

Annual Report and Accounts

for the year ended 31 December 2017





Contents

Directors, Secretary & Advisers	04
Financial & Operational Summary	05
Strategic Report - Chairman's Statement	06
Strategic Report - Chief Executive Officer's Review	07
Strategic Report - Chief Financial Officer's Review	12
G+ Textiles – Proven Thermoregulation	14
Environmental Supply Chain Integration	15
Directors' Biographies	16
Directors' Report	18
Corporate Governance Report	21
Directors' Remuneration Report	23
Independent Auditor's Report	26
Consolidated Statement of Comprehensive Income	31
Consolidated & Company Statement of Financial Position	32
Consolidated Statement of Changes in Equity	33
Company Statement of Changes in Equity	34
Consolidated & Company Statement of Cash Flows	35
Notes to the Consolidated Financial Statements	36

Directors, Secretary & Advisers

The Board of Directors

Sir Peter Middleton
Non-Executive Chairman

Giulio Cesareo
CEO and Founder

Marco Ferrari
Chief Financial Officer

David Gann
Non-Executive Director

Neil Warner
Non-Executive Director

Richard Hickinbotham
Non-Executive Director

Company Secretary

Marco Ferrari

Registration Number

04679109

Registered Office

3rd Floor
11-12 St James's Square
London SW1Y 4LB
United Kingdom

Principle Place of Business

Directa Plus plc
ComoNEXT Science Park
Via Cavour 2
22074 Lomazzo (Co)
Italy

Nominated Adviser and Broker

Cantor Fitzgerald Europe
One Churchill Place
Canary Wharf
London E14 5RB
United Kingdom

Auditor

BDO LLP
55 Baker Street
London W1U 7EU
United Kingdom

Legal Adviser

Fox Williams LLP
10 Finsbury Square
London EC2A 1AF
United Kingdom

Registrar

Link Market Services Ltd
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU
United Kingdom

Financial PR Adviser

Luther Pendragon Ltd
48 Gracechurch Street
London EC3V 0EJ
United Kingdom

Financial & Operational Summary

Increased commercial traction

- Significant year as Directa Plus becomes the leading graphene producer with the highest number of commercially-available graphene-enhanced products
- Increased sales momentum with Total Income (revenues plus other income, including Government Grants) increasing by over 50% to €1.23 million (2016: €0.82 million)
- More than doubled the number of active customers to 35 from 16 in the previous year
- Produced c. 3 tonnes of G+ materials and sold c. 15,000 metres of G+ printed fabric
- Key customers expected to launch further clothing and environmental solutions as well as asphalt additives incorporating G+ graphene in 2018
- Established a clear commercial lead in textiles:
 - The Group believes its contract with Alfredo Grassi represents the largest amount of textile material to be treated with graphene nanoplatelets by any company to date
 - Colmar launched an expanded collection of 16 garments incorporating G+ in 2017 and a new winter collection of 31 garments in 2018
- Only company with a unique, disruptive and commercially-available graphene-based solution for the highly-effective treatment of produced water in the oil & gas industry:
 - Two leading Romanian integrated oil & gas companies, OMV Petrom and GSP SA, signed agreements for field testing Grafysorber® product
 - Post year-end, the Group signed an agreement with Sartec Srl (part of Saras Group) to jointly develop a continuous commercial-scale Grafysorber®-based industrial system for treating oil-contaminated produced water in the oil & gas industry

Established at least an 18-24 month lead over competitors

- Industry-leading production and capacity enabling Directa Plus to produce consistent, certified production at high tonnages and at a price that can satisfy the requirements of large supply chains
- Fully operational Advanced Development Area ("ADA") on-site that enables customers to significantly reduce their time-to-market and to certify production
- Only chemical-free, graphene-based products selling into the textile market that are independently certified as non-irritating and hypoallergenic
- Now able to offer complete textile package, from supply of G+ to graphene-treated fabric and consultancy services – capturing all of the value chain
- Grafysorber® is at least five times more effective than the technologies presently used for water decontamination, adsorbing more than 100 times its own weight of oily pollutant, proven through extensive testing

Key Performance Indicators and financial summary

	2017	2016
Revenue from product and service sales (€'m)	0.95	0.74
Total income* (€'m)	1.23	0.82
EBITDA* (€'m)	(3.16)	(3.67)
Adjusted loss after tax* (€'m)	(3.95)	(4.26)
Cash and cash equivalents (€'m)	6.93	10.57
Number of active customers	35	16
Total number of patents granted	15	14

* See pages 12 to 13 for definitions and adjustments

Strategic Report

Chairman's Statement



Sir Peter Middleton
Chairman, 25 April 2018

I am proud to be presenting the results for our first full year on AIM, following our listing in May 2016. It has been a transformational year for Directa Plus, one during which we established ourselves as the leading company with the highest number of graphene-enhanced end products for purchase by our customers than any other graphene producer. The results reflect the benefit of the commercialisation strategy put into place by the Board and our excellent management team.

Overall, we are pleased with the significant commercial progress the business has made. The progress we have achieved in 2017 in implementing our strategy is discussed in the Chief Executive's Review.

Our G+ graphene is already incorporated into several commercial applications in the smart textiles, environmental, composite materials and elastomers markets. However, in 2017, the Group increased its focus on fulfilling near-term opportunities in the smart textiles and environmental markets, delivering solid growth in the business. We now have 35 active customers, more than double the number of the previous year. These active customers are defined as those who have moved beyond the "sampling" stage and into their product commercialisation phase.

Total Income increased by over 50% to €1.23 million compared to €0.82 million last year, with revenue from the sale of graphene-based products and services increasing by 29% to €0.95 million. We believe that Directa Plus has a clear lead over its competitors and we plan to capture the growth opportunities from our existing commercial engagements as well as delivering against a significant pipeline of other prospects.

Established at least an 18-24 month clear lead over competitors

The Board considers that the Group has now established a clear lead of at least 18 to 24 months over our competitors in the various industry markets in which we operate. Most importantly, Directa Plus is able to produce consistent, certified production at high tonnages and at a price that can satisfy the requirements of large supply chains. We are not aware of any other company that can match our industry-leading capacity of 30 tonnes per annum of pristine, chemical-free graphene-based material. In addition, our on-site Advanced Development Area ("ADA") has enabled our customers both to reduce their time-to-market and to certify production. It is for these vital reasons, our customers tell us, that they have elected to work with Directa Plus.

In our key vertical markets, Directa Plus is the only company that has graphene-based products selling into the textile industry that are independently certified as non-irritating and hypoallergenic. An additional advantage is that our process to produce our graphene-based products is chemical-free using only physics that results in our G+ materials being non-toxic and non-cytotoxic. This year we also successfully expanded to a full service textile offer: from the supply of G+ materials to the ready-to-use graphene-enhanced fabric and value-added consultancy services, we can cater to whatever our clients require. This is why global household brands have chosen to launch clothing and accessories that are enhanced by our products. In the environmental vertical, our proprietary product Grafysorber® is proving to be at least five times more effective than the technologies presently used for water decontamination. Grafysorber® can adsorb more than 100 times its own

weight of oily pollutant and provides a step-change in performance. This is not only a significant advantage over incumbent technologies, but also over any potential competitor.

Directa Plus is able to produce differing grades of G+ material that can be specifically designed for different customer products and applications, which can then be utilised directly in the supply chains of large companies, without altering established production processes, thereby reducing the time-to-market. We have a proven, low cost, modular, highly scalable, high-yield process that is able to produce revenues at each phase of production. The Board believes its clear and focused strategy, together with a highly motivated and talented management team, patented technology and products, and strong financial discipline, results in Directa Plus being strongly positioned to realise sustainable, long-term growth.

Finally, I would like to thank our customers, partners and shareholders for their continued support. I would like to thank Luca Lodi-Rizzini, who resigned from the Board of Directors, with effect of 26 April 2018, for personal reasons. His expertise and experience have been a great support to Directa Plus during the IPO process and beyond, and we wish him all the best for the future. Above all, I would like to thank our employees for their hard work and enthusiasm, which has enabled the business to achieve significant progress during 2017. We are deepening our relationships with existing and potential customers and working with them to provide more comprehensive solutions to incorporate our G+ graphene into their products. There is momentum building within the Group that puts Directa Plus on a very solid footing for the future.



Chief Executive Officer's Review

Giulio Cesareo

Chief Executive Officer and Founder, 25 April 2018

Positioned for strong growth

We are pleased to report that Directa Plus made excellent commercial and operational progress during 2017 that has reinforced the Group's leading position in the market sectors in which it operates. We believe that we have laid the foundations for a strong increase in revenue in 2018 and beyond. During the year, Total Income grew by over 50% to €1.23 million due to our increased focus on nearer-term revenue opportunities, in particular in two of our key markets: textiles and environmental.

As Sir Peter Middleton discussed in his Chairman's statement, the Board believes that the Group has now established a clear commercial lead over our competitors. Directa Plus has no hurdles to overcome in terms of our proprietary technology, production capability and capacity or our advantageous cost structure, and we are able to deliver product to meet the exacting requirements of all customers. We have a unique proposition – with a sustainable, chemical-free product offering – and a rich pipeline of projects. Our products and processes are protected by a portfolio of patents, which now stands at 18 granted and 19 pending. Consequently, we believe Directa Plus has at least an 18 to 24 month lead over any other company in the markets we serve.

During the year, the Group's strategy was to focus on markets that had the most opportunity to deliver higher sales in the short to medium term. We were successful in applying our cost structure, key resources, customer relations and commercial channels to achieve this goal. Significant orders were placed by

our customers and our G+ graphene has been delivered to a much larger number of clients, with many moving from the proof-of-concept stage through to the commercial phase and launched products into the market. I am delighted to report that we ended 2017 with 35 active clients compared with 16 clients in the previous year. Hence, the growth in revenue from products and services increased by 29% to €0.95 million. The Group expects to generate increased revenues from these active clients in 2018 as well as helping other clients commence their commercialisation programmes.

Most importantly, we have established a clear commercial positioning that is focused purely on graphene and, thanks to the strength of our G+ products, we do not need to pursue material blends or revenue from non-graphene-related activities.

It is testament to our position within the industry that the National Graphene Association, the main organisation and body in the US advocating and promoting the commercialisation of graphene and addressing critical issues such as standards and policy development, has added Directa Plus as a new Corporate Partner and I am pleased to have joined the organisation's Advisory Board.

Focused on key markets

As part of our strategy, Directa Plus is focused on the key industry markets where it has an established competitive advantage and where it feels that it can achieve most success in the short to medium term. The two primary markets are textiles and environmental, followed by composite materials

and elastomers. During 2017, the Group made significant commercial progress across these four markets.

Textile

Directa Plus is uniquely positioned in the textiles market as it is the only graphene-based product commercially available that is independently certified as non-toxic and hypoallergenic as well as being sustainably produced. As a result, customers can leverage the performance enhancements provided by incorporating our G+, such as thermal regulation, heat dissipation, data transmission and no odour effect, while being assured that the product is safe for human skin and the environment.

In 2017, sales into the textiles market increased to €0.77 million compared with €0.08 million in 2016 as we sold approximately 15,000 metres of G+ printed fabric as more customers launched more end-products into the market enhanced with the Group's G+.

Alfredo Grassi

The Group entered into a Joint Development Agreement ("JDA") with Alfredo Grassi S.p.A. ("Grassi"), a leading manufacturer of customised protective clothing, workwear and uniforms for private and public organisations globally. This followed detailed testing of Directa Plus' graphene by Grassi to assess the potential benefits that could be delivered by incorporating the Group's graphene planar thermal circuit into their workwear products. This successfully progressed into a €0.6 million contract to supply G+ materials to create graphene-enhanced employee clothing for an Italian state-owned company. The Board believes this order represents the largest amount of textile material to be treated

Chief Executive Officer's Review (continued)

with graphene nanoplatelets by any company to date. It is also testament to the strength of our offer as we have met the more-specialised requirements of the workwear sector. Grassi has a leading market position in the provision of workwear and customised uniforms across a range of sector verticals. In Italy alone, there are approximately 300,000 law enforcement, fire and safety and military personnel being dressed top to toe with Grassi clothing that has to be renewed every three years. As a result, we are very excited about the opportunities that this relationship with Grassi could yield for the Group.

Colmar

Colmar, the high-end sportswear company, launched a collection of 16 garments incorporating G+ materials during 2017 and, post period end, launched its third G+ winter collection consisting of 31 garments. This included, for the first time, graphene ski trousers for men and women.

Other projects

In addition to Grassi, the Group signed a JDA with a leading global product design and sport performance brand and with a global leader in branded lifestyle apparel, footwear and accessories. These companies greatly value G+ materials for their non-toxicity and this is a proven and major competitive advantage for Directa Plus. Directa Plus was awarded a grant by the European Regional Development Fund via the Lombardy regional government in respect of a €1 million research project into Graphene for Advanced Textiles and Fashion ("GRATA"), namely, the development of G+ membranes to enhance the thermal and electrical performance of membranes for fashion applications. The project is a

collaboration between Directa Plus, the Politecnico of Milan University and two other companies, with Directa Plus as project leader. Directa Plus is investing €310k and will receive a grant of €126k following the completion of the project in December 2018. The grant is aligned with the Group's textile development strategy, and targeted to reduce costs and expand the range of high performance G+ textile products

Certifications

During the year, the Group achieved independent certifications that G+ textiles are non-irritating and safe for human skin, including a hypoallergenic and dermatologically tested certification confirming that G+ textiles do not cause allergic reaction and irritations in human skin. The Group's production process is chemical-free and these certifications are key for the widespread adoption of G+ materials in the textiles industry and represent an additional source of competitive advantage.

In addition, post period end, the U.S. Patent and Trademark Office issued notification that it had granted the Group a patent covering the product and application of its 'flame retardant composition comprising graphene nanoplatelets', which was subsequently also granted by the Chinese Patent Office. The ability of G+ to confer flame retardancy on an object without the use of toxic chemicals is another key differentiator for Directa Plus, particularly in respect of the textiles market where manufacturers generally achieve flame retardancy through the addition of toxic chemicals to an object or the use of a chemical after-treatment. This is especially relevant for workwear, such as for emergency services and manufacturing, and

sportswear, such as motorsports.

Environmental

The Group's G+ product for the environmental industry, Grafysorber®, has a unique oil adsorption capacity that has been substantiated through extensive testing and commercial trials over the last three years in Italy, Romania and Nigeria – and is the only commercially-available graphene-based solution for treating produced water in the oil & gas industry. Data collected demonstrates Grafysorber® to be at least five times more effective than the technologies presently used for water decontamination, adsorbing more than 100 times its own weight of oily pollutant. It has also received public endorsement from leading companies such as Eni, one of the world's largest oil & gas companies, which presented test results at the 6th International Conference on Environmental Chemistry and Engineering in Rome.

Romania

The Group signed agreements with two leading Romanian integrated oil & gas companies for field testing Grafysorber® for treating oil-contaminated water. OMV Petrom completed the field test at an oil treatment plant, with better-than-expected results in the continuous decontamination of produced water. Separately, GSP SA is due to commence field tests during H1 2018. The Board is confident that these field tests will lead to Grafysorber® being established by OMV Petrom and GSP SA as the preferred solution for their upstream decontamination and oil recovery activities.

Italy

In collaboration with Eni, Directa Plus delivered products incorporating Grafysorber® for decontamination

activities in the oil and gas sector in Nigeria. This followed the successful testing last year of Grafysorber® by Eni.

Post period end, as announced on 21 March 2018, the Group achieved a significant milestone with the signing of a commercial agreement with Sartec Srl (part of Saras Group, one of the largest refineries in Europe), to jointly develop a continuous commercial-scale industrial system using the Group's Grafysorber® product, for treating oil-contaminated produced water in the oil & gas industry. Sartec will commence building the system in Q2 2018, which will be capable of treating up to 500 cubic metres per day of produced water and is expected to be completed by the end of the year. In conjunction with this, both parties will work together to generate industrial-scale demand by leveraging the global footprint of the Sartec sales force and commercial opportunities activated by Directa Plus.

This agreement with Sartec follows a successful joint research proof-of-concept phase conducted over the last eight months. The ongoing tests continue to demonstrate Grafysorber®'s ability to outperform existing technologies in treating oil-contaminated produced water. As such, this represents another significant endorsement by an established company within the oil, energy and environment sector.

Middle East

Directa Plus continued to progress discussions in the Middle East in respect of using Grafysorber® for the decontamination of produced water from enhanced oil recovery. The Group is enlarging its upstream and downstream commercial network in the region as it potentially represents a substantial

market opportunity with Grafysorber® being a unique solution to the problem

Grafysorber® development

During the first half of the year, the Group signed an agreement with the IIT (Istituto Italiano di Tecnologia), a major and well-respected Italian research centre with more than 1,200 researchers and scientists, to develop the second generation of Grafysorber® for water treatment applications. The three-year agreement has two primary work streams. First, to develop a treatment for the external fabric of Grafysorber® booms to increase the penetration of oil and prohibit the adsorption of water, thereby maximising the oil absorption capability of the Grafysorber®. The second objective is to enable the Grafysorber® to form a porous 3D structure based on a polymeric network that "glues" the individual grains together. Both of these improvements will increase the adsorption capability of Grafysorber® and the ease with which it can be used.

Composite Materials

In the composite materials market, the Group's G+ products can be incorporated into a variety of materials to enhance their existing properties or to confer new ones. These properties range from mechanical reinforcement to electrical/thermal conductivity to barrier and tribological properties.

In particular, we are working to produce a graphene-enhanced asphalt additive, Eco Pave, which is aligned with our development strategy for Grafysorber®: after being used to treat an oil spill or for decontamination of produced water, the exhausted material could be utilised in asphalt to increase its mechanical and thermal properties. During the year, the

Group was awarded a grant from the European Regional Development Fund in respect of a project focusing on the development of innovative asphalts and bitumen based on G+. Directa Plus will provide the graphene-based products, and will work in collaboration with partners to develop Eco Pave. As part of this project, we signed an agreement with Iterchimica S.r.l., an established producer and distributor of specialised additives for asphalt, and received an order during the year from Iterchimica for graphene to be used in a pilot test of Eco Pave in 2018.

In other composite activities, the Group is working with a leading manufacturer of brake pads, which placed an order during the year for two different grades of G+ for testing, which is now complete. This followed the completion in H2 2016 of a joint R&D project conducted under a JDA signed in 2015.

Also during the year, a global luxury accessories producer launched its first collection of spectacles enhanced by G+. The new spectacles range was developed under a two-year JDA signed in 2015 and the Group continues to conduct development work with this customer.

Elastomers

In the elastomers market, the Group's G+ represents a disruptive technology that can be incorporated into end-products, in particular tyres and rubber hoses, to enhance their technical performance with properties such as puncture resistance and strength. Specifically for tyres, G+ simultaneously reduces rolling resistance and increases grip, resulting in a tyre that is faster in motion and safer as well as enabling a reduction in fuel consumption. In this sector, the route-

Strategic Report

Chief Executive Officer's Review (continued)

to-market is potentially longer than adoption in other markets, but the Board believes that it represents a significant opportunity in the medium- to long-term.

During the year, the Group received orders for over 250 kilos of G+ from Vittoria for incorporation into its range of graphene-enhanced bicycle tyres and wheels. Vittoria is one of the Group's longest-established partners and the performance of cyclists using the G+ tyres continues to be strong with victories in various competitions.

Post period, and as announced on 23 April 2018, the Group entered into a strategic collaboration agreement with Marangoni S.p.A., a global leader in the tyre retreading industry and in the development of associated technologies and machinery, to develop a bespoke version of our G+ to improve the performance of Marangoni compounds in truck and bus tyre retreading. This is an important milestone for Directa Plus as the Group is leveraging the significant experience gained in the bike tyre industry to transition into the automotive markets, which we believe is a key target market for future growth. The Group's engagement in the automotive tyre industry was further supported, also post period, with the Ufficio Brevetti e Marchi (Italian Patent and Trademark Office) granting the Group a patent for the product and application of its new graphene-based solution for enhancing the performance of tyres.

Advancements in Production and R&D

We maintained investment in our Continuous Improvement Project to enable a substantial increase in

production capacity and efficiency. In particular, the continuous development of the production process was focused on the expansion and exfoliation phases to enable new potential sales from the products of these phases. We are now able to produce 30 tonnes per annum of pristine, chemical-free graphene-based material and have a proven process to easily scale our production capacity to match the higher tonnages that we expect will eventually be needed by our customers.

We also sustained our R&D efforts, which is crucial in the fast-evolving market in which we operate. We consistently seek to innovate across our markets, but a key development is the progress we have made in improving the physical functionalisation of graphene, which enhances its properties. We are excited about the potential of this development, particularly for our activity in the composite materials market.

Outlook

The Board are excited about the Group's commercial prospects for the coming year. The Group has built strongly on the foundations that were established in 2016 and, as a result of the commercial progress made in 2017, we have entered 2018 with increased confidence of securing further significant orders.

In the textiles market, the Group continues to add new customers as well as having current customers launch larger numbers of graphene-enhanced products into the market. In the environmental market, the contract signed with Sartec to develop a continuous commercial-scale industrial system is receiving increased

attention by key prospects and we expect the first commercial agreement to be signed during this year. While the textile and environmental markets are expected to continue to be the main contributors to revenue, the Group expects to experience a strong increase in activity within its other two targeted markets of composite materials and elastomers. The Group anticipates that some customers will launch pilot programmes and others will move from proof-of-concept phase and launch products into the market.

As a result, the Group anticipates increased revenue generation from its active clients and with more customers preparing to launch products incorporating G+, the business is well-placed to deliver significant year-on-year growth in 2018 and beyond.

With the Group set to maintain its position and competitive lead, it anticipates entering into strategic commercial arrangements with some of the world's largest companies in its four key verticals, thereby laying the groundwork for future growth. The opportunities for G+ remain substantial and the Board continues to look to the future with optimism.

Commercial Lead



Strategic Report

Chief Financial Officer's Review



Marco Ferrari

Chief Financial Officer, 25 April 2018

Key Performance Indicators

The Board measures the performance of the Group through a number of important financial and non-financial KPIs. This was a strong year for Directa Plus as we improved on our KPIs, in line with the Board's expectation. The table below summarises the KPIs with further details contained later in my report:

	2017	2016
Revenue from product and service sales (€'m)	0.95	0.74
Total Income* (€'m)	1.23	0.82
EBITDA**	(3.16)	(3.67)
Adjusted loss after tax*** (€'m)	(3.95)	(4.26)
Cash and cash equivalents	6.93	10.57
Number of active customers	35	16
Total number of patents granted	15	14

* Total Income is composed by revenue from product and service sales (€0.95m), and other income including Government grants (€ 0.28m)

** EBITDA represent results from operating activities before depreciation and amortisation of €0.63m (2016: €0.57m)

*** There are no adjustments for 2017 losses. 2016 adjusted loss after tax stated before non-recurring IPO costs (€0.43m); the non-cash cost of the embedded derivative associated with a convertible loan (€1.04m); exceptional write down (€0.84m) of receivables from a customer and related increase of inventory value (€0.15m).

Financial Review

Revenue from product and service sales grew by 29% to €0.95 million, with the increase primarily due to sales into the textiles market, while Total Income increased by 51% to €1.23 million (2016: €0.82 million).

Other income, which mainly includes grants and R&D Expenditure Credit (RDEC) received by the Group, was €0.28 million (2016: €0.08 million), resulting in Total Income for 2017 of €1.23 million (2016: €0.82 million).

Government grants value increased to €0.20 million (2016: €0.08 million). The

increase was driven by grants that are directly supporting key development activities of the Group, namely the GRATA textiles project and the Eco Pave asphalts project, as described in the CEO review, which accounted for €0.06 million and €0.07 million respectively (2016: nil). Research and Development Expenditure Credit accounted for €0.08 million (2016: nil). RDEC is an Italian government incentive scheme designed to encourage companies to invest in R&D by providing a tax credit.

Additions in tangible assets of €0.35 million (2016: €0.38 million)

mainly related to the purchase of industrial equipment to improve our manufacturing process and laboratory equipment to support the development of applications, particularly in our textile and environmental markets. Investment in intangible assets of €0.13 million (2016: €0.19 million) mainly related to development costs and IP activity.

The loss after tax for the year was significantly reduced to €3.95 million compared with €6.42 million for 2016. The reduction was primarily due to the increased income generated in 2017, a €1.0 million decrease in finance expenses and the absence of expenses incurred in 2016 relating to the fair value adjustment of the embedded derivative associated with the convertible loan notes at IPO (€1.0 million). The EBITDA loss for the period was reduced to €3.16 million compared with €3.67 million loss for 2016, primarily due to increased income and lower bad debt expenses, which was partly offset by an increase in raw material and consumables expenses and employee benefits expenses. The increase in raw materials and consumables primarily related to the growth and development of our textile market.

Chief Financial Officer's Review (continued)

On an adjusted basis, loss after tax for 2017 was €3.95 million (2016: €4.26 million loss) as per the table below:

Adjusted loss after tax (€m)	2017	2016
Losses of the period	(3.95)	(6.42)
Non recurring IPO costs	–	0.43
Fair value movement of embedded derivative	–	1.04
Exceptional write-down of receivables	–	0.84
Inventory adjustment	–	(0.15)
Share based payment expenses costs	–	–
Adjusted losses after tax	(3.95)	(4.26)

As at 31 December 2017, inventories totaled €1.0 million (2016: €0.6 million), mainly due to €0.3m higher finished product inventory to ensure Directa Plus can supply to key clients in a timely manner as it receives increasing orders.

Cash and cash equivalents at 31 December 2017 were €6.9 million (2016: €10.6 million) with the reduction principally due to:

- reduced cash outflow from operating activities totaling €2.8 million (2016: €3.2 million);
 - modest investments in tangible and intangible assets of €0.5 million (2016: €0.7 million) for reasons set out above; and
 - financing activities equal to €0.3 million (2016: increase of €13.4 million mainly due to proceeds from the IPO).
- Exchange losses on cash and cash equivalent equal to €0.1 million (2016: €1 million) does not represent a cash outflow and is mainly due to the effect of movement of Sterling against Euro on Sterling deposits.

G+ Textiles – Proven Thermoregulation

Graphene Plus Planar Thermal Circuit provides a unique level of thermal comfort

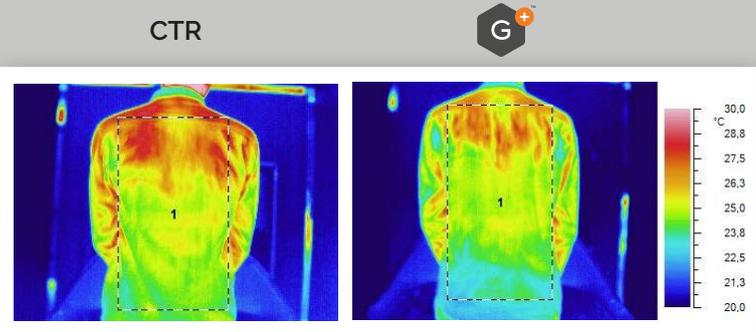
- The G+ planar thermal circuit distributes heat generated by the body to prevent the creation of hot-spots and dissipates it when needed
- Only graphene-based textiles products that are independently certified as non-irritating and hypoallergenic
- G+ textiles are able to reduce the temperature of the wearer by approximately 2°C - a significant differentiator for clothing manufacturers
- Application of thermal circuit is fully developed – enabling customers to commercially launch within 6 months

The effectiveness of the thermoregulation of Directa Plus' G+ planar thermal circuit has been proven through climatic chamber in-vivo testing – with thermographic analysis and using thermal sensors.

Heat dissipation

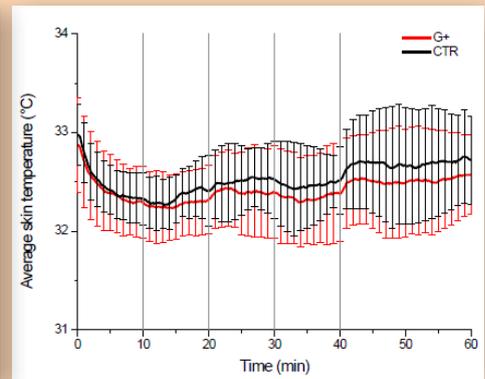
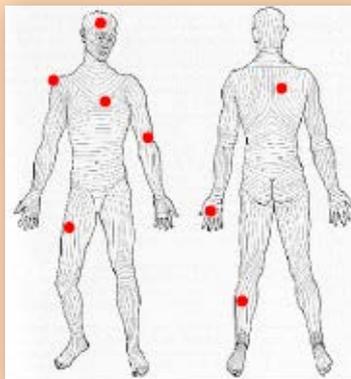
- From the thermographic analysis, it is possible to observe the heat dissipation effect of the G+ planar thermal circuit – compared with a non-graphene control shirt – throughout all the testing phases.

The control shirt (left) shows a high concentration of heat compared with a dissipation effect of the G+ shirt (right)



Total body thermoregulation

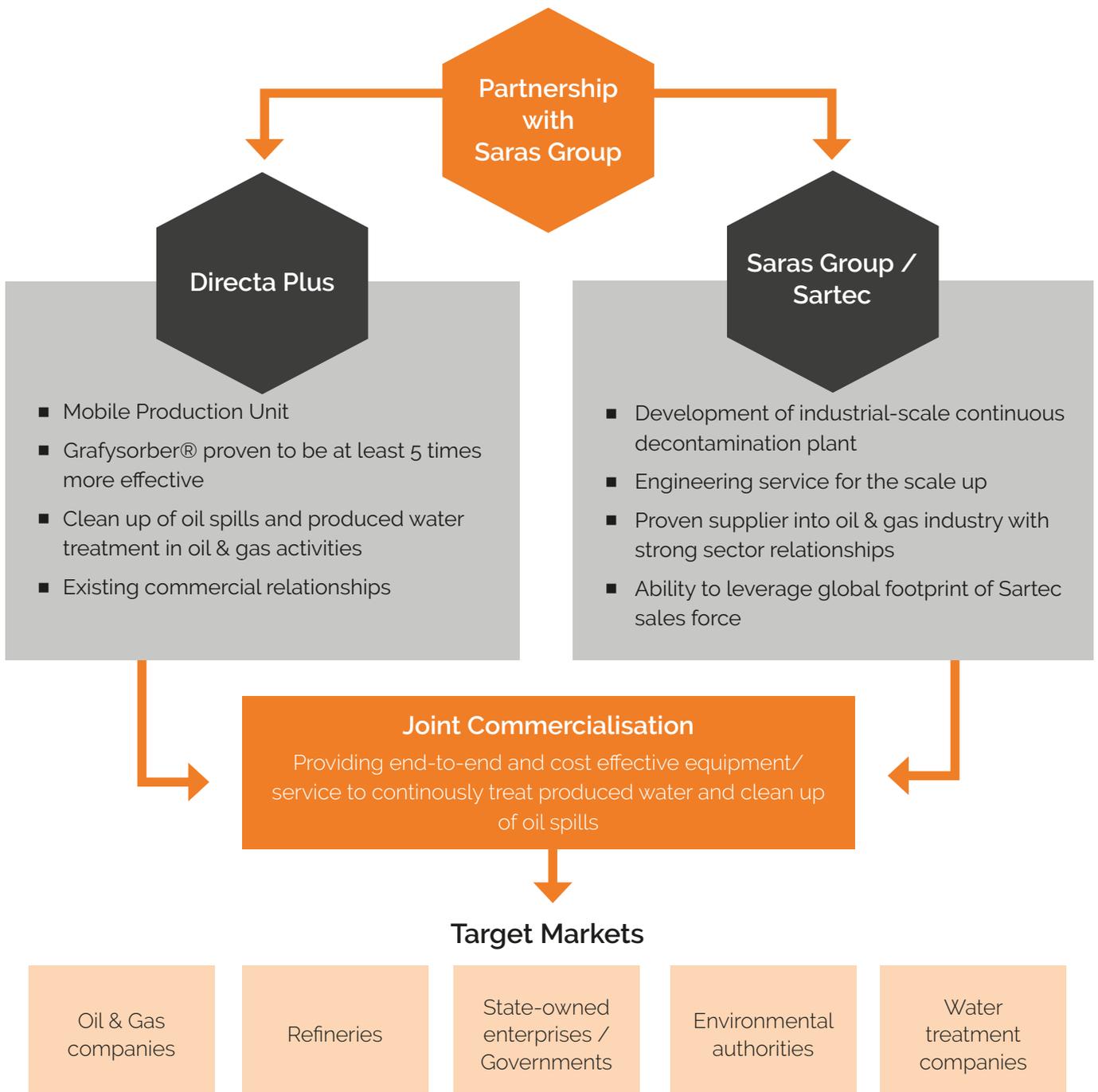
■ The thermoregulation and heat dissipation effects not only impact the body part covered by the G+ fabric, but **the whole body**. The test below shows that the average skin temperature, measured by 8 sensors positioned all around the body, was lower when wearing a G+ shirt compared with a non-graphene control shirt (based on the skin temperature of 5 testers).



Environmental Supply Chain Integration

Offering a solution for a significant industry problem

- Millions of cubic metres of contaminated water derived from oil extraction operations and refinery operations have to be treated each year before disposal in order to reduce oil concentration
- Effectiveness of existing solutions is low



Corporate Governance

Directors' Biographies



Sir Peter Middleton
Non-Executive Chairman

Sir Peter Middleton GCB is Chairman of Burford Capital, the Resort Group and Hamilton Ventures. He was Chairman of Marsh Ltd between 2005 and 2013, UK Chairman of Marsh & McLennan Companies between 2007 and 2014 and Chairman of Mercer Ltd between 2009 and 2014. He was also previously Chairman of Camelot Group plc and Chairman of the Centre for Effective Dispute Resolution. He was a Director, Chairman and Deputy Chairman of United Utilities from 1994-2007, a Board member of OJSC Mobile Telesystems from 2005-2007 and a board member of Bass plc from 1992-2001 and General Accident (later CGU) from 1992-1995.

Sir Peter spent nearly 30 years at HM Treasury, working closely with nine Chancellors, and was Permanent Secretary from 1983 to 1991. Sir Peter became Group Chairman of Barclays Bank plc in April 1999 and retired in August 2004. He joined Barclays in 1991 as Group Deputy Chairman and Executive Chairman of BZW, became Chairman of Barclays Capital following the reorganisation of BZW in October 1997 and was Group Chief Executive from November 1998 until October 1999. He was also President of the British Bankers Association from 2004-2006 and a member of the National Institute for Economic Research from 1996-2007.



Giulio Cesareo
CEO and Founder

Giulio Cesareo is one of the founders of Directa Plus. He began his professional career in 1982 in Italy working for Falck and Techint. From 1986 to 2004, he worked in the carbon and graphite field for Union Carbide, UCAR and Grafftech, reaching the positions of the President and CEO of the Italian company and Vice President and General Manager of the Advanced Carbon and Graphite business unit. In his role at Union Carbide, Giulio managed business units in USA, France and Italy.

Giulio Cesareo was awarded a degree in Mechanical Engineering from the Polytechnic University of Milan, an MBA and an Executive MBA from Bocconi University of Milan and attended Strategic and Financial Management Programs at Stanford University (USA). He serves as a board member of Fondazione Quarta, a non-profit organisation focussed on scientific research in areas of social activity, and is an Advisory Board member of the National Graphene Association. He was also a board member of Centro di cultura scientifica "Alessandro Volta", an organisation aimed at promoting the practical applications of a scientific culture.



Marco Ferrari
Chief Financial Officer

Prior to joining Directa Plus, Marco was a financial advisor at EY, involved in several M&A transactions, with a focus on energy, renewable energy and oil & gas industries. Other experience includes Deutsche Bank, Deloitte and Dezan Shira & Associates in China. Marco holds a degree in Business Administration and Master of Science in Administration Finance and Control from Università Commerciale 'Luigi Bocconi'.



David Gann

Non-Executive Director

David Gann CBE CEng FICE FCGI is a renowned expert on technological innovation and an accomplished business and academic leader. He is Imperial College London's Vice-President (Innovation) and member of the College's Executive Board. He has deep experience mentoring start-ups, supporting fast growth technology businesses and developing long-term strategic partnerships with multinational technology corporations. He is Professor of Innovation and Technology Management with a PhD in Industrial Economics. He is a Chartered Civil Engineer, a Fellow of the Institution of Civil Engineers, an Honorary Fellow of the Royal College of Art and Fellow, City & Guilds Institute. He was appointed Commander of the Order of the British Empire (CBE) in the 2010 Queen's Birthday Honours for services to engineering, and received the 2014 Tjalling C. Koopmans Asset Award for extraordinary contributions to the economic sciences. David is a member of the London Enterprise Panel and Chairman of the Smart London Board. His industrial experience includes serving as Laing O'Rourke plc's Group Executive for research and innovation between 2007-2011. He advises executives and boards on innovation and technology management, including Citigroup, IBM, Huawei, McLaren and Tata Group.



Neil Warner

Non-Executive Director

Neil Warner has strong financial and managerial experience in multinational businesses. He is the senior independent director and chairman of the audit committee at Trifast plc and he is also a non-executive director of Vectura Group plc where he is chairman of the audit committee. Formerly he served as non-executive chairman of Enteq Upstream plc and as Finance Director at Chloride Group plc, a position he held for 14 years until its acquisition by Emerson Electric. Prior to this, Neil spent six years at Exel plc (formerly Ocean Group plc and now part of DHL following its acquisition by Deutsche Post in December 2005) where he held a number of senior posts in financial planning, treasury and control. He has also held senior positions in Balfour Beatty plc (formerly BICC Group plc), Alcoa and PricewaterhouseCoopers and was non-executive director of Dechra Pharmaceuticals plc where he was the senior independent director and Chair of the Audit Committee.



Richard Hickinbotham

Non-Executive Director

Richard Hickinbotham is an experienced City professional having served as Head of Equity Research at Cantor Fitzgerald Europe and Charles Stanley. Prior to this, he held a number of senior positions at Investec, including Global Head of Research and Co-Head of Investment Banking. He has also served as Head of Pan-European Small and Midcap Research at S.G. Warburg & Co. (acquired by UBS). Richard is a non-executive director of AB Dynamics plc where he is chairman of the nomination committee and a member of the audit and remuneration committees. Richard holds a BSc. in Mechanical Engineering from Imperial College, and is a qualified Chartered Accountant.

Directors' Report

Principal Activities

Directa Plus is a technological company pursuing the development of innovative manufacturing processes to produce and supply high quality engineered graphene-based products which can be used by third parties in a wide variety of industrial and commercial applications. The Group's strategy is to partner with potential customers at an early stage and work with them to develop tailor-made graphene forms that have the desired morphology for each potential customer's specific applications to enable them to capitalise on the high-performance benefits of graphene.

The Group's main country of operation and place of business is Italy and its registered office address is 3rd Floor, 11-12 St. James's Square, London, SW1Y 4LB, UK.

Business and Strategic Review

The information that fulfils the requirements of the strategic report and business review, including details of the results for the year ended 31 December 2017, principal risks and uncertainties, research and development, KPIs and the outlook for future years, are set out in the Chairman's Statement, Chief Executive Officer's Review and Chief Financial Officer's Review on pages 6 to 13 (The Strategic Report), and in this Directors' Report. There are no post balance sheet events to report.

Dividends

The Directors' current intention is that for the foreseeable future, all future earnings of the Group will be reinvested in the business in order to fund the

ongoing growth strategy. In the future, if it is commercially prudent to do so, the Board may consider the payment of a dividend.

Directors

The following Directors held office as indicated below for the year ended 31 December 2017 and up to the date of signing this report:

Giulio Giuseppe Cesareo
Sir Peter Middleton
Marco Ferrari
David Michael Gann
Neil William Warner
Richard Hickinbotham*
Elizabeth Marie Robinson**
Luca Lodi-Rizzini***

* Richard Hickinbotham was appointed as a director on 12 May 2017.

** Elizabeth Robinson retired as a director as of 12 May 2017.

*** Luca Lodi-Rizzini retired as a director as of 26 April 2018.

Directors' Remuneration and Interests

The Directors' Remuneration Report is set out on pages 23 to 24. It includes details of Directors' remuneration, interests in the ordinary shares of the Company and share options.

Directors' Indemnity

The Company has arranged appropriate directors' and officers' insurance to indemnify the Directors against liability in respect of proceedings brought by third parties. Such provisions remain in force at the date of this report.

Corporate Governance

The Board's Corporate Governance Statement is set out on pages 21 to 22.

Share Capital and Substantial Shareholdings

Details of the share capital of the Company as at 31 December 2017 are set out in Note 18 to the consolidated financial statements. At 7 March 2018, a total of 44,212,827 ordinary shares were outstanding. The following Shareholders own 3% or more of the ordinary shares:

Shareholder	Number of ordinary shares	Percentage of Issued Ordinary Share Capital
Dompe Group	5,126,666	11.60
Quadrivio Capital SGR*	4,931,933	11.16
Unicorn Asset Management	4,000,000	9.05
Galbiga Immobiliare S.r.l.**	3,176,391	7.18
Finanziaria Le Perra S.p.A.	2,254,754	5.10
William David Cate	1,885,480	4.26
Robert Angelo Mercuri	1,885,480	4.26
Paul Calarco	1,885,480	4.26

* Elizabeth Robinson, a Non-Executive Director of the Company (until 12 May 2017), is an Investment Director of Quadrivio Capital SGR and therefore is deemed to be beneficially interested in the 4,931,933 ordinary shares held by funds managed by Quadrivio Capital SGR

** Giulio Cesareo, CEO of the Company and an Executive Director, and his family are the sole beneficiaries of the 3,176,391 ordinary shares held by Galbiga Immobiliare S.r.l.

Risk Management

The Group's financial risk management is discussed in Note 22 to the financial statements. The Directors continually considers how to identify and mitigate the key business risks. The following list considers those could have a serious adverse impact on Group's performance.

Risk	Mitigation	Change*
Technological risk Directa Plus operates in an industry where competitive advantage has a certain dependency from technology adopted. It is possible that future technological development or potential substitute materials may affect the acceptance of, and the attribution of value to the Group's graphene production technology and Group's graphene based products.	Directa Plus continually monitors market and competition and has resources to invest in technological development and product development as appropriate.	➔
Intellectual property protection risks Failure to protect the Group's IP may result in another party copying, using or taking advantage from Group's proprietary content and technology without authorization. There may not be adequate protection for IP in every country in which the Group's products are or will be made available.	The Group monitors scientific papers, news flow and graphene products brought to the market as far as reasonably possible and will take cost-effective legal action if required. The Group is advised by suitably qualified and experienced patent agents and meetings with the patent agent are scheduled regularly.	➔
Key employees risks The Group depends upon the continued service and performance of the Executive Officers and key employees. The loss of the services of any of Executive Officers or other key employees could have an adverse impact on the Group's operations, reputation and business activities. Equally if the ability new skilled and qualified employees cannot be guaranteed.	Risks is mitigated by providing share options to key employees, building a motivated management team, together with significant opportunities for carrier improvement.	➔

* Defines the changing in the risk magnitude: risk increased (⬆), risk decreased (⬇), no change (➔)

The Group's policies, procedures and practices used to identify, monitor and control a variety of risks may, in some cases, not be effective. The Group's risk management methods rely on a combination of internally developed technical controls, standard practices, observation of market behaviour and human supervision.

Corporate Governance

Directors' Report (continued)

Annual General Meeting

The notice for the convening of the AGM 2018 together with the proposed resolutions is contained in a Notice of AGM that has been sent to all shareholders and available via the Company's website.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare 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 Company and of the profit or loss of the Group for that period. The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the AIM. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website Publication

The Directors are responsible for ensuring the annual report and the financial statements are made available on the corporate website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

Auditors

Each of the persons who is a Director at the date of approval of this annual report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and

- the Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

BDO LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

By order of the Board
25 April 2018

Corporate Governance Report

The Board fully supports the underlying principles of corporate governance contained in the UK Corporate Governance Code, notwithstanding that, as its securities are not listed on the Official List, it is not required to comply with such recommendations. It has sought to comply with the provisions of the Corporate Governance Code, insofar as is practicable and appropriate for a public company of its size and nature, and recognises its overall responsibility for the Company's systems of internal control and for monitoring their effectiveness.

The Board and Committees

Board

The Board is responsible for formulating, reviewing and approving the Group's strategy, budget and major items of capital expenditure. During the year ended 31 December 2017, the Board consisted of five Non-Executive Directors with relevant experience to complement the two Executive Directors and to provide an independent view to the Executive Directors. The Non-Executive Directors for the year ended 31 December 2017 and up to the date of approval of signing of this report are Sir Peter Middleton (Chairman), Prof. David Gann, Neil Warner, Luca Lodi-Rizzini (who resigned from the Board on 26 April 2018, subsequent to the approval of this report) and Richard Hickinbotham (who joined the Board on 12 May 2017). Elizabeth Robinson served as a Non-Executive Director until 12 May 2017. The Executive Directors are Giulio Cesareo (Chief Executive Officer) and Marco Ferrari (Chief Financial Officer). The Board met on nine occasions during 2017.

Directors' attendance was as follows:

Directors	Number of Meetings Attended
Sir Peter Middleton	9
Giulio Giuseppe Cesareo	9
Marco Ferrari	8
David Michael Gann	9
Neil William Warner	7
Luca Lodi-Rizzini	7
Richard Hickinbotham*	5
Elizabeth Marie Robinson**	3

* Richard Hickinbotham was appointed a director on 12 May 2017

** Elizabeth Robinson retired as a director on 12 May 2017

Audit committee

The Audit Committee is comprised of Neil Warner, Richard Hickinbotham and David Gann, and is chaired by Neil Warner. During the year to 31 December 2017 and up to and including the signing of this Annual Report, Luca Lodi-Rizzini was also a member of the Audit Committee. The Audit Committee, amongst other duties, determines and examines matters relating to the financial affairs of the Company including the terms of engagement of the Company's auditors and, in consultation with the auditors, the scope of the audit. It receives and reviews reports from management and the Company's auditors relating to the half yearly and annual accounts and the accounting and the internal control systems in use throughout the Company and its subsidiary undertakings. The Audit Committee pays particular attention to Key Audit Matters raised by external auditors, the judgements made, the risks identified by management and actions taken to mitigate such risks.

Remuneration committee

The Remuneration Committee is comprised of Neil Warner, Richard Hickinbotham and David Gann, and is chaired by Richard Hickinbotham. During the year to 31 December 2017 and up to and including the signing of this Annual Report, Luca Lodi-Rizzini was also a member, and the Chair, of the Remuneration Committee. Upon the resignation of Luca Lodi-Rizzini, effective 26 April 2018, Richard Hickinbotham became a member of the Remuneration Committee and has assumed the role of Chair. The Remuneration Committee reviews and makes recommendations in respect of the Directors' remuneration and benefits packages and that of senior employees, including share options and the terms of their appointment. The Remuneration Committee also makes recommendations to the Board concerning the allocation of share options to employees under the Share Scheme.

Relations with Shareholders

Meetings with the analysts and institutional shareholders of the Company following the interim and annual results announcements and on an as-needed basis are attended by the Executive Directors to update the shareholders on the progress of the Group in terms of its business, financial performance and strategic direction. The Annual Report and accounts is published on the Company's website, www.directaplus.com, and can be accessed by shareholders. Shareholders will also have the opportunity to meet members of the Board at the Annual General Meeting of the Company where the Board members will be happy to respond to questions.

Corporate Governance Report (continued)

Internal Control

The Directors are responsible for establishing and maintaining the Company's system of internal control and reviewing its effectiveness.

The system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss.

The main features of the internal control system are as follows:

- Close management of the business by the Executive Directors. There are clearly delineated approval limits throughout the Company and a well-defined organisational structure. Controls are monitored at the appropriate level;
- monthly management accounts are prepared and reviewed by the Board, including reviewing variances against prior months and against budgets;
- clear segregation of duties within the Company's finance function help ensure the Company's assets are safeguarded and that proper financial records are maintained; and
- a list of matters is reserved for the approval of the Board.

Marco Ferrari is the Company Secretary (as well as the Chief Financial Officer) and is responsible for ensuring that the Company's registers and filings are

properly maintained and up to date. At this stage of its development, the Board does not feel it is necessary for the Company to have a full time or external company secretary. This will be kept under review.

The Company has adopted a share dealing code for the Directors and certain applicable employees, which is appropriate for a company whose shares are admitted to trading on AIM (particularly relating to dealing during close periods in accordance with Rule 21 of the AIM Rules for Companies) and the Company takes all reasonable steps to ensure compliance by the Directors and any relevant employees.

Going Concern

As at 31 December 2017, the Group had net assets of €9.8m (2016: net assets of €13.6m) and cash and cash equivalents of €6.9m (2016: cash and cash equivalents of €10.6m) as set out in the consolidated statement of financial position. The Directors have prepared and reviewed forecasts of the Group's financial performance. After due consideration of forecast and current cash position, the Directors believe that the Group has sufficient resources and working capital to meet their present and foreseeable obligations for a period of at least twelve months from approval of these financial statements. Accordingly, they continue to adopt the going concern basis in preparing the Group financial statements.

Directors' Remuneration Report

The Company is not required to prepare a Directors' remuneration report for each financial year and so the Company makes the following disclosures voluntarily.

The Remuneration Committee is responsible for recommending the remuneration and other terms of employment for the Executive Directors of Directa Plus plc.

In determining remuneration for the year, the committee has given consideration to the requirements of the UK Corporate Governance Code.

Remuneration policy

The objective of the remuneration policy is to attract, retain and motivate high calibre executives to deliver outstanding shareholder returns and at the same time maintain an appropriate compensation balance with the other employees of the Group.

Directors' remuneration

The normal remuneration arrangements for Executive Directors consists of base salary, performance bonuses and other benefits as determined by the Board. Each of the Executive Directors has a service agreement that can be terminated at any time by either party giving notice, the length of such notice

period being determined pursuant to the applicable National Collective Bargaining Agreement (NCBA), governed by Italian law, depending upon accrued length of service.

Non-Executive Directors are remunerated solely in the form of Director fees determined by the Board and are not entitled to pensions, annual bonuses or employee benefits. Each of the Non-Executive Directors' appointment may be terminated by either party giving three months' prior written notice.

Directors are not involved in specific discussions on their own remuneration.

Directors' remuneration

The remuneration of the Directors, in Euros, for the year ended 31 December 2017 was as follows and is audited:

	Salary/Fees €'000	Bonus/Benefits €'000	National Insurance contributions €'000	Pension contributions €'000	Total emoluments 2017 €'000
Non-Executive Chairman					
Sir Peter Middleton	64	-	-	-	64
Executive					
Giulio Cesareo	272	98	9	65	444
Marco Ferrari	133	27	8	27	195
Non-Executive					
David Gann	38	-	-	-	38
Neil Warner	38	-	-	-	38
Luca Lodi-Rizzini	38	-	-	-	38
Richard Hickinbotham*	24	-	-	-	24
Elizabeth Robinson**	5	-	-	-	5
Total	382	125	17	92	846

* Richard Hickinbotham was appointed as a director on 12 May 2017.

** Elizabeth Robinson retired as a director on 12 May 2017.

Directors' Remuneration Report (continued)

2016

	Salary/Fees €'000	Bonus/Benefits €'000	National Insurance contributions €'000	Pension contributions €'000	Total emoluments 2016 €'000
Non-Executive Chairman					
Sir Peter Middleton	61	-	-	-	61
Executive					
Giulio Cesareo	270	46	9	77	402
Marco Ferrari	112	8	5	27	152
Non-Executive					
David Gann	26	-	-	-	26
Neil Warner	26	-	-	-	26
Luca Lodi-Rizzini	33	-	-	-	33
Elizabeth Robinson	15	-	-	-	15
Giuseppe Monti***	4	-	-	-	4
Total	547	54	14	104	719

*** Giuseppe Monti retired as a director on 23 May 2016.

Directors' interests

As of 25 April 2018:

Director	Number of ordinary shares	Number of ordinary shares under option	Percentage of issued share capital
Sir Peter Middleton	20,000	100,000	0.05
Giulio Cesareo*	3,176,391	545,176	7.18
Marco Ferrari	11,166	265,176	0.03
David Gann	23,245	60,000	0.05
Neil Warner	20,000	60,000	0.05
Richard Hickinbotham	29,000	60,000	0.07
Luca Lodi-Rizzini	6,667	60,000	0.02
Elizabeth Robinson**	4,931,933	Nil	11.16

* Giulio Cesareo and his family are the sole beneficiaries of the 3,176,391 ordinary shares held by Galbiga Immobiliare S.r.l.

** Elizabeth Robinson is an investment Director of Quadrivio Capital SGR and therefore is deemed to be beneficially interested in the 4,931,933 ordinary shares held by funds managed by Quadrivio Capital SGR. Elizabeth Robinson retired as a director on 12 May 2017.

Consolidated
Financial
Statements
2017



Independent Auditor's Report

to the members of Directa Plus plc

OPINION

We have audited the financial statements of Directa Plus Plc (the 'parent company') and its subsidiaries (the 'Group') for the year ended 31 December 2017 which comprise the consolidated statement of comprehensive income, the consolidated and company statements of financial position, the consolidated and the company statements of changes in equity, the consolidated and the company statements of cash flows and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2017 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

USE OF OUR REPORT

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

CONCLUSIONS RELATING TO GOING CONCERN

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

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Matter

Valuation of Inventory

The value of inventory at 31 December 2017 is €996k. Inventories (Note 5) at the year-end include mainly finished products, raw material and spare parts. Management has prepared a model for the allocation of direct and indirect overheads based on forecast normalised production. This model includes assumptions and estimates made by management and therefore raises a risk of bias and error in the determination of cost.

In addition, the Company is carrying two Mobile Production Units ("MPU") in inventory at €75,000 each that were returned by the customer in the prior year. These items are bespoke designed and given the length of time that they are held in inventory there is a heightened risk regarding the recoverability of these assets. Management has estimated the recoverable amount of the MPU's as the carrying value in the financial statements.

Our Response

- We obtained Management's inventory valuation model and verified corroborative evidence (i.e. contracts, invoices, and timesheets) to support the key assumptions and estimates applied, including but not limited to, production capacity and the allocation of direct and indirect costs.
- We verified the production capacity of the plant and challenged production forecasts based on future sales pipelines to ensure the assumptions applied by management are reasonable.
- We verified post year sales price to invoices to ensure the net realisable value for finished goods was higher than cost.
- We verified the existence of the MPUs on site and verified that each unit was operational and available for sale.
- We verified evidence of correspondence with customers that demonstrate an active market in which to sell the MPUs.

OUR APPLICATION OF MATERIALITY

Group Materiality FY2017 €300K	Group Materiality FY2016 €300K	Basis for Materiality 3% of net assets (2016: 2% of net assets)
Company Materiality FY2017 €80K	Company Materiality FY2016 €140K	Basis for Materiality 1.5% of total assets

Independent Auditor's Report *(continued)*

to the members of Directa Plus plc

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take into account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

We continue to consider net assets as an appropriate benchmark to determine materiality. We consider net assets to be the most relevant consideration as the company is still in a development stage and net assets also reflects movements in shareholder value. We have applied a variable of 3% to net assets in 2017 (2016: 2%) to reflect the change in the risk profile of the group since its Initial Public Offering in 2016.

Whilst materiality for the financial statements as a whole was €300k, each significant component of the group was audited to a lower level of materiality which is used to determine the financial statement areas that are included within the scope of our audit and the extent of sample sizes used during the audit. Component materiality ranged from €80k to €135k.

Performance materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Performance materiality was set at 75% (2016: 75%) of the above materiality levels, resulting in €225k (2016: 225k) at Group level and €60k (2016: €105k) at Company level.

We agreed with the audit committee that we would report to the committee all individual audit differences identified during the course of our audit in excess of €15k (2016: \$6k). We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative grounds.

There were no misstatements identified during the course of our audit that were individually, or in aggregate, considered to be material in terms of their absolute monetary value or on qualitative grounds.

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Our group audit scope focused on the group's principal operating entities, Directa Plus Plc and Directa Plus Spa. We have identified both entities as significant components for the purposes of our financial statement audit, based on their relative share of total net assets. We have performed a full scope audit for these components, having performed substantive procedures over 99% of net assets.

The remaining components of the group were considered non-significant and these components were principally subject to analytical review procedures, together with additional substantive testing over the risk areas detailed above where applicable to that component.

All audit work (full scope or review work) was conducted by BDO LLP and BDO member firms. The audit of Directa Plus Spa was performed in Italy by the component auditors, BDO Italia S.p.A.

As part of our audit strategy members of the Group audit team were embedded into the Italian audit team and were present onsite in Italy during the local audit, performing an onsite review and attending completion meetings with the component auditor and local management. BDO LLP had full access to all audit working papers of the significant component audited by BDO Italia S.p.A.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the directors' responsibilities statement set out on page 20, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so. The directors have voluntarily agreed to prepare a remuneration report in accordance with the provisions of the Companies Act that would have applied if the company had been fully listed, and have asked us to report on this.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.



Matt Crane (Senior Statutory Auditor)

For and on behalf of BDO LLP, Statutory Auditor

25 April 2018

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2017

	Note	31 Dec 2017 €	31 Dec 2016 €
CONTINUING OPERATIONS			
Revenue	3	952,199	738,028
Other income	3/4	281,493	79,733
Changes in inventories of finished goods and work in progress	5	390,291	450,843
Raw materials and consumables used	6	(607,338)	(169,643)
Employee benefits expenses	7	(2,203,558)	(1,784,094)
Depreciation and amortisation	12/13	(633,784)	(572,402)
Other expenses	8	(1,973,687)	(2,981,032)
Results from operating activities		(3,794,384)	(4,238,567)
Fair value movement on embedded derivative		-	(1,039,473)
Net Finance expenses	10	(151,808)	(1,146,905)
Net finance costs		(151,808)	(2,186,378)
Loss before tax		(3,946,192)	(6,424,945)
Tax expense	11	(1,239)	-
Loss after tax from continuing operations		(3,947,431)	(6,424,945)
Loss of the year		(3,947,431)	(6,424,945)
Other Comprehensive income items that will not be reclassified to profit or loss			
Defined Benefit Plan re-measurement gains and losses	20	(4,704)	150
Other comprehensive (expense)/income for the year (net of tax)		(4,704)	150
Total comprehensive (expense)/income for the year		(3,952,135)	(6,424,795)
Loss attributable to			
Owner of the Parent		(3,948,133)	(6,422,019)
Non-controlling interests		702	(2,926)
		(3,947,431)	(6,424,945)
Total comprehensive (expense)/income attributable to:			
Owners of the Company		(3,952,837)	(6,421,869)
Non-controlling interests		702	(2,926)
		(3,952,135)	(6,424,795)
Loss per share			
Basic loss per share	23	(0.09)	(0.19)
Diluted loss per share	23	(0.09)	(0.19)

The notes on pages 36 to 61 form part of these financial statements

Consolidated and Company Statement of Financial Position

for the year ended 31 December 2017

	Note	Group		Company	
		31 Dec 17 €	31 Dec 16 €	31 Dec 17 €	31 Dec 16 €
Assets					
Intangible assets	12	1,572,309	1,726,602	-	-
Investments	14	-	-	14,180,336	11,057,438
Property, plant and equipment	13	1,284,412	1,283,184	-	-
Non-current assets		2,856,721	3,009,786	14,180,336	11,057,438
Inventories	5	995,666	606,065	-	-
Trade and other receivables	15	1,161,711	1,170,338	109,240	313,094
Cash and cash equivalents	17	6,929,446	10,570,211	4,493,006	8,011,689
Current assets		9,086,823	12,346,614	4,602,246	8,324,783
Total assets		11,943,544	15,356,400	18,782,582	19,382,221
Equity					
Share capital	18	142,628	142,628	142,628	142,628
Share premium	18	19,973,996	19,973,996	19,973,996	19,973,996
Retained Earnings	18	(10,250,225)	(6,552,965)	(1,380,478)	(766,745)
Equity attributable to owners of Group		9,866,399	13,563,659	18,736,146	19,349,879
Non-controlling interests		22,930	22,228	-	-
Total equity		9,889,329	13,585,887	18,736,146	19,349,879
Liabilities					
Loans and borrowings	19	211,791	454,600	-	-
Employee benefits provision	20	282,031	227,358	-	-
Non-current liabilities		493,822	681,958	-	-
Loans and borrowing	19	244,780	238,134	-	-
Trade and other payables	21	1,315,613	850,421	46,436	32,342
Current liabilities		1,560,393	1,088,555	46,436	32,342
Total liabilities		2,054,215	1,770,513	46,436	32,342
Total equity and liabilities		11,943,544	15,356,400	18,782,582	19,382,221

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own statement of comprehensive income in these financial statements. The Company loss after tax for the year was €900,374.

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:

Sir Peter Middleton

Chairman

Date: 25 April 2018

The notes on pages 36 to 61 form part of these financial statements

Consolidated Statement of Changes in Equity

for the year ended 31 December 2017

	Share capital €	Share premium €	Retained earnings €	Total €	Non- controlling interests €	Total equity €
Balance at 31 December 2015	503,100	3,885,816	(6,281,317)	(1,892,401)	-	(1,892,401)
Total comprehensive (expense)/income for the period	-	-	-	-	-	-
Loss of the year	-	-	(6,422,019)	(6,422,019)	(2,926)	(6,424,945)
Total other comprehensive (expense)/income	-	-	150	150	-	150
Total comprehensive (expense)/income for the period	-	-	(6,421,869)	(6,421,869)	(2,926)	(6,424,795)
Transactions with owners	-	-	-	-	-	-
Share reduction	(439,649)	-	439,649	-	-	-
Cancellation of share premium account	-	(3,885,816)	3,885,816	-	-	-
Initial Public Offering	55,986	16,739,965	-	16,795,951	-	16,795,951
Expenditure relating to the issuance of shares	-	(1,960,652)	-	(1,960,652)	-	(1,960,652)
Share-based payment	-	-	154,068	154,068	-	154,068
Non-Controlling Interests on Directa Textiles Solutions	-	-	-	-	25,154	25,154
Convertible loan (embedded derivative)	23,191	5,194,683	1,670,686	6,888,560	-	6,888,560
Balance at 31 December 2016	142,628	19,973,996	(6,552,965)	13,563,659	22,228	13,585,887
Total comprehensive (expense)/income for the period	-	-	-	-	-	-
Loss of the year	-	-	(3,948,133)	(3,948,133)	702	(3,947,431)
Total other comprehensive (expense)/income	-	-	(4,704)	(4,704)	-	(4,704)
Total comprehensive (expense)/income for the period	-	-	(3,952,837)	(3,952,837)	702	(3,952,135)
Transactions with owners	-	-	-	-	-	-
Share-based payment	-	-	255,578	255,578	-	255,578
Non-controlling interests on Directa Textiles Solutions	-	-	-	-	-	-
Balance at 31 December 2017	142,628	19,973,996	(10,250,225)	9,866,399	22,930	9,889,329

The notes on pages 36 to 61 form part of these financial statements

Company Statement of Changes in Equity

for the year ended 31 December 2017

	Share capital €	Share premium €	Retained earnings €	Total equity €
Balance at 31 December 2015	503,100	3,885,816	(3,636,996)	751,920
Loss for the year	-	-	(3,279,968)	(3,279,968)
Share reduction	(439,649)	-	439,649	-
Cancellation of share premium account	-	(3,885,816)	3,885,816	-
Initial Public Offering	55,986	16,739,965	-	16,795,951
Expenditure relating to the issuance of shares	-	(1,960,652)	-	(1,960,652)
Share-based payment reserve	-	-	154,068	154,068
Convertible loan (embedded derivative)	23,191	5,194,683	1,670,686	6,888,560
Balance at 31 December 2016	142,628	19,973,996	(766,745)	19,349,879
Loss for the year	-	-	(900,374)	(900,374)
Share-based payment reserve	-	-	286,641	286,641
Balance at 31 December 2017	142,628	19,973,996	(1,380,478)	18,736,146

The notes on pages 36 to 61 form part of these financial statements

Consolidated and Company Statement of Cash Flows

for the year ended 31 December 2017

	Note	Group		Company	
		2017 €	2016 €	2017 €	2016 €
Cash flows from operating activities					
Loss for the year before tax		(3,946,191)	(6,424,945)	(900,374)	(3,279,970)
<i>Adjustments for:</i>					
Depreciation	13	347,042	317,258	-	763
Amortisation of intangible assets	12	286,742	267,105	-	-
Bad debt expense	15	16,738	909,763	-	70,903
Fair value movement on derivative		-	1,039,473	-	1,039,473
Share-based payment expense		255,578	154,068	163,743	154,068
IPO Costs		-	427,903	-	427,903
Finance income	10	(5,501)	(4,230)	-	-
Finance expense	10	157,309	1,151,136	131,647	1,117,709
Tax expenses		(1,239)	-	-	-
		(2,889,523)	(2,162,469)	(604,984)	(469,151)
<i>Increase/Decrease in:</i>					
- inventories	5	(390,291)	(450,843)	-	-
- trade and other receivables	15	(3,394)	(654,509)	203,854	(349,603)
- trade and other payables	21	442,867	(8,101)	14,094	(108,440)
- provisions and employee benefits	20	44,051	56,406	-	-
Net cash from operating activities		(2,796,291)	(3,219,516)	387,036	(927,194)
Cash flows from investing activities					
Interest received	10	5,501	4,230	-	-
Investment in intangible assets	12	(122,347)	(168,716)	-	-
Investment in subsidiary		-	-	(3,000,000)	(4,000,000)
Loan to associate		-	(50,939)	-	(50,939)
Consideration paid for acquisition of subsidiary net of cash acquired		-	(58,718)	-	-
Acquisition of property, plant and equipment	13	(340,071)	(377,246)	-	-
Net cash used in investing activities		(456,917)	(651,389)	(3,000,000)	(4,050,939)
Cash flows from financing activities					
Proceeds from IPO		-	14,408,156	-	14,408,156
Interest paid on loans and borrowings	10	(20,481)	(52,195)	(3,378)	(37,519)
Repayment of borrowings	19	(236,164)	(989,696)	-	(811,817)
Net cash from (used in) financing activities		(256,645)	13,366,265	(3,378)	13,558,820
Net increase (decrease) in cash and cash equivalent		(3,509,853)	9,495,360	(3,390,414)	8,580,687
Cash and cash equivalent at beginning of the year		10,570,211	2,031,650	8,011,689	319,339
Exchange (losses)/gains on cash and cash equivalents		(130,912)	(956,799)	(128,269)	(888,337)
Cash and cash equivalent at end of the year		6,929,446	10,570,211	4,493,006	8,011,689

The notes on pages 36 to 61 form part of these financial statements

Notes to the Consolidated Financial Statements

for the year ended 31 December 2017

1. Basis of preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRSs) as adopted for use in the European Union and with those parts of Company Act 2006 to companies preparing their financial statements under the adopted IFRS.

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year, unless otherwise stated.

The financial statements have been prepared on a going concern basis as since the Directors believe that the Group has adequate resources to remain in operation for the foreseeable future.

All notes, except as otherwise indicated, are presented in Euros ("€") and all values are rounded to the nearest thousand (€'000) except where otherwise stated.

(b) Basis of Consolidation

I Subsidiaries

Where the Company has control over an investee, it is classified as a subsidiary. The Company controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

The total comprehensive income of non-wholly owned subsidiaries is attributed to owners of the parent and to the non-controlling interests in proportion to their relative ownership interests.

II. Transaction eliminated on consolidation

The consolidated financial statements present the results of the Company and its subsidiaries ("the Group") as if they formed a single entity. Intercompany transactions and balances between Group companies are therefore eliminated in full.

III. Non-controlling interest

Non-controlling interest in the net assets of the consolidated subsidiaries are identified separately from the Group's equity. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling shareholder's share changes in equity since the date of the combination. The non-controlling interest's share of losses, where applicable, are attributed to the non-controlling interests irrespective of whether the non-controlling shareholders have a binding obligation and are able to make an additional investment to cover the losses.

(c) Functional and presentation currency

These financial statements are presented in Euro ("€") and is considered by the Directors to be the most appropriate presentation currency to assist the users of the financial statements. The functional currency of the Company and operating subsidiary is Euro ("€").

(d) Use of estimates and judgements

The preparation of the financial statements in conformity with IFRS, as adopted by the EU, requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised if the revision affects only that period.

Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2017

1. Basis of preparation *(continued)*

Critical estimates and assumptions that have the most significant effect on the amounts recognised in the financial statements and/or have a significant risk of resulting in a material adjustment within the next financial year are as follows:

I. Carrying value of capitalised development costs

The Group capitalises development costs provided the recognition conditions meet the criteria set out in IAS 38. During the year costs have been capitalised in relation to projects to enhance and develop the production process for G+ Graphene. The majority of the capitalised costs relate to internal employee costs and Management are able to separately identify time spent on these projects through the Group's internal time card management program. Management and the directors continually assess the commercial potential of the technology and products in development. The costs capitalised in period have resulted in the development of new IP and Management has assessed that there is sufficient evidence to support that economic benefit will flow.

Intangible assets are amortised over their expected or known useful lives on a straight-line basis beginning from the point they are available for use. The estimated useful life is the lower of the legal duration (term of patents - usually 20 years) and the useful economic life. The estimated useful lives of intangible assets are regularly reviewed. Management currently estimates based on the development program the estimated useful life for intangible assets is currently 10 years. The useful economic life is based on management's estimate of the time period over which the assets will generate future cash flows.

II. Valuation and recoverability of Inventory

Inventories are stated at the lower of cost or net realisable value. The cost of inventories comprises of net prices paid for materials purchased, production labour cost and factory overhead. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Inventory provisions are recognised for slow-moving, obsolete or unsalable inventory and are reviewed on a six monthly basis. The valuation of Inventory includes key estimates and judgments made by Management including normal production capacity, market demand and selling opportunities. If actual demand or usage were to be lower than estimated, inventory provisions for excess or obsolete inventory may be required.

III. Defined benefit scheme

Provision for benefits upon termination of employment related to amounts accrued by Italian companies for employment retirement. In determining this provision Management employs actuarial techniques, including the involvement of an external expert. All key estimates applied have been included in note 20.

IV. Share based payments

The cost of employee services received (compensation expenses) in exchange for awards of equity instruments are recognised based upon the fair value of stock options at the grant date. Management uses a Black-Scholes option valuation model to value the stock options at grant date. This Black-Scholes option valuation model requires the use of assumptions, including expected stock price volatility and the estimated life of each award. The risk-free interest rate used in the model is determined, based on a government bond with a term equal to the expected life of the equity-settled share-based payments. Stock options with market based vesting conditions also includes key judgements regarding the probability of performance conditions being met.

(e) New standards and interpretations not yet adopted

I. IFRS 15 – Revenues from contract with customers

IFRS 15 is effective for the year beginning 1 January 2018 and provides a single principles based five-step model to be applied to all sales contracts, where the key focus is on the transfer of control of goods and services to customers. It replaces models included in IAS 11 (Construction Contracts) and IAS 18 (Revenue).

Management has undertaken proper analysis of how IFRS 15 should be implemented and which the impact could be. Management decided to implement new commercial Terms and Conditions during the FY17 in order to better meet IFRS 15 requirements. The Group plans to adopt IFRS 15 in FY18 and based on the current and historic sales contracts in place do not expect any material impact from implementing this new standard. As Management consider there will be no impact, the company will adopt a modified retrospective approach whereby the comparatives are not restated and are presented using existing IAS 18.

Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2017

1. Basis of preparation *(continued)*

II. IFRS 16 – Leases

IFRS 16 is effective for the year beginning 1 January 2019. IFRS 16 provides a single lessee accounting model, requiring lessees to recognise right of use assets and lease liabilities for all applicable leases. Therefore existing operating leases will be accounted for similarly to finance leases under the current IAS 17, resulting in the recognition of additional assets within property, plant and equipment in respect of the right of use of the lease assets, and additional lease liabilities. The operating leases charges currently reflected within operating expenses (and EBITDA) will be eliminated and instead depreciation and finance charges will be recognised in respect of the lease assets and liabilities. The full impact of IFRS 16 is currently under review, including understanding the practical application of the principles of the standard. It is therefore not practical to provide a reasonable estimate of the effect until this review is complete, nevertheless, as preliminary comment, due to the low level of existing leases, Management don't expect any material impact.

III. IFRS 9 – Financial Instruments

IFRS 9 "Financial Instruments" will supersede IAS 39 "Financial Instruments – Recognition and Measurement" and is effective for annual periods beginning on or after 1 January 2018. IFRS 9 includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting.

Management assessed the impact of the new standard and IFRS 9 is expected not to have material effect on the Group's accounting.

2. Significant accounting policies

(a) Functional and foreign currency

The financial statements of each Group company are measured using the currency of the primary economic environment in which that company operates (the functional currency). The consolidated financial statements record the results and financial position of each Group company in Euro, which is the functional currency of the Company and the presentational currency for the consolidated financial statements.

I. Transaction and balances

Transactions in foreign currencies are converted in to the respective functional currencies at initial recognition, using the exchange rates at the transaction date. Monetary assets and liabilities at the end of the reporting period are translated at the rates ruling at the reporting date. Non-monetary assets and liabilities are not retranslated. All exchange differences are recognised in profit or loss. On consolidation, the results of overseas operations not in Euro are translated at the rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations are translated at the rate ruling at the reporting date. Exchange differences arising on translating the opening net assets at closing rate and the results of overseas operations at actual rate are recognised in other comprehensive income.

(b) Financial instruments

I. Non-derivative financial assets

The Group initially recognises loans and receivables on the date that they are originated. All other financial assets are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument. Subsequent to initial recognition financial liabilities are measured at amortised cost.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2017

2. Significant accounting policies *(continued)*

Financial assets and liabilities are offset, and the net amount presented in the statement of financial position when the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group's non-derivative financial assets comprise loans and receivables.

(c) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payment terms that are not quoted in an active market. The Group's loans and receivables comprise trade and other receivables and loan receivables, which are recognised initially at fair value plus any directly attributable transaction costs and subsequently measured at amortised cost using the effective interest rate method less provisions for impairment.

(d) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less, that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

(i) *Non-derivative financial liabilities*

The Group initially recognises all financial liabilities on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Other financial liabilities comprise trade and other payables.

(e) Leases

I. Finance leases

At inception of an arrangement, the Group determines whether the arrangement is or contains a lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

II. Operating leases

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(f) Share capital

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

(g) Property, plant and equipment

(i) *Recognition and measurement*

Property, plant and equipment are measured at cost less accumulated depreciation, Government grants received (where applicable) and accumulated impairment losses.

Costs capitalised include expenditure that are directly attributable to the acquisition of the asset.

Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2017

2. Significant accounting policies *(continued)*

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) are recognised in profit or loss.

(ii) Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred.

(iii) Depreciation

Items of property, plant and equipment are depreciated on a straight-line basis in the statement of comprehensive income over the estimated useful lives of each component.

Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use.

The estimated useful lives of significant items of property, plant and equipment are as follows:

- Computer equipment over 5 years
- Industrial equipment, office equipment and plant and machinery 15% yearly

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted where appropriate.

(h) Intangible assets

Intangible assets are measured at cost less accumulated amortisation and Government grants received (where applicable).

Patent rights acquired and development expenditure are recognised at cost.

Expenditure on internally developed products is capitalised if it can be demonstrated that:

- it is technically feasible to develop the product
- adequate resources are available to complete the development
- there is an intention to complete and sell the product
- the Group is able to sell the product
- sale of the product will generate future economic benefits, and
- expenditure on the project can be measured reliably.

Capitalised development costs are amortised over the period the Group expects to benefit from selling the products developed (Useful Economic Life). The amortisation expense is included within the cost of sales in the consolidated statement of comprehensive income.

Development expenditure not satisfying the above criteria and expenditure on the research phase of internal projects are recognised in the consolidated statement of comprehensive income as incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and impairment losses.

Other intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses.

(i) Amortisation

Intangible assets are amortised on a straight-line basis in profit or loss over their estimated useful lives, from the date that they are available for use.

Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2017

2. Significant accounting policies *(continued)*

- Patents and research and development costs concerning G+ technology, are amortised over the lower of the legal duration of the patent (typically 20 years) and the economic useful life. These are currently amortised over 10 years.
- Other intangible assets 5 years.

i) Inventories

Inventories are stated at the lower of cost or net realisable value. The cost of inventories comprises net prices paid for materials purchased, production labour cost and factory overhead. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Inventory provisions are recognised for slow-moving, obsolete or unsalable inventory and are reviewed on a six months basis.

j) Impairment

(i) *Non-derivative financial assets*

A financial asset not classified at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that event(s) had an impact on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

(ii) *Non-financial assets*

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or Cash Generating Unit ('CGU') exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell.

(k) Employee benefits

Defined benefit scheme surpluses and deficits are measured at:

- The fair value of plan assets at the reporting date; less
- Plan liabilities calculated using the projected unit credit method discounted to its present value using yields available on high quality corporate bonds that have maturity dates approximating to the terms of the liabilities; plus
- Unrecognised past service costs; less
- The effect of minimum funding requirements agreed with scheme trustees.

Remeasurements of the net defined obligation are recognised directly within equity. The remeasurements include:

- Actuarial gains and losses
- Return on plan assets (interest exclusive)
- Any asset ceiling effects (interest exclusive)

Service costs are recognised in profit or loss, and include current and past service costs as well as gains and losses on curtailments.

Net interest expense (income) is recognised in profit or loss, and is calculated by applying the discount rate used to measure the defined benefit obligation (asset) at the beginning of the annual period to the balance of the net defined benefit obligation (asset), considering the effects of contributions and benefit payments during the period.

Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2017

2. Significant accounting policies *(continued)*

Gains or losses arising from changes to scheme benefits or scheme curtailment are recognised immediately in profit or loss.

Settlements of defined benefit schemes are recognised in the period in which the settlement occurs.

For more information please see note 20.

(l) Revenue

Revenue represents sales to external customers invoiced at amounts less value added tax or local taxes on sales. Revenue from products sale is recognised on delivery, or customer acceptance where customer acknowledges the transfer of risk and control. Revenue from services contracts is recognised based on the contractual agreement, once the service is provided and confirmation of service completion provided is being formally received.

(m) Government grants

Government grants are recognised when there is reasonable assurance that the entity will comply with the relevant conditions and the grant will be received. Grants are recognised in profit or loss on a systematic basis where the Group has recognised the initial expenses that the grants are intended to compensate. Where a grant has been received as a contribution for property, plant and equipment, or capitalised development costs, the income received has been credited against the asset in the statement of financial position.

(n) Finance income and finance costs

Finance income comprises interest income on funds invested. Interest income is recognised in the profit or loss, using the effective interest method. Finance costs comprise interest expense on borrowings.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

(o) Investments in subsidiaries (Company only)

Investments are stated at their cost less any provision for impairment (then refer to j) Impairment).

(p) Taxation

Tax expense comprises current and deferred tax. Current and deferred tax is recognised in the profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2017

2. Significant accounting policies *(continued)*

A deferred tax asset is recognised for deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3. Operating segments

Operating segments are currently disclosed in a manner consistent with the internal management reporting system and financial reporting provided to the chief operating decision makers (CEO, CFO, COO and CTO). A change in the internal reporting system is under discussion and would drive the disaggregation of the operating segments in line with the strategic business units that offer the different products and services.

Information regarding the results of each reportable segment is included below.

Operating Segments

2017

	UK Operations €	ITA Operations €	Total €
Revenue	49,620	902,579	952,199
Other revenue	2,052	279,441	281,493
Depreciation	-	(633,784)	(633,784)
Other expenses	(1,000,127)	(3,394,165)	(4,394,292)
Results from operating activities	(948,454)	(2,845,929)	(3,794,384)
Fair value movement on embedded derivative	-	-	-
Net Financial expenses	(131,647)	(20,162)	(151,808)
Loss before tax	(1,080,101)	(2,866,091)	(3,946,192)

Operating Segments

2016

Revenue	-	738,028	738,028
Other revenue	-	79,733	79,733
Depreciation	-	(572,402)	(572,402)
Other expenses	(1,122,788)	(3,361,138)	(4,483,926)
Results from operating activities	(1,122,788)	(3,115,779)	(4,238,567)
Fair value movement on embedded derivative	(1,039,473)	-	(1,039,473)
Net Financial expenses	(1,117,709)	(29,197)	(1,146,905)
Loss of the year	(3,279,970)	(3,144,976)	(6,424,945)

	2017 €	2016 €
Sale of products	858,218	692,384
Sale of services	93,981	45,644
Government grants	196,842	77,012
Other revenue	84,651	2,721
Total income	1,233,692	817,761

Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2017

3. Operating segments *(continued)*

Geographical breakdown of revenues are:

	2017	2016
	€	€
Italy	786,400	215,924
USA	60,100	16,953
Rest of the world	105,699	505,151
Total	952,199	738,028

The Group has transacted with one main customer in 2017, which accounts for more than 10% of Group revenues for sales of products and services: this customer's revenues amount to €303,664 (32%), whilst the next highest revenue earning customer provided €81,669 (9%).

Revenues from UK operations amount to approximately €46,620 (2016: €0) and this arose from one major customer in USA.

Other revenues of €82,306 substantially relate to R&D Expenditure Credit (RDEC). The RDEC is an Italian incentive scheme (art.3 DL 145/2013) designed to encourage companies to invest in R&D by providing a tax credit. The credit can be used to reduce corporation tax or to offset outstanding payables related to social security.

4. Government Grants

Information regarding government grants:

	2017	2016
	€	€
MAT4BAT	62,351	77,012
Grata	63,158	-
Ecopave	71,333	-
Total	196,842	77,012

In relation to government grants (Grata and Ecopave), the completion of the operational activities related to these projects and the submission of final documents have been completed. Therefore the conditions of the grants have been fulfilled.

The key terms of Government grants are:

	MAT4BAT	Grata	Ecopave
Starting date	2013	2017	2016
Ending date	2017	2018	2019
Duration (months)	42	24	36
Total amount	304,700	126,324	214,100
Final report submitted and accepted	Yes	Project still on-going	Project still on-going

There are no capital commitments built into the ongoing grants. Government grants have been recognised in Other Income.

Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2017

5. Change in Inventory & Inventory

	2017 €	2016 €
Finished products	877,082	566,196
Spare Parts	102,400	29,600
Raw material	16,184	10,269
Total	995,666	606,065

As at 31 December 2017 inventories are higher than 2016 due to the introduction of spare parts inventory and an increase in Finished products. Spare parts inventory was required to enhance maintenance efficiency and is composed of a small number of critical items with a material cost per unit. Finished products inventory increased to ensure timely supply to key clients in the growing target market. Two Mobile Production Unit are included in Finished products with a total value of €150,000.

6. Raw materials and consumables

	2017 €	2016 €
Raw material & consumables	127,052	149,048
Textile products	480,286	20,595
Total	607,338	169,643

€607,338 (2016: €169,643) refers to materials for production and consumables. The cost increase is due to the expansion of Directa Textile Solutions following the acquisition in 2016.

7. Employee benefits expenses

	2017 €	2016 €
Wages and salaries	1,585,058	1,304,362
Social security costs	346,515	305,287
Employee benefits	75,519	85,461
Share option expense	255,578	154,068
Other costs	22,952	34,660
Total	2,285,622	1,883,839
Capitalised cost in "Intangible assets"	(82,064)	(99,745)
Total charged to the Income Statement	2,203,558	1,784,094

Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2017

7. Employee benefits expenses *(continued)*

The average number of employees (excluding non-executive directors) during the period were:

	2017	2016
Sales and Administration	8	7
Engineering, R&D and production	17	15
Total	25	22

The Directors' emoluments (including non-executive directors) are as follows:

	2017	2016
	€	€
Wages and salaries	845,847	718,710
Total	845,847	718,710

A detailed analysis of the remuneration of the directors is detailed within the Directors' Remuneration Report on pages 23 to 24.

8. Results from operating activities

Results from operating activities includes:

	2017	2016
	€	€
Audit of the Group and Company financial statements	34,927	32,112
Audit of the subsidiaries' financial statements	18,000	18,000
Other non-audit services provided by Group's auditor	30,188	264,184
Operating leases	210,083	143,951
Travel and marketing	211,712	217,647
Bad debt expense	16,738	909,763

Other non-audit services refers to services for advising the Company on the entitlement to recover input tax in the UK. Other non-audit services are lower than 2016 due to services received in 2016 in relation to the Company's IPO.

Operating leases includes rent of the facility (€140,382), machinery and equipment (€69,702). The bad debt expense in 2016 is significantly higher than 2017 as it includes the exceptional costs relating to the two MPUs sold in 2015 and subsequently returned to the Group in 2016.

Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2017

9. Leases

Operating leases relate to the Group's plant and machinery held on leases.

	2017 €	2016 €
Future minimum lease payments		
Less than one year	59,092	63,000
Between one and five years	-	-
More than five years	-	-
Total	59,092	63,000

Finance lease liabilities are payable as follows:

	2017 €	2016 €
Future minimum lease payments		
Less than one year	61,735	61,735
Between one and five years	121,305	183,039
More than five years	-	-
Total	183,040	244,774

	2017 €	2016 €
Present value of minimum lease payments		
Less than one year	59,898	59,898
Between one and five years	108,369	168,117
More than five years	-	-
Total	168,267	228,015

10. Net Finance expenses

Finance expenses include:

	2017 €	2016 €
Interest Income	(5,501)	(4,230)
Interest on loans and other financial costs	9,715	197,168
Interest on financial leasing	10,766	14,576
Interest cost for benefit plan	5,918	4,614
Foreign exchanges losses	130,910	934,777
Total	151,808	1,146,905

At 31 December 2017 interest on loans and other financial costs amount to €9,715 (2016: €197,168). The sharp reduction is consequence of the convertible debt repayment that occurred in 2016. Foreign exchange losses of €130,910 (2016: €934,777) are mainly related to Sterling movement in the Group's Sterling bank account.

Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2017

11. Taxation

	2017 €	2016 €
Current tax expenses	1,239	-
Deferred tax expenses	-	-
Total tax expenses	1,239	-
Reconciliation of tax rate		
	2017 €	2016 €
Loss before tax	(3,946,191)	(6,424,945)
Italian statutory tax rate	24%	24%
	(947,086)	(1,541,987)
Impact of temporary differences	38,880	74,534
Losses recognised	(37,641)	(74,534)
Losses not utilised	947,086	1,541,987
Total tax expenses	1,239	-

Tax losses carried forward have been recognised as a deferred tax asset up to the point that they are recoverable against taxable temporary differences. All other tax losses are carried forward and not recognised as a deferred tax asset due to the uncertainty regarding generating future taxable profits. Tax losses carried forward are €16,790,913 (€13,483,787 in 2016).

Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2017

12. Intangible assets

Cost	Development cost €	Patents €	Goodwill €	Others €	Total €
Balance at 31/12/2015	2,326,297	128,279	-	57,761	2,512,337
Additions	99,745	68,970	22,268	-	190,983
Reduction	-	-	-	(28,353)	(28,353)
Balance at 31/12/2016	2,426,042	197,250	22,268	29,408	2,674,968
Additions	82,064	47,394	-	2,393	132,450
Balance at 31/12/2017	2,508,106	244,643	22,268	32,401	2,807,418
Amortisation					
Balance at 31/12/2015	640,297	25,485	-	25,995	693,222
Amortisation 2016	242,604	19,725	-	4,776	267,105
Reclassification	-	-	-	(11,960)	(11,960)
Balance at 31/12/2016	882,901	45,210	-	18,811	948,367
Amortisation 2017	257,101	24,464	-	5,177	286,742
Balance at 31/12/2017	1,140,002	69,674	-	23,988	1,235,109
Carrying amounts					
Balance 31/12/2015	1,686,000	102,794	-	30,321	1,819,115
Balance 31/12/2016	1,543,141	152,040	22,268	9,153	1,726,602
Balance 31/12/2017	1,368,104	174,969	22,268	6,969	1,572,309

As disclosed in note 1(d) development costs capitalised in the year are based on time spent by employees who are directly engaged in the development of the G+ technology.

During 2017 an average of 23% of the cost of 5 employees has been capitalised.

During 2016 an average of 33% of the cost of 4 employees has been capitalised.

The Goodwill relates to the acquisition of Directa Textile Solutions (formerly Osmotek Srl) on 11 November 2016.

Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2017

13. Property, plant and equipment

Cost	Industrial equipment €	Computer equipment €	Office equipment €	Plant & Machinery €	Total €
Balance at 31/12/2015	47,479	29,105	55,959	1,637,380	1,769,923
Additions	91,181	4,841	35,839	245,383	377,246
Disposals	-	(300)	(7,627)	(1,773)	(9,700)
Balance at 31/12/2016	138,660	33,646	84,171	1,880,994	2,137,471
Additions	21,909	2,218	19,549	304,591	348,267
Balance at 31/12/2017	160,570	35,864	103,720	2,185,585	2,485,739
Depreciation					
Balance at 31/12/2015	24,365	16,691	14,804	489,728	545,588
Depreciation 2016	28,988	4,747	10,700	272,823	317,258
Disposals	-	(300)	(6,486)	(1,773)	(8,559)
Balance at 31/12/2016	53,353	21,138	19,018	760,778	854,287
Depreciation 2017	25,615	4,324	14,092	303,008	347,042
Balance at 31/12/2017	78,968	25,462	33,110	1,063,786	1,201,327
Carrying amounts					
Balance 31/12/2015	23,114	12,414	41,155	1,147,652	1,224,335
Balance 31/12/2016	85,307	12,508	65,153	1,120,216	1,283,184
Balance 31/12/2017	81,601	10,402	70,610	1,121,799	1,284,412

Asset held under financial leases with a net book value of € 223,550 are included in the above table within Plant & Machinery.

14. Investments in subsidiaries

Details of the Company's subsidiaries as at 31 December 2017 are as follows:

Subsidiaries	Country	Principal activity	Shareholding	
			2017	2016
Directa Plus Spa	Italy	Producer and supplier of graphene materials	100%	100%
Directa Textile Solutions Srl	Italy	Commercialise textile membranes, including graphene-based technical and high-performance membranes	60%	60%

Subsidiaries	Place of Business	Registered Office	Place of Business
Directa Plus Spa	Italy	Via Cavour 2, Lomazzo (CO) Italy	See registered office
Directa Textile Solutions Srl	Italy	Via Cavour 2, Lomazzo (CO) Italy	See registered office

Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2017

14. Investments in subsidiaries *(continued)*

The Company's investment as capital contributions in Directa Plus Spa are as follows:

	Directa Spa
At 31 December 2015	7,057,438
Additions	4,000,000
At 31 December 2016	11,057,438
Additions	3,122,898
At 31 December 2017	14,180,336

15. Trade and other receivables

Current

	Group		Company	
	2017 €	2016 €	2017 €	2016 €
Account receivables	552,612	356,075	34,345	-
Tax receivables	397,305	696,075	24,219	262,693
Other receivables	211,794	118,188	50,676	50,401
Total	1,161,711	1,170,338	109,240	313,094

Tax Receivables are composed of Italian VAT €290,790, UK VAT €24,219 and a RDEC Tax Credit receivable (€82,306).

At 31 December 2017 VAT receivables are lower than last year due to the reimbursement of UK VAT which was received in 2017.

Other receivables are composed of governments grants €152,324 and prepayments €54,930.

As at 31 December 2017 the ageing of account receivables was:

Days overdue	2017 €	2016 €
0-30	539,015	340,216
31-180	7,878	14,622
181-365 +	5,719	1,237
Total	552,612	356,075

In 2017, 98% of account receivables have an ageing within 30 days and relate to an order delivered close to the year end. The total trade receivables write-off for the year was €16,047 (2.8% of the gross trade receivables). The Group's policy is to write off 50% of trade receivables overdue between 121 and 365 and 100% write off for balances overdue for more than 365 days.

Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2017

16. Deferred tax liabilities

	2017 €	2016 €
Deferred tax liabilities	237,831	276,711
Deferred tax assets – losses	(237,831)	(276,711)
Total	-	-

Deferred tax assets have been recognised on losses brought forward to the extent that they can be offset against taxable temporary differences in line with the requirements of IAS 12.

The deferred tax liabilities arise on the capitalisation of development costs and the accounting for the defined benefit scheme. The deferred tax liabilities are detailed below:

	2017 €	2016 €
Capitalised development costs	227,076	262,266
Other	10,755	14,445
Total	237,831	276,711

	Net balance 1 Jan 2016 €	Recognised in profit or loss €	Recognised in OCI €	Net balance 31 Dec 2016 €	Deferred tax liabilities €
Capitalised development costs	341,362	(79,096)	-	262,266	262,266
Other	12,238	4,562	(2,355)	14,445	14,445
Total	353,600	(74,534)	(2,355)	276,711	276,711

	Net balance 1 Jan 2017 €	Recognised in profit or loss €	Recognised in OCI €	Net balance 31 Dec 2017 €	Deferred tax liabilities €
Capitalised development costs	262,266	(35,191)	-	227,075	227,075
Other	14,445	(3,689)	-	10,756	10,756
Total	276,711	(38,880)	-	237,831	237,831

17. Cash and cash equivalents

	Group		Company	
	2017 €	2016 €	2017 €	2016 €
Cash at bank	6,929,012	10,570,000	4,493,006	8,011,689
Cash in hand	434	211	-	-
Total	6,929,446	10,570,211	4,493,006	8,011,689

Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2017

18. Equity

	2017 €	2016 €
Share Capital	142,628	142,628
Share Premium	19,973,996	19,973,996
Retained earnings	(10,250,225)	(6,552,965)
Non-controlling interests	22,930	22,228
Balance at 31 December	9,889,329	13,585,887

	Number of ordinary shares	Share Capital (€)
Share Capital		
At 1 January 2016	503,100	503,100
Share reduction on 25 April 2016*	-	(439,649)
Share sub-division on 19 May 2016**	19,620,900	-
Share issue on 27 May 2016 – convertible loans***	7,055,493	23,191
Share issue on 27 May 2016 – IPO***	17,033,334	55,986
At 31 December 2016	44,212,827	142,628
At 31 December 2017	44,212,827	142,628

* On 25 April 2016, the issued ordinary shares were redenominated from EUR to GBP into an aggregate nominal value of £398,908, comprising 503,100 ordinary shares of £0.7929 each, at the spot rate of exchange of 0.7929. The aggregate nominal value of the issued ordinary shares was then reduced to £50,310 comprising 503,100 ordinary shares of £0.10 each.

** On 19 May 2016, each ordinary share of £0.10 in the issued share capital of the Company was sub-divided into 40 ordinary shares resulting in 20,124,000 shares of £0.0025 each.

*** On 27 May 2016, 24,088,827 ordinary shares with a nominal value of £0.0025 each were issued at the Company's initial public offering. Of the 24,088,827 ordinary shares, 7,055,493 shares were issued through the exercise of convertible loan notes. The remaining 17,033,334 shares were issued to institutional and other investors.

Share Premium

	Share premium (€)
At 01 January 2016	3,885,816
Cancellation of share premium account on 25 April 2016	(3,885,816)
Shares issued on 27 May 2016	21,934,648
Expenditure relating to the raising of shares	(1,960,652)
At 31 December 2016	19,973,996
At 31 December 2017	19,973,996

On 25 April 2016, the share premium account of the Company was cancelled and the amount of €3,885,816 was credited to a distributable reserve.

Expenditure of €1,960,652 relating to the raising of shares has been deducted from the share premium.

Share capital

Financial instruments issued by the Directa Plus Group are treated as equity only to the extent that they do not meet the definition of a financial liability. The Directa Plus Group's ordinary shares are classified as equity instruments.

Share premium

To the extent that the Company's ordinary shares are issued for a consideration greater than the nominal value of those shares (in the case of the company, £0.0025 per share), the excess is deemed Share Premium. Costs directly associated with the issuing of those shares are deducted from the share premium account, subject to local statutory guidelines.

Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2017

19. Loans and borrowings

Non-current

	Group		Company	
	2017 €	2016 €	2017 €	2016 €
Finance leases	115,132	169,043	-	-
Loans	96,659	285,557	-	-
Total	211,791	454,600	-	-

Current

	Group		Company	
	2017 €	2016 €	2017 €	2016 €
Finance leases	53,906	187,164	-	-
Loans	190,874	50,970	-	-
Total	244,780	238,134	-	-

	2017 €	Current €	Non current €	Repayment	Interest rate
Intesa San Paolo	148,319	97,520	50,798	6-months	EURIBOR 3M + 2.5%
Finlombarda (Atanor)	137,238	91,378	45,860	3-months	Fixed 0.5%

All of the above loans are unsecured.

Net Debt Reconciliation

	01 January 2017 €	Cash flows			31 January 2017 €
		Accrued Interest €	Capital Repayment €	Interest Paid €	
Borrowings	472,727	9,715	(185,194)	(9,715)	287,523
Lease liabilities	220,007	10,766	(50,969)	(10,766)	169,038
Total	692,734	20,481	(236,163)	(20,481)	456,571

Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2017

20. Employee benefits provision

	2017 €	2016 €
Employee benefits	282,031	227,358
Total	282,031	227,358

Provisions for benefits upon termination of employment primarily related to provisions accrued by Italian companies for employee retirement, determined using actuarial techniques and regulated by Article 2120 of the Italian Civil code. The benefit is paid upon retirement as a lump sum, the amount of which corresponds to the total of the provisions accrued during the employees' service period based on payroll costs as revalued until retirement. Following the changes in the law regime, from January 1 2007 accruing benefits have been contributing to a pension fund or a treasury fund held by the Italian administration for post-retirement benefits (INPS). For companies with less than 50 employees it will be possible to continue this scheme as in previous years. Therefore, contributions of future TFR provisions to pension funds or the INPS treasury fund determines that these amounts will be treated in accordance to a defined contribution scheme, not subject to actuarial evaluation. Amounts already accrued before 1 January 2007 continue to be accounted for a defined benefit plan and to be assessed on actuarial assumptions.

The breakdown for 2016 and 2017 is as follows:

	€
Amount at 31 December 2015	170,952
Service cost	52,286
Interest cost	4,614
Actuarial gain/losses	(150)
Past service cost	-
Benefit paid	(344)
Amount at 31 December 2016	227,358
Service cost	44,764
Interest cost	5,918
Actuarial gain/losses	4,704
Past service cost	-
Benefit paid	(714)
Amount at 31 December 2017	282,031

Variables analysis

Detailed below are the key variables applied in the valuation of the defined benefit plan liabilities.

	2017	2016
Annual rate interest	2.30%	2.30%
Annual rate inflation	1.10%	1.10%
Annual increase TFR	7.41%	7.41%
Tax on revaluation	17.00%	17.00%
Social contribution	0.50%	0.50%
Increase salary male	1.20%	1.20%
Increase salary female	1.15%	1.15%
Rate of turnover male	1.70%	1.70%
Rate of turnover female	1.50%	1.50%

Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2017

20. Employee benefits provision *(continued)*

Sensitivity analysis

Detailed below are tables showing the impact of movements on key variables:

Actuarial hypothesis – 2017		Decrease 10%		Increase 10%	
			Variation		Variation
		Rate	DBO €	Rate	DBO €
Increase salary	Male	1.08%	(2,439)	1.32%	2,496
	Female	1.04%		1.27%	
Turnover	Male	1.53%	(2,088)	1.87%	2,028
	Female	1.35%		1.65%	
Interest rate		2.70%	8,561	2.53%	(8,107)
Inflation rate		0.99%	(2,386)	1.21%	2,421

21. Trade and Other payables

	Group		Company	
	2017 €	2016 €	2017 €	2016 €
Trade payables	768,016	529,468	23,403	910
Employment costs	397,567	203,278	-	-
Other payables	150,030	117,675	23,033	31,432
Total	1,315,613	850,421	46,436	32,342

22. Financial instruments

Financial risk management

The Group's business activities expose the Group to a number of financial risks:

a) Market risk

Market risk arises from the Group's use of interest bearing, tradable and foreign currency financial instruments. It is the risk that the fair value of future cash flow of a financial instrument will fluctuate because of changes in interest rates or foreign exchange rates. As at 31 December 2017 the Group is only exposed to variable interest rate risk on the Intesa San Paolo loan. If the interest rate had increased or decreased by 100 basis points during the year the reported loss after taxation would not have been materially different to that reported.

b) Capital Risk

The Group's objectives for managing capital are to safeguard the Group's ability to continue as going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk. There were no changes in the Group's approach to capital management during the year.

Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2017

22. Financial instruments *(continued)*

c) Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group is exposed to credit risk from credit sales. Every new customer is internally analysed for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. Advance payment usually applies for the first order and where a customer has a low credit rating. The Group's standard payment terms are 30 to 60 days from date of invoice.

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. The Group works with leading banks and financial institutions, both in UK and in Italy, independently rated with the equivalent of investment grade and above.

The Group's policy is to write off 50% of trade receivables overdue between 121 and 365 and 100% write off for balances overdue for more than 365 days.

d) Exposure to credit risk

Group	Note	2016 €	2015 €
Trade and other receivables	15	764,406	396,817
Cash and cash equivalent	17	6,929,012	10,570,211
Total		7,693,418	10,967,028

e) Liquidity risk

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due. The Group seeks to manage liquidity risk to ensure sufficient liquidity is available to meet the requirements of the business. The Board reviews regularly the cash position to ensure there are sufficient resources for working capital requirements and to meet the Group's financial commitments.

2017	Carrying amount €	Up to 1 year €	1-5 years €
Financial liabilities			
Trade payables	768,016	768,016	-
Debts for financial leasing	180,060	61,735	118,325
Loans	287,533	190,874	96,659
Total	1,243,528	1,020,625	214,984
2016	Carrying amount €	Up to 1 year €	1-5 years €
Financial liabilities			
Trade payables	529,468	529,468	-
Debts for financial leasing	220,007	61,735	180,059
Loans	472,727	199,565	293,476
Total	1,222,202	767,602	473,535

Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2017

22. Financial instruments *(continued)*

f) Currency risk

The Group is exposed to currency risk. Immediately after the Admission in May 2016 and before the Brexit referendum, £7.5 million of the IPO proceeds was converted to €9.5 million (based on an average exchange rate of £1:€1.26) as the costs of the Italian subsidiary are in Euros. The remaining amount of approximately £3.5 million was used to manage expenses of the Company (such as UK advisors, LSE fees and costs related to the Board) in UK. The cash held in Sterling continues to be subject to currency risk.

	EUR
Cash held in EUR	4,526,843
Cash held in GBP	2,402,603

As at 31 December 2017 if the exchange rate EUR/GBP increase by 10% the impact on P&L would be a loss equal to €0.22 million (if decrease by 10% would be a profit equal to €0.27 million).

23. Earnings per share

	Change in number of ordinary shares	Total number of ordinary shares	Days	Weighted number of ordinary shares
At 1 January 2015	-	503,100	-	20,124,000
At 30 June 2015	-	503,100	-	20,124,000
At 31 December 2015	-	503,100	-	20,124,000
Existing shares		503,100	140	7,697,705
Share sub-division on 19 May 2016	19,620,900	20,124,000	8	439,869
Issued on 27 May 2016	24,088,827	44,212,827	218	26,334,416
At 31 December 2016	43,709,727	44,212,827	366	34,471,990
At 31 December 2017	-	44,212,827	365	44,212,827

	Basic		Diluted	
	2017 €	2016 €	2017 €	2016 €
Loss for the year	(3,947,431)	(6,424,945)	(3,947,431)	(6,424,945)
Weighted average number of ordinary shares in issue during the year	44,212,827	34,471,990	44,212,827	34,471,990
Fully diluted average number of ordinary shares during the year	44,212,827	34,471,990	44,212,827	34,471,990
Loss per share	(0.09)	(0.19)	(0.09)	(0.19)

Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2017

23. Earnings per share *(continued)*

Adjusted EPS

	Basic		Diluted	
	2017 €	2016 €	2017 €	2016 €
Losses of the year	(3,947,431)	(6,424,945)	(3,947,431)	(6,424,945)
Non recurring IPO costs	-	427,144	-	427,144
Fair value movement on embedded derivative	-	1,039,473	-	1,039,473
Write down of Receivables	-	840,000	-	840,000
Inventory Adjustment	-	(150,000)	-	(150,000)
Share option cost	-	-	-	-
Adjusted Losses	(3,947,431)	(4,268,328)	(3,647,431)	(4,268,328)
Average number of ordinary share	44,212,827	34,471,990	44,212,827	34,471,990
Adjusted LPS	(0.09)	(0.12)	(0.09)	(0.12)

24. Share Schemes

The Company established the Employees' Share Scheme for employees and executive directors and the NED Share Scheme for the Chairman and non-executive directors on 19 May 2016. The Employees' Share Scheme is administered by the Remuneration Committee. The NED Share Scheme is administered by the Executive Directors.

The Directors are entitled to grant awards over up to 10 per cent of the Company's issued share capital from time to time. Awards over a total of 1,675,609 Ordinary Shares were granted on or around the date of Admission (27 May 2016). No awards have yet been exercised, leaving a total of 1,735,609 outstanding as at the year end. The main terms of the Share Schemes are set out below:

Eligibility

All persons who at the date on which an award is granted under the Employees' Share Scheme are employees (or employees who are also office-holders) of a member of the Group and are eligible to participate. The Board may also grant market value share options to non-executive directors under the NED Share Scheme. The Remuneration Committee decides to whom awards are granted under the Employees' Share Scheme, the number of Ordinary Shares subject to an award, the exercise date(s) (subject to the below) and the performance conditions (if any) which must be achieved in order for the award to be exercisable.

Types of Award

Awards granted under the Employees' Share Scheme can take the form of performance shares and/or market value share options. "Performance shares" are share options with an exercise price equal to the nominal value of a share, while "Market value share options" are share options with an exercise price equal to the market value of a share at the date of grant. The right to exercise the award is generally dependent upon the participant remaining an officer or employee throughout the performance period and, except in the case of market value share options granted to the Chairman or non-executive directors, the satisfaction of performance conditions. This is subject to the good leaver provisions described below. Awards granted under the Share Schemes will not be pensionable.

Individual Limits

The value of Ordinary Shares over which an employee or executive director may be granted awards under the Employees' Share Scheme in any financial year of the Company shall not exceed 200 per cent of his basic rate of salary at the date of grant. The value of Ordinary Shares over which a non-executive director may be granted market value share options under the NED Share Scheme in any financial year of the Company shall not exceed 150 percent of his annual rate of fees.

Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2017

24. Share Schemes *(continued)*

Performance Targets

The Remuneration Committee will impose objective targets which will determine the extent to which awards will vest. Targets for awards to be granted to executive directors and senior employees on or prior to Admission are based on growth in EBITDA, share price and production capacity targets in line with the Company's forecasts prior to Admission.

The Remuneration Committee may modify or amend the performance targets if changes to the Company or its business mean that the targets are no longer relevant or appropriate. However, any new or amended conditions will not be materially any more or less challenging than the original conditions were expected to be at the time they were imposed. The vesting of market value share options granted to non-executive directors will not be subject to performance conditions.

Variation of share capital

Awards granted under the Share Schemes may be adjusted to reflect variations in the Company's share capital.

Vesting of awards

Awards will vest on the third anniversary of the date of grant to the extent that the performance targets have been met. Vested awards may generally be exercised between the third and tenth anniversaries from the date of grant.

The inputs to the Black-Scholes model were as follows:

Black Scholes Model	31 Dec 2017	31 Dec 2017
	Market value shares	Performance shares
Share price	75p	75p
Exercise price	75p	0.25p
Expected volatility	70%	70%
Compounded Risk-Free Interest Rate	4.25%	4.25%
Expected life	3 years	3 years
Number of options issued	636,069	1,099,540

Details of the number of share options outstanding are as follows:

	Outstanding at start of period	Granted	Outstanding at end of period	Exercisable period option price	Grant date	Exercisable date
31 December 2015	-	-	-			
	-	1,099,540	1,099,540	0.25p	27 May 2016	27 May 2019
	-	576,069	576,069	75.00p	27 May 2016	27 May 2019
31 December 2016	-	1,675,609	1,675,609			
	1,099,540	-	1,099,540	0.25p		
	576,069	60,000	636,069	75.00p	12 May 2017	12 May 2020
31 December 2017	1,675,609	60,000	1,735,609			

Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2017

25. Related parties

The below figures represent remuneration of key management personnel for Directa Plus Spa, who are part of the Executive Management Team but not part of the Board of Directa Plus PLC. The remuneration is set out below in aggregate for each of the categories specified in IAS 24 'Related Party Disclosures'.

	2017 €	2016 €
Short-term employee benefits and fees	227,162	176,708
Social security costs	46,498	45,758
	<u>273,660</u>	<u>222,466</u>

For Directors' remuneration please see the Directors' Remuneration Report on pages 23 to 24.

26. Contingent Liabilities

The Group has the following contingent liabilities relating to bank guarantees on operating lease arrangements and government grants.

	2017 €	2016 €
Operating leases	105,640	20,000
Total	<u>105,640</u>	<u>20,000</u>

27. Post Balance Sheet events

There have been no events after the reporting date that require disclosure after the reporting period.

Notes

[This section is intentionally blank for the purpose of this exercise.]

Directa Plus plc

ComoNEXt Science Park
Via Cavour 2, 22074 Lomazzo (Co)
Italy

www.directa-plus.com