

Chairman's Corporate Governance Statement

Overview

As Non-executive Chairman of the Board of Directors of Haydale Graphene Industries Plc (Haydale or the Company/Group as the context requires), it is my responsibility to ensure that Haydale has both sound corporate governance and an effective Board. This is achieved by maintaining a corporate governance framework that includes regular meetings of the Board and its committees, with informative, relevant and timely management information flow. We have introduced effective Board evaluation practices and will carry out a regular review of our governance processes to ensure we are constantly improving. The Board members have extensive experience of managing AIM Companies, including detailed knowledge of the AIM Rules and the Market Abuse Regulations. In September 2018, Haydale adopted the Quoted Companies Alliance Corporate Governance (QCA Code) and Haydale updated its compliance with the QCA Code over the subsequent year. This report updates the Group's adoption of the QCA Code and explains how we have applied the guidance and what measures that we intended to implement have been implemented. The Board considers that the Group complies with the QCA Code in all respects. A full overview of the Company's compliance with the QCA Code is provided below.

The Board believes that corporate governance is more than just a set of guidelines; rather it is a framework which underpins the core values for running the business in which we all believe, including a commitment to open and transparent communications with stakeholders. We believe that good corporate governance improves long-term success and performance, whilst reducing or mitigating risks. Changes have been made to the Board's composition since 17 September 2018, the date of adoption by the Group of the QCA Code, that have an impact on our corporate governance framework are as follows:

- The appointment on 20 December 2018 of Laura Redman-Thomas as full-time Chief Financial Officer, replacing Matt Wood who had been part-time FD, who stepped down from the Board on the same date, but remains as Company Secretary;
- The resignation of Ray Gibbs as a director of the Company on 20 December 2018;
- The resignation of Roger Smith as a director of the Company on 31 January 2019;
- The appointment of Keith Broadbent as Chief Executive Officer on 12 March 2019 following the Company's general meeting to approve the £5.7 million equity fundraising – Keith having been the Group's COO since 5 September 2018; and
- David Banks reverting to the role of Non-executive Chairman on 12 March 2019, having been appointed Interim Executive Chairman on 5 September 2018.

Where possible, Board changes are discussed with the Company's major shareholders in advance.

The Company's Nominations Committee was formed in June 2018, with the following members, which remains the case today. Its members are: Graham Eves (NED), as Chair, myself (David Banks), and Roger Humm (Senior Independent NED).

At the time of the Group's adoption of the QCA Code in September 2018, we were in the planning stages of adopting a Group-wide employee evaluation process, including the Board, and an employee engagement survey. This is now expected to commence in early 2020.

Below are the Company's explanations of how it complies with the 10 principles of the QCA.

QCA Principles

1. *Establish a strategy and business model which promotes long-term value for shareholders*

The Board has concluded that the highest medium and long-term value can be delivered to its shareholders by the adoption of a single strategy for the Company; To use our knowledge of advanced materials and dispersion to be one of the World's foremost creators of material change, enabling our customers to improve the performance of their products.

To achieve this vision, the Company aims to grow organically and, if necessary, by acquisition to extend the Group's client base and geographical penetration and use its existing expertise and global reach to generate synergies in the high growth advanced materials industry. Haydale's business model is set out with the Strategic Report of its 2019 Report and Accounts.

The Company intends to deliver shareholder returns initially through capital appreciation and eventually through distributions via dividends. Challenges to the execution of the Company's strategy are set out within the Strategic Report contained in the Company's 2019 Annual Report and its principal risks are set out within that report.

2. *Seek to understand and meet shareholder needs and expectations*

The Board is committed to maintaining good communication and having constructive dialogue with its shareholders by providing effective communications through our Interim and Annual Reports along with Regulatory News Service announcements. We also use the Company's website, www.haydale.com for both financial and general news relevant to shareholders.

The Directors meet shareholders and other investors or potential investors at regular intervals during the year, especially during the Annual and Interim Results cycles. The Company also hosts broker and analyst meetings. David Banks is the Director appointed as the main point of contact for shareholder liaison. The Directors respond to all shareholder requests for meetings and listen to shareholders' views. Roger Humm, the Senior Independent Non-Executive Director (SID), will carry out shareholder liaison if the Chairman is not available or as an alternative.

The Board keeps in mind the proportions of direct, nominee and institutional shareholders, and distributes communications accordingly. The whole Board attends the AGM. The AGM is regarded as an opportunity to meet, listen and present to shareholders and shareholders are encouraged to attend. In addition, the Company seeks feedback from key stakeholders, taking action where appropriate.

The Company's broker and NOMAD, Arden Partners (www.arden-partners.com), is briefed regularly and updates the Board during the year on shareholders' expectations.

In addition, the Company has engaged the services of Hardman & Co (www.hardmanandco.com) to publish research on the Company that can be distributed to both private and institutional existing and potential shareholders.

