Financial Statements".

Notes to the financial statements

For the year ended 31 March 2018

1. Financial risk management

Financial risk factors

The Group's business activities are set out on pages 2 to 3 within the Strategic Report. These activities expose the Group to a number of financial risks. The following describes the Group's objectives, policies and processes for managing these risks and the methods used to measure them.

(a) Capital risk management

The Group's objectives for managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, and to maintain an efficient capital structure to manage the cost of capital. In order to maintain or adjust the capital structure, the Group may issue new shares. There were no changes in the Group's approach to capital management during the year.

(b) Foreign currency risk

Foreign currency risk arises both where sale or purchase transactions are undertaken in currencies other than the respective functional currencies of Group companies. The Group is exposed to the changes in foreign currency exchange rates between a number of different currencies but the Group's primary exposures relate to the Euro.

The Group's policy is not to hedge its exposure using financial instruments, but to mitigate exposure by natural hedges as far as possible. If the currencies to which the Group is exposed had strengthened by 10%, the reported loss after taxation would not have been materially different to that reported.

(c) Interest rate risk

The Group currently uses invoice discounting advances to fund working capital requirements and hire purchase to fund plant and machinery additions and holds surplus funds on deposit. Interest rate risks are not hedged. If the interest rates to which the Group is exposed had increased by 1%, the reported loss after taxation would not have been materially different to that reported.

(d) Credit risk

The Group's credit risk is primarily attributable to its trade receivables and other current assets. The amounts recognised in the balance sheet are net of provision for doubtful debts. Trade receivables are subject to credit limits. Credit risk associated with cash balances is managed by transacting with financial institutions of high quality.

The maximum exposure to credit risk for trade receivables and other current assets is represented by their carrying amount.

(e) Liquidity risk

The Group seeks to manage liquidity risk to ensure sufficient liquidity is available to meet the requirements of the business and to invest cash assets safely and profitably. The Board reviews regularly available cash to ensure there are sufficient resources for working capital requirements and to meet the Group's financial commitments.

At 31 March 2017 and 31 March 2018, all amounts shown in the Group Statement of Financial Position under current assets and current liabilities mature for payment within one year.

2. Significant accounting estimates and judgements

Sources of estimation uncertainty

The preparation of the financial statements requires the Group to make estimates, judgements and assumptions that affect the reported amount of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. The Directors base their estimates on historical experience and various other assumptions that they believe are reasonable under the circumstances, the results of which form the basis for making judgements about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting 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.

Estimates and judgements are continually made and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable in the circumstances.

2. Significant accounting estimates and judgements continued

Critical accounting estimates and judgements continued

As the use of estimates is inherent in financial reporting, actual results could differ from these estimates. The Directors believe the following to be the key areas of estimation and judgement:

(i) Goodwill impairment

The recoverable amount of goodwill is determined based on value-in-use calculations of the cash-generating units to which it relates. Further detail on key assumptions, including growth rates, discount rates and the time period of these value-in-use calculations, is given in note 11.

(ii) Fair value of identifiable net assets acquired

Upon acquisition of a business, its identifiable assets and liabilities are assessed to determine their fair value. The values attributed to assets and liabilities as part of this process are, where appropriate, based on market values identified for equivalent assets, together with management's experience and assessments, including comparison to the carrying value of assets of a similar condition and age in the existing business.

(iii) Useful economic lives of intangible and tangible assets

In relation to the Group's finite life, intangible assets and property, plant and equipment, useful economic lives and residual values of assets have been established using historical experience and an assessment of the nature of the assets involved. Assets are assessed on an ongoing basis to determine whether circumstances exist that could lead to potential impairment of the carrying value of such assets.

3. Segmental information – business and geographical segments

At 31 March 2018, the Group is organised into two business segments. Central costs are reported separately.

Information reported to the Group's Chief Executive Officer for the purposes of resource allocation and assessment of segment performance is focused on the two principal business segments of Graphene and Plastic Products and Hard Wear/Metallic Products, and, accordingly, the Group's reportable segments under IFRS 8 are based on these activities.

Segment profit/(loss) represents the profit/(loss) earned by each segment, including a share of central administration costs, which are allocated on the basis of time spent by central staff on subsidiary affairs. This is the measure reported to the Chief Executive Officer for the purposes of resource allocation and assessment of segment performance.

The segment analysis for the year ended 31 March 2018 is as follows:

	Central £'000	Graphene and Plastic Products £'000	Hard Wear and Metallic Products £'000	Intra-group adjustments £'000	Total £'000
Revenue	**—**	**4,643**	**4,385**	**(4)**	**9,024**
Gross profit	—	1,198	1,330	—	2,528
Other operating income	—	9	54	—	63
Operating expenses	(695)	(1,918)	(1,437)	(52)	(4,102)
Loss from operations	(695)	(711)	(53)	(52)	(1,511)
Finance charge	—	(21)	(29)	—	(50)
Loss before tax	**(695)**	**(732)**	**(82)**	**(52)**	**(1,561)**
Total assets	9,264	4,575	4,911	(6,296)	12,454
Total liabilities	(897)	(5,358)	(4,345)	6,125	(4,475)
Net assets/(liabilities)	**8,367**	**(783)**	**566**	**(171)**	**7,979**
Capital expenditure	2	373	53	—	428
Depreciation/amortisation and impairment	5	227	511	52	795

Notes to the financial statements continued

For the year ended 31 March 2018

3. Segmental information – business and geographical segments continued

The segment analysis for the year ended 31 March 2017 is as follows:

	Central £'000	Graphene and Plastic Products £'000	Hard Wear and Metallic Products £'000	Intra-group adjustments £'000	Total £'000
Revenue	—	2,628	3,300	—	5,928
Gross profit	—	685	712	—	1,397
Other operating income	—	123	57	—	180
Operating expenses	(712)	(1,360)	(1,672)	(25)	(3,769)
Loss from operations	(712)	(552)	(903)	(25)	(2,192)
Finance income/(charge)	1	(9)	(2)	—	(10)
Loss before tax	(711)	(561)	(905)	(25)	(2,202)
Total assets	7,107	3,907	5,253	(5,013)	11,254
Total liabilities	(1,058)	(4,058)	(4,620)	4,947	(4,789)
Net assets/(liabilities)	6,049	(151)	633	(66)	6,465
Capital expenditure	4	130	947	—	1,081
Depreciation/amortisation	1	274	362	25	662

Geographical information

The Group's revenue from external customers and information about its segment assets by geographical location are detailed below:

	Revenue from external customers		Non-current assets	
	2018 £'000	2017 £'000	**2018 £'000**	2017 £'000
United Kingdom	**7,657**	4,823	**5,683**	6,054
Rest of Europe	**1,002**	763	**—**	—
North America	**2**	11	**—**	—
Other	**363**	331	**—**	—
	9,024	5,928	**5,683**	6,054

4. Other operating income

	2018 £'000	2017 £'000
Grant income	**63**	180

5. Expenses by nature

Expenses included in operating expenses are analysed below:

	2018 £'000	2017 £'000
Operating expenses		
Employee costs (salaries, national insurance and pension)	**3,075**	2,781
Share-based payments	**72**	24
Research and development	**344**	273
Depreciation	**402**	300
Profit on foreign currency translation	**(12)**	(8)
Amortisation	**202**	362
Operating lease rentals:		
– Machinery, equipment and vehicles	**11**	11
– Land and buildings	**535**	384
Audit services:		
– Fees payable to Company auditor for the audit of the parent company and consolidated financial statements	**28**	22
– The audit of the Company's subsidiaries pursuant to legislation	**59**	64

6. Exceptional items

	2018 £'000	2017 £'000
Relocation and restructuring costs	**31**	154
Acquisition costs	**—**	105
Release of deferred consideration	**(80)**	—
Impairment of development costs (note 11) net of deferred grant income release	**72**	—
Other	**11**	4
	34	263

The relocation and restructuring costs relate mainly to restructuring in the Hard Wear Products sector.

Notes to the financial statements continued

For the year ended 31 March 2018

7. Finance costs and income

Finance costs	**2018 £'000**	2017 £'000
Bank and lease interest charges	**45**	13
Licence interest charges	**5**	(2)
Finance income		
Bank deposit income	**—**	(1)
Net finance charge	**50**	10

8. Directors and employees

The average monthly number of employees, including Executive Directors, employed by the Group during the year was:

	Group 2018 Number	**Company 2018 Number**	Group 2017 Number	Company 2017 Number
Manufacturing	**54**	**—**	52	—
Sales, technical and administration	**25**	**4**	26	5
	79	**4**	78	5

The aggregate remuneration was as follows:

	Group 2018 £'000	**Company 2018 £'000**	Group 2017 £'000	Company 2017 £'000
Wages and salaries	**2,772**	**439**	2,515	447
Social security costs	**273**	**58**	255	49
Other pension costs	**30**	**1**	11	—
Share-based payment charge – equity settled	**72**	**72**	24	24
	3,147	**570**	2,805	520

Details of Directors' remuneration are included in the Directors' Remuneration Report on page 22. The highest paid Director earned £206,000 and exercised share options during the year ended 31 March 2018.

9. Income tax

	2018 £'000	2017 £'000
UK corporation tax on profits for the year	**(9)**	—
Research and development tax credits	**72**	—
Tax on loss on ordinary activities	**63**	—

9. Income tax continued

The tax assessed for the year is higher (2017: higher) than the standard rate of corporation tax in the UK. The differences are explained below:

	2018 £'000	2017 £'000
Loss before tax	**(1,561)**	(2,202)
Loss before tax at the effective rate of corporation tax in the UK of 19% (2017: 20%)	**(297)**	(440)
Effects of:		
Expenses not deductible for tax purposes	**46**	17
Capital allowances in excess of depreciation and other timing differences	**37**	(10)
Unrelieved losses arising in the year	**214**	433
UK corporation tax on profits for the prior year	**(9)**	—
Research and development tax credits	**72**	—
Tax charge for the year	**63**	—

In the financial period under review, the Group incurred a trading loss. The trading loss to be carried forward against future trading profits for corporation tax purposes was £8,678,000 (2017: £7,443,000). These losses will reduce the tax charge of future years until they are utilised. No deferred tax asset has been recognised, as there is currently insufficient certainty as to the precise timing of when the asset would be recovered. The unrecognised asset amounts to £1,303,000 (2017: £1,101,000), being £1,475,000 (2017: £1,265,000) of trading losses net against a capital allowances liability of £172,000 (2017: £164,000), leaving the remaining asset as unrecognised.

Deferred tax

In accordance with IAS 12, a deferred tax asset of £25,000 (2017: £25,000) has been recognised in relation to the fair valuation of net assets acquired on the acquisition of Total Carbide Limited and a deferred tax liability of £64,000 (2017: £64,000) in relation to the fair valuation of net assets acquired on the acquisition of AAC Cyroma Limited.

10. Loss per share

The calculation of the basic loss per share for the years ended 31 March 2018 and 31 March 2017 is based on the losses attributable to the shareholders of the Versarien plc Group divided by the weighted average number of shares in issue during the year. The calculation of diluted loss per share is based on the basic loss per share adjusted to allow for the issue of shares on the assumed conversion of all dilutive options. However, in accordance with IAS 33 "Earnings per Share", potential Ordinary shares are only considered dilutive when their conversion would decrease the profit per share or increase the loss per share. As at 31 March 2018, there were 8,222,830 (2017: 3,819,862) potential Ordinary shares, which have been disregarded in the calculation of diluted loss per share as they were considered non-dilutive at that date.

	Loss attributable to owners of parent company £'000	Weighted average number of shares '000	Basic loss per share pence
Year ended 31 March 2018	**(1,381)**	**138,208**	**(1.00)**
Year ended 31 March 2017	(2,132)	115,292	(1.85)

Notes to the financial statements continued

For the year ended 31 March 2018

11. Intangible assets

	Goodwill £'000	Other intangibles £'000	Total £'000
Cost			
At 1 April 2016	1,023	1,164	2,187
Acquisitions	1,144	179	1,323
Additions	—	52	52
At 1 April 2017	2,167	1,395	3,562
Additions	—	148	148
At 31 March 2018	**2,167**	**1,543**	**3,710**
Accumulated amortisation and impairment			
At 1 April 2016	—	277	277
Amortisation charge	—	362	362
At 1 April 2017	—	639	639
Amortisation charge	—	202	202
Impairment	—	191	191
At 31 March 2018	**—**	**1,032**	**1,032**
Carrying value			
At 31 March 2018	**2,167**	**511**	**2,678**
At 31 March 2017	2,167	756	2,923

The impairment of other intangibles relates to development costs in Versarien Technologies Limited and is taken through exceptional items. Please see note 6.

Impairment

Goodwill arising on consolidation represents the excess of the fair value of the consideration for an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition and is reviewed annually for impairment. Goodwill acquired in a business combination is allocated, at acquisition, to the business segments ("cash-generating units") detailed in note 3 "Segmental information" as follows:

	Opening £'000	Additions £'000	Closing £'000
Hard Wear and Metallic Products	364	—	364
Graphene and Plastic Products	1,803	—	1,803
	2,167	**—**	**2,167**

The recoverable amount of all cash-generating units has been determined based on value-in-use calculations using pre-tax cash flow projections based on financial projections approved by management covering a five-year period. The key assumptions to which the value-in-use calculation is most sensitive are those regarding the discount rates, forecast revenue and growth rates. The rate used to discount forecast cash flow is 11%. The five-year growth rates for Hard Wear Products on 2019 budget revenue is assumed to be 5% and for Graphene Products is 75% on 2019 budget revenue. Any shortfall in the revenue growth rates or increase in the discount rate would lead to an impairment.

11. Intangible assets continued

Other intangible assets

	31 March 2018 £'000	31 March 2017 £'000
Customer relationships/order books	**113**	167
Development costs	**235**	410
Licence	**33**	42
Intellectual property	**130**	137
Total	**511**	756

The fair value of customer relationships acquired as part of business combinations is based on the estimated cash flows from major customers over a five-year period and assumes attrition of 20% per annum and a discount factor of 11%. It is amortised on a straight line basis over five years.

Intellectual property arises primarily from the acquisition of patent and income sharing rights relating to graphene production by exfoliation.

12. Property, plant and equipment

Group	Plant and equipment £'000	Leasehold improvements £'000	Total £'000
Cost			
At 1 April 2016	6,243	16	6,259
Additions	573	456	1,029
Acquisitions	2,891	16	2,907
Disposals	(683)	—	(683)
At 1 April 2017	9,024	488	9,512
Additions	250	30	280
Disposals	(27)	—	(27)
At 31 March 2018	**9,247**	**518**	**9,765**
Accumulated depreciation			
At 1 April 2016	4,770	2	4,772
Acquisitions	1,948	6	1,954
Charge for the year	288	12	300
Disposals	(620)	—	(620)
At 1 April 2017	6,386	20	6,406
Acquisitions	—	—	—
Charge for the year	372	30	402
Disposals	(23)	—	(23)
At 31 March 2018	**6,735**	**50**	**6,785**
Net book value			
At 31 March 2018	**2,512**	**468**	**2,980**
At 31 March 2017	2,638	468	3,106

Notes to the financial statements continued

For the year ended 31 March 2018

12. Property, plant and equipment continued

Plant and equipment includes the following amounts where the Group is a lessee under finance leases and hire purchase contracts:

	Group 2018 £'000	Group 2017 £'000
Cost	**3,889**	3,530
Accumulated depreciation	**(2,326)**	(2,089)
Net book value	**1,563**	1,441

Company	Plant and equipment £'000
Cost	
At 1 April 2017	12
Additions	2
At 31 March 2018	**14**
Accumulated depreciation	
At 1 April 2017	4
Charge for the year	5
At 31 March 2018	**9**
Net book value	
At 31 March 2018	**5**
At 31 March 2017	8

13. Investment in subsidiaries

	Company 2018 £'000	Company 2017 £'000
Net book value		
At the start of the year	**4,875**	3,691
Investment in the year	**—**	1,855
Provision for diminution	**—**	(671)
At the year end	**4,875**	4,875

The Company has investments in the following principal subsidiary undertakings, which have been included in the consolidation.

	Country of incorporation	Class of capital	%
Versarien Technologies Limited – supply of metallic products	UK	Ordinary	100.0
Total Carbide Limited – manufacture of tungsten carbide parts	UK	Ordinary	100.0
2-DTech Limited – development and supply of graphene powders	UK	Ordinary	85.0
AAC Cyroma Limited – manufacture of moulded products	UK	Ordinary	100.0
Cambridge Graphene Limited – development and supply of graphene inks	UK	Ordinary	85.0

The registered address of all subsidiaries is Unit 2 Chosen View Road, Cheltenham, Gloucestershire GL51 9LT.

14. Inventory

	Group 2018 £'000	Group 2017 £'000	Company 2018 £'000	Company 2017 £'000
Raw materials	**1,093**	970	**—**	—
Work in progress	**477**	450	**—**	—
Finished goods	**391**	468	**—**	—
	1,961	1,888	**—**	—

The cost of inventories recognised as an expense in the year was £3,379,000 (2017: £2,171,000).

15. Trade and other receivables

	Group 2018 £'000	Group 2017 £'000	Company 2018 £'000	Company 2017 £'000
Trade receivables	**2,183**	1,745	**—**	—
Due from Group undertakings (net of provisions)	**—**	—	**2,582**	1,259
NIC receivable on share-based payments	**80**	—	**80**	—
Other debtors	**1**	22	**—**	—
Prepayments and accrued income	**173**	139	**6**	4
	2,437	1,906	**2,668**	1,263

	Group 2018 £'000	Group 2017 £'000	Company 2018 £'000	Company 2017 £'000
Trade receivables not past due	**2,032**	1,633	**—**	—
Trade receivables past due but not impaired	**153**	140	**—**	—
Gross trade receivables at 31 March	**2,185**	1,773	**—**	—
Provision for bad debt at 1 April	**(28)**	(28)	**—**	—
Debt provisions released in the year	**26**	—	**—**	—
Provision for bad debt at 31 March	**(2)**	(28)	**—**	—
Net trade receivables at 31 March	**2,183**	1,745	**—**	—

The Directors consider that the carrying amount of trade receivables approximates to their fair value due to the short-term nature of the current receivables. They are considered to be level 1 within the fair value hierarchy. Debts provided for and written off are determined on an individual basis and included in operating expenses in the financial statements. The Group's maximum exposure on credit risk is fair value on trade receivables as presented above.

The gross carrying amounts of trade and other receivables are denominated in the following currencies:

	Group 2018 £'000	Group 2017 £'000	Company 2018 £'000	Company 2017 £'000
Sterling	**2,352**	1,839	**2,668**	1,263
Euro	**55**	46	**—**	—
Other	**30**	21	**—**	—
	2,437	1,906	**2,668**	1,263

Notes to the financial statements continued

For the year ended 31 March 2018

16. Trade and other payables

	Group 2018 £'000	Group 2017 £'000	Company 2018 £'000	Company 2017 £'000
Trade payables	**1,493**	1,404	**24**	—
Other payables	**—**	475	**—**	—
Payables to Group undertakings	**—**	—	**726**	730
Accruals and deferred income	**356**	484	**46**	202
	1,849	2,363	**796**	932

The Directors consider that the carrying amount of trade payables approximates to their fair value.

17. Current liabilities – provisions

	Group 2018 £'000	Group 2017 £'000	Company 2018 £'000	Company 2017 £'000
NIC due on share-based payments	**80**	—	**80**	—

18. Non-current trade and other payables

	Group 2018 £'000	Group 2017 £'000	Company 2018 £'000	Company 2017 £'000
Deferred grant income	**140**	239	**—**	—
Deferred licence cost	**27**	32	**—**	—
	167	271	**—**	—

19. Non-current liabilities – provisions

	Group 2018 £'000	Group 2017 £'000	Company 2018 £'000	Company 2017 £'000
Deferred consideration on the acquisition of AAC Cyroma Limited	**—**	80	**—**	80

The deferred consideration in respect of AAC Cyroma Limited relates to payments due if certain profit targets are met and represents management's best estimate of those potential payments at the balance sheet date. As these targets were either not met or future targets unlikely to be met, the provision has been released during the year.

20. Borrowings

	Group 2018 £'000	Group 2017 £'000	Company 2018 £'000	Company 2017 £'000
Invoice discounting facilities	**1,117**	735	**—**	—
Obligations under finance leases, hire purchase contracts and similar arrangements	**914**	913	**—**	—
	2,031	1,648	**—**	—

	Group 2018 £'000	Group 2017 £'000	Company 2018 £'000	Company 2017 £'000
Short-term borrowings	**1,117**	735	**—**	—
Current portion of long-term borrowings	**458**	256	**—**	—
Long-term borrowings	**456**	657	**—**	—
	2,031	1,648	**—**	—

20. Borrowings continued

Analysis of repayments	**Group 2018 £'000**	Group 2017 £'000	**Company 2018 £'000**	Company 2017 £'000
Invoice discounting facilities – within one year	**1,117**	735	**—**	—
Finance leases and hire purchase contracts:				
Within one year	**458**	256	**—**	—
In two to five years	**456**	657	**—**	—
	2,031	1,648	**—**	—

Invoice discounting facilities of £1,117,000 (2017: £735,000) are secured by debentures and charges over certain Group assets, and attract interest at 2.75% over currency base rate. Finance leases and hire purchase contracts of £914,000 (2017: £913,000) attract interest at 3.5% above the base rate.

Due to the short-term nature of the invoice discounting facilities, the carrying amounts are assumed to be the same as their fair values and categorised as level one of the fair value hierarchy. The hire purchase agreements are disclosed at fair value. Due to the comparable discount rate used in the measurement of fair value, this is categorised as level two within the fair value hierarchy.

21. Called up share capital and share premium

Group and Company

	Number of shares '000	Called up share capital £'000	Share premium £'000	Total £'000
At 1 April 2016	105,631	1,056	7,163	8,219
Issue of shares	25,700	257	2,599	2,856
At 1 April 2017	131,331	1,313	9,762	11,075
Issue of shares	17,334	173	2,767	2,940
At 31 March 2018	**148,665**	**1,486**	**12,529**	**14,015**

During the year the Company issued:

- 16,144,707 Ordinary shares raising £2,906,000 (before expenses) in a placing at 18 pence per share;
- 910,900 Ordinary shares raising £129,000 (before expenses) in an exercise of share options at an average of 14.14 pence per share; and
- 278,720 Ordinary shares raising £34,000 (before expenses) in an exercise of share options at 12.25 pence per share.

22. Share options

The Company has an option scheme for Executive Directors and employees, the Versarien plc Share Option Plan, created on 12 June 2013. All options are granted at the market value of the shares at the date of grant. The share option scheme runs for a period of ten years. Employees are eligible to participate in the scheme at the invitation of the Board. No payment is required from option holders on the grant of an option. Performance conditions or market conditions are attached to 2,102,000 options issued in the year ended 31 March 2015 and 5,253,000 options issued in the year ended 31 March 2018.

Movements in the number of share options outstanding and their related weighted average exercise prices were as follows:

	2018 Weighted average exercise price in pence per share	**Options '000**	2017 Weighted average exercise price in pence per share	Options '000
At 1 April 2017	**22.35**	**3,820**	23.35	3,820
Granted	**0.15**	**5,593**	—	—
Exercised	**(0.14)**	**(1,190)**	—	—
Lapsed	**—**	**—**	—	—
At 31 March 2018	**22.36**	**8,223**	22.35	3,820

Of the 8,223,000 outstanding options (2017: 3,820,000), 1,249,000 had vested at 31 March 2018 (2017: 2,134,000).

Notes to the financial statements continued

For the year ended 31 March 2018

22. Share options continued

Share options outstanding at the end of the year have the following expiry date and exercise prices:

Year of grant	Exercise period	Exercise price in pence per share	2018 Number '000	2017 Number '000
2013	2014–2023	12.25	**199**	859
2013	2014–2023	15.50	**—**	529
2014	2015–2024	29.00	**2,432**	2,432
2017	2018–2020	39.00	**264**	—
2017	2018–2020	21.25	**75**	—
2017	2018–2022	15.00	**5,253**	—
			8,223	3,820

The weighted average fair value of options granted to Executive Directors and employees is determined using the Black-Scholes valuation model. The significant inputs into the model were exercise prices shown above volatility of 41%, dividend yield of 0%, expected option life of three to five years and annual risk-free interest rate of 1.1%. Future volatility has been estimated based on comparable information rather than historical data.

23. Other reserves

The merger reserve was created on the reconstruction of the Group following the acquisition of Versarien Technologies Limited. The share-based payment reserve was created as a result of the issue of share options. The fair value of equity-settled share-based payments is expensed on a straight line basis over the vesting period and the amount expensed in each year is credited to the share-based payment reserve. The movement in reserves for the years ended 31 March 2017 and 2018 is set out in the Group Statement of Changes in Equity.

24. Operating lease commitments

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

	2018		2017	
	Plant, equipment and vehicles £'000	Land and buildings £'000	Plant, equipment and vehicles £'000	Land and buildings £'000
Group				
Within one year	**8**	**456**	8	499
From two to five years	**5**	**1,267**	5	1,530
After five years	**—**	**—**	—	194

25. Cash used in operations

	Group		Company	
	2018 £'000	2017 £'000	**2018 £'000**	2017 £'000
Loss before tax	**(1,561)**	(2,202)	**(701)**	(1,836)
Adjustments for:				
Share-based payments	**72**	24	**72**	24
Depreciation	**402**	300	**5**	2
Amortisation	**202**	362	**—**	—
Impairment	**191**	—	**—**	—
Provision for intra-group receivables/investment impairment	**—**	—	**—**	1,098
Disposal of non-current assets	**4**	11	**—**	—
Finance cost	**50**	10	**—**	1
R&D tax credit repayment	**72**	—	**—**	—
(Increase)/decrease in trade and other receivables and investments	**(569)**	169	**(81)**	4
Increase in inventories	**(73)**	(63)	**—**	—
(Decrease)/increase in trade and other payables	**(697)**	139	**(140)**	98
Cash flows from operating activities	**(1,907)**	(1,250)	**(845)**	(609)

26. Related party transactions

	Company	
	2018 £'000	2017 £'000
Net service transactions with subsidiaries	**178**	224
Net loans to subsidiaries	**1,149**	359
Year-end balance due from subsidiaries	**1,856**	4,057
Transactions with related companies	**—**	—

27. Financial instruments

Trade and other receivables (excluding prepayments) and cash and cash equivalents are classified as “loans and receivables”. Borrowings and trade and other payables are classified as “other financial liabilities at amortised cost”. Both categories are initially measured at fair value and subsequently held at amortised cost.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting ("AGM") of Versarien plc (the "Company") will be held at the offices of Gloucester Rugby at Kingsholm Stadium, Kingsholm Road, Kingsholm, Gloucester GL1 3AX on Tuesday 25 September 2018 at 11.00am for the following purposes:

As ordinary business, to consider and, if thought fit, pass resolutions 1 to 3 inclusive, which will be proposed as ordinary resolutions:

Ordinary business

1. To receive the Directors' Report and the audited financial statements for the year ended 31 March 2018 together with the Independent Auditor's Report thereon.
2. To re-appoint PricewaterhouseCoopers LLP as the independent auditor of the Company for the year ending 31 March 2019 to hold office until the end of the next period for appointing the auditor in accordance with the provisions of Part 16 of the Companies Act 2006 and to authorise the Directors to fix the remuneration of the auditor for the year ending 31 March 2019 and for subsequent financial years or unless this authority is either revoked or varied.
3. To re-appoint Neill Ricketts as a Director, retiring by rotation.

Special business

As special business, to consider and, if thought fit, pass the following resolutions, of which resolution 4 will be proposed as an ordinary resolution and resolutions 5 and 6 will be proposed as special resolutions:

4. THAT, in substitution for all existing and unexercised authorities and powers, the Directors of the Company be and are hereby generally and unconditionally authorised for the purpose of Section 551 of the Companies Act 2006 (the "Act") to exercise all or any of the powers of the Company to allot shares in the Company or grant rights to subscribe for or to convert any security into shares in the Company ("Rights") up to an aggregate nominal value of £495,550 to such persons at such times and generally on such terms and conditions as the Directors may determine (subject always to the Articles of Association of the Company), provided that this authority shall, unless previously renewed, varied or revoked by the Company in general meeting, expire at the conclusion of the Company's next Annual General Meeting, save that the Directors of the Company may, before the expiry of such period, make an offer or agreement which would or might require shares to be allotted or Rights to be granted (as the case may be) after the expiry of such period and the Directors of the Company may allot shares or grant Rights (as the case may be) in pursuance of such offer or agreement as if the authority conferred hereby had not expired.
5. THAT, subject to and conditional upon the passing of the resolution numbered 4 in the notice convening the meeting at which this resolution was proposed and in substitution for all existing and unexercised authorities and powers, the Directors of the Company be and are hereby empowered pursuant to Section 570 of the Act to allot equity securities (as defined in Section 560 of the Act) pursuant to the authority conferred upon them by resolution 4 as if Section 561 of the Act did not apply to any such allotment, provided that this authority and power shall be limited to:

   (a) the allotment of equity securities in connection with a rights issue or similar offer in favour of Ordinary shareholders where the equity securities respectively attributable to the interest of all Ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of Ordinary shares held by them subject only to such exclusions or other arrangements as the Directors of the Company may consider appropriate to deal with fractional entitlements or legal and practical difficulties under the laws of, or the requirements of any recognised regulatory body in, any territory; and

   (b) the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal amount of £222,997,

   PROVIDED THAT this authority shall, unless previously renewed, varied or revoked by the Company in general meeting, expire at the conclusion of the Company's next Annual General Meeting, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

Special business continued

6. THAT the Company be and is hereby generally and unconditionally authorised for the purposes of Section 701 of the Act to make one or more market purchases (within the meaning of Section 693(4) of the Act) on the London Stock Exchange of Ordinary shares of 1 pence each in the capital of the Company PROVIDED THAT:

    (a) the maximum aggregate number of shares hereby authorised to be purchased is 14,866,502 Ordinary shares of 1 pence each (representing 10% of the Company's issued share capital at as at 17 August 2018, the latest practicable date prior to publication of this notice);

    (b) the minimum price which may be paid for such shares is 1 pence per share;

    (c) the maximum price (exclusive of expenses) which may be paid for an Ordinary share shall not be more than 105% of the average closing middle market quotation for an Ordinary share as derived from the AIM appendix to the Stock Exchange Daily Official List for the five business days immediately preceding the date on which the Ordinary share is purchased;

    (d) unless previously renewed, varied or revoked, the authority hereby conferred shall expire at the conclusion of the Company's next Annual General Meeting; and

    (e) the Company may make a contract or contracts to purchase Ordinary shares under the authority hereby conferred prior to the expiry of such authority, which will or may be executed wholly or partly after the expiry of such authority, and may make a purchase of Ordinary shares in pursuance of any such contract or contracts.

By order of the Board

Christopher Leigh
Company Secretary

17 August 2018

Notice of Annual General Meeting continued

Explanatory notes to the Notice of Annual General Meeting

The notes on this page give an explanation of the proposed resolutions.

Resolutions 1 to 4 are proposed as ordinary resolutions. This means that for each of those resolutions to be passed, more than half of the votes cast must be in favour of the resolution. Resolutions 5 and 6 are proposed as special resolutions. This means that for each of those resolutions to be passed, at least 75% of the votes cast must be in favour of the resolution.

Ordinary resolutions

Resolution 1 – Receipt of 2018 Annual Report and financial statements

The Directors of the Company must present the Directors' Report, the audited financial statements and the Independent Auditor's Report on those financial statements before shareholders each year at a general meeting. Those to be presented at the AGM are in respect of the period ended 31 March 2018.

Resolution 2 – Re-appointment of auditor

Resolution 2 proposes the re-appointment of PricewaterhouseCoopers LLP as the Company's auditor and authorises the Directors to fix the remuneration of the auditor.

Resolution 3 – Re-appointment of Directors

The Articles of Association of the Company require the nearest number to one-third of the Board of Directors to retire at each AGM with the longest serving retiring first. Where the longest serving Directors have held office for the same amount of time, the Directors to resign are normally chosen by lot. In addition, any Director appointed to the Board since the last Annual General Meeting has to retire at the next Annual General Meeting. As there are three Directors, one has to retire by rotation and the longest serving Director is Neill Ricketts, who offers himself for re-election at the AGM.

Resolution 4 – Directors' power to allot securities

This resolution seeks shareholder approval to grant the Directors of the Company the authority to allot shares in the Company. The authority will be limited to an aggregate nominal amount of £495,550 (49,555,009 Ordinary shares of the Company), being approximately one-third of the Company's issued share capital as at 17 August 2018, the latest practicable date prior to publication of this notice.

Special resolutions

Resolution 5 – Disapplication of pre-emption rights on equity issues for cash

Section 561 of the Act requires that a company issuing shares for cash must first offer them to existing shareholders following a statutory procedure which, in the case of a rights issue, may prove to be both costly and cumbersome. This resolution excludes that statutory procedure as far as rights issues are concerned. It also enables the Directors to allot shares up to an aggregate nominal value of £222,997, which is equal to approximately 15% of the nominal value of the issued Ordinary share capital of the Company, subject to resolution 4 being passed. The Directors believe that the limited powers provided by this resolution will maintain a desirable degree of flexibility. Unless previously revoked or varied, the disapplication will expire on the conclusion of the next Annual General Meeting of the Company.

Resolution 6 – Authority to make market purchases

A special resolution will be proposed to authorise the Directors to make one or more market purchases for the purposes of Section 701 of the Act. The maximum number of shares which may be acquired pursuant to this authority is 14,866,502, which is equal to approximately 10% of the issued share capital of the Company as at 17 August 2018, the latest practicable date prior to publication of this notice. This authority will expire at the conclusion of the Annual General Meeting in 2019.

The Directors currently have no intention of using their authority to make market purchases. Should this change and the Directors decide to make market purchases, they will only do so if such market purchases are expected to result in an increase in the Company's earnings per share and are in the best interests of the Company's shareholders. The Directors must ensure that any market purchases made are made between a minimum price of 1 pence per Ordinary share and a maximum price equal to 105% of the average of the middle market quotations for the Ordinary shares of the Company derived from the AIM appendix to the Stock Exchange Daily Official List for the five business days immediately preceding the date on which the Ordinary share is purchased.

Entitlement to attend and vote

1. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those members registered on the Company's register of members 48 hours prior to the date and time of the AGM, or, in the event that the AGM is adjourned, 48 hours prior to the adjourned meeting, shall be entitled to attend and vote at the AGM in respect of the number of shares registered in their name at that time.

Appointment of proxies

2. If you are a member of the Company at the time set out in note 1, above, you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at the AGM and you should have received a proxy form with this Notice of AGM. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy, please photocopy the proxy form.

3. A corporation which is a member can appoint one or more corporate representatives who may exercise, on its behalf, all its powers as a member provided that no more than one corporate representative exercises powers over the same share.

4. If you are not a member of the Company but you have been nominated by a member of the Company to enjoy information rights, you do not have a right to appoint any proxies under the procedures set out in this "Appointment of proxies" section. Please read the "Nominated persons" section (note 13).

5. A proxy does not need to be a member of the Company but must attend the AGM to represent you. Details of how to appoint the Chairman of the meeting or another person as your proxy using the proxy form are set out in the notes to the proxy form.

   If you wish your proxy to speak on your behalf at the AGM, you will need to appoint your own choice of proxy (not the Chairman) and give your instructions directly to them.

6. To direct your proxy how to vote on the resolutions, mark the appropriate box on your proxy form with an "X". To abstain from voting on a resolution, select the relevant "Vote withheld" box. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the AGM.

Appointment of proxy using hard-copy proxy form

7. The notes to the proxy form explain how to direct your proxy how to vote on each resolution or withhold their vote. To be valid, the proxy form, and any power of attorney or other authority (if any) under which it is executed (or a duly certified copy of such power or authority), must be duly completed, executed and deposited with the Company's registrars, Share Registrars Limited, The Courtyard, 17 West Street, Farnham, Surrey GU9 7DR, or by scan and email to Share Registrars Limited at proxies@shareregistrars.uk.com and in each case not less than 48 hours before the time appointed for the AGM (or any adjourned meeting). In the case of a member which is a corporation, the proxy form must be executed under its common seal or signed on its behalf by an officer, attorney or other person duly authorised by the corporation.

Appointment of proxies through CREST

8. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the AGM and any adjournment(s) thereof by utilising the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s) who will be able to take the appropriate action on their behalf.

   In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message must be transmitted so as to be received by the issuer's agent, Share Registrars Limited (CREST participant ID: 7RA36), by no later than 48 hours before the time appointed for the AGM. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.

   It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

   The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

Notice of Annual General Meeting continued

Appointment of proxy by joint members

9. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first named being the most senior).

Changing proxy instructions

10. To change your proxy instructions, simply submit a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments (see above) also applies in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded.

    Where you have appointed a proxy using the hard-copy proxy form and would like to change the instructions using another hard-copy proxy form, please contact Share Registrars Limited (address in note 7).

    If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

Termination of proxy appointments

11. In order to revoke a proxy instruction, you will need to inform the Company using the following method:

    - by sending a signed hard-copy notice clearly stating your intention to revoke your proxy appointment to Share Registrars Limited (address in note 7). In the case of a member which is a corporation, the revocation notice must be executed under its common seal or signed on its behalf by an officer, attorney or other person authorised to sign the same. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice.

    The revocation notice must be received by Share Registrars Limited no later than 48 hours before the time appointed for holding the AGM.

    If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, subject to the paragraph directly below, your proxy appointment will remain valid.

    Appointment of a proxy does not preclude you from attending the AGM and voting in person. If you have appointed a proxy and attend the AGM in person, your proxy appointment will automatically be terminated.

Issued shares and total voting rights.

12. As at close of business on 17 August 2018 (being the latest practicable date prior to the publication of this document), the Company's issued share capital comprised 148,665,029 Ordinary shares of 1 pence each. Each Ordinary share carries the right to one vote at a general meeting of the Company and, therefore, the total number of voting rights in the Company as at close of business on 17 August 2018 is 148,665,029.

Nominated persons

13. If you are a person who has been nominated under Section 146 of the Companies Act 2006 to enjoy information rights:

    - you may have a right under an agreement between you and the member of the Company who has nominated you to have information rights (the "Relevant Member") to be appointed or to have someone else appointed as a proxy for the AGM;
    - if you either do not have such a right or if you have such a right but do not wish to exercise it, you may have a right under an agreement between you and the Relevant Member to give instructions to the Relevant Member as to the exercise of voting rights; and
    - your main point of contact in terms of your investment in the Company remains the Relevant Member (or, perhaps, your custodian or broker) and you should continue to contact them (and not the Company) regarding any changes or queries relating to your personal details and your interest in the Company (including any administrative matters). The only exception to this is where the Company expressly requests a response from you.

Communication

14. You may not use any electronic address provided either in:

- this Notice of Annual General Meeting; or
- any related documents (including the Chairman's letter and proxy form), to communicate with the Company for any purposes other than those expressly stated.

Inspection of documents

15. The following documents will be available for inspection at the registered office of the Company during normal business hours on any weekday (public holidays excepted) from the date of this notice until the date of the AGM, and at the place of the AGM from 10.30am on the date of the AGM until its conclusion:

- the constitutional documents of the Company, comprising the Articles of Association;
- copies of the service contracts of the Executive Directors of the Company; and
- copies of the letters of appointment of the Non-executive Directors of the Company.

Versarien plc
2 Chosen View Road
Cheltenham
Gloucestershire
GL51 9LT

Advisers

Registrars
Share Registrars Limited
The Courtyard
17 West Street
Farnham
Surrey
GU9 7DR

Independent auditor
PricewaterhouseCoopers LLP
2 Glass Wharf
Avon Street
Bristol
BS2 0FR

Nominated adviser and broker
Arden Partners plc
125 Old Broad Street
London
EC2N 1AR

Legal adviser
BPE Solicitors LLP
St James' House
St James' Square
Cheltenham
GL50 3PR

Financial PR
IFC Advisory Limited
15 Bishopsgate
London
EC2N 3AR

Tax adviser
Moore Stephens LLP
150 Aldersgate Street
London
EC4M 4AB

Secretary and registered office
Christopher Leigh
2 Chosen View Road
Cheltenham
Gloucestershire
GL51 9LT

Company registration number
8418328

Produced by
designportfolio

Versarien plc
2 Chosen View Road
Cheltenham
Gloucestershire
GL51 9LT

www.versarien.com