3. *Take into account wider stakeholder and social responsibilities and their implications for long-term success*

The Board recognises that the long-term success of the Company is reliant upon the efforts of the employees of the Company and its collaboration partners, suppliers, regulators and other stakeholders. The Board has put in place a range of processes and systems to ensure that there is close oversight and contact with its key resources and relationships. The Company prepares a detailed budget annually, commencing in April and signed off by the Board in early July, which takes into account the Group's long-term strategy and its available key resources including staffing, working capital, production capacity and functionalisation capabilities.

Everyone within the Group is a valued member of the team, and our aim is to help every individual achieve their full potential. We offer equal opportunities regardless of race, gender, gender identity or reassignment, age, disability, religion or sexual orientation. The Group is in the process of implementing a Company-wide policy to conduct employee engagement surveys, expected to commence in early 2020, which will seek to understand any issues within the Group's workforce.

In depth analysis and reviews of each business units' budgeted business plans are agreed at the start of each financial year, with contributions from all involved parties which facilitates a two-way communication channel with agreement on goals, targets and aspirations of the Company and its related parties. This provides each strategic business unit with the opportunity to raise issues and provide feedback to the Board. These feedback processes help to ensure that the Company can respond to new issues and opportunities that arise to further the success of the Group.

The Company has close ongoing relationships with a broad range of its stakeholders and provides them with the opportunity to raise issues and provide feedback to the Company. The Company seeks regular feedback from industries' participants, such as customers, graphene producers, R&D facilities, including universities and academic institutions, which broadens communication and the opportunity for feedback whilst simultaneously embracing influential movers within the advanced materials industry, and determining Company perception. Feedback received from stakeholders is reviewed, considered and, if changes are required, actioned appropriately.

The Directors believe that the Group does not have a significant environmental or community impact and will continue to monitor and will take action if this changes in the future.

Chairman's Corporate Governance Statement continued

4. *Embed effective risk management, considering both opportunities and threats, throughout the organisation*

The Board recognises the need for an effective and well-defined risk management process and, whilst it oversees and regularly reviews the current risk management and internal control mechanisms, has delegated this responsibility primarily to the Audit Committee and senior management. The Company has adopted a risk register, which will be reviewed regularly by senior management and the Audit Committee. The 2019 Annual Report also outlines the key risks to the business, set out within the Strategic Report, which are added to or amended during the year. The status of the key risks to the Company will be shared regularly with the Board, and the Board intends to thoroughly review the Company's risk register every six months.

The review process involves the identification of risks, assessment to determine the relative likelihood of them impacting the business and the potential severity of the impact and determination of what needs to be done to manage them effectively. Risk management is integral to the ability of the Group to deliver on its strategic objectives.

The system of internal control is structured around an assessment of the various risks to the business and is designed to address those risks that the Board considers to be material, to safeguard assets against unauthorised use or disposition and to maintain proper accounting records which produce reliable financial and management information. The Board has established appropriate reporting and control mechanisms to ensure the effectiveness of its control systems.

The risk assessment matrix below sets out these risks, categorises said risks, and outlines the controls that are in place. This matrix is updated as changes arise in the nature of risks or the controls that are implemented to mitigate them. The Audit Committee reviews the risk matrix and the effectiveness of scenario testing on a regular basis. The following principal risks and controls to mitigate them have been identified as at the date of this updated Corporate Governance Statement:

<i>Activity</i>	<i>Risk</i>	<i>Impact</i>	<i>Mitigating Control</i>
Internal Risk	Slower adoption by customers than expected of the Group's newly developed advanced materials	Lower than expected cash inflows and consequently lower revenues and profits	A newly formed global sales team with both regional and product group expertise has been established. The Group regularly reviews the order book and sales pipeline by Strategic Business Unit, against clear objectives and management accountability. Considerable customer facing and operational experience exists at Board level
Internal Risk	Contractual Liabilities risk	Uncapped liability or consequential losses (unquantifiable) exist	The Group delegated authority matrix ensures senior executives review all contracts, and any high-risk contracts are approved at Board level
Internal Risk	Inadequate insurance cover	P&L Exposure	There is an annual review of insurance policies and risks. The insurance risk is also assessed when there is any material change in the business and its operations
Competition Risk	Dependence on Key Personnel	The loss of services of any existing key executives could adversely impact on the business, development, financial condition, and results of operations	The Group provides well-structured and competitive reward and benefit packages that ensure our ability to attract and retain key employees. A critical talent pool has been identified and succession planning is underway

<i>Activity</i>	<i>Risk</i>	<i>Impact</i>	<i>Mitigating Control</i>
Internal Risk	Health and Safety risk	The Company's products could theoretically be a danger to health if an individual is exposed to and/or inhales/ingests some of the Group's products	The Group takes health and safety very seriously and manages the potential health and safety risk through regular staff training, risk assessments and restricting activities to only certain qualified individuals
External Risk	Client concentration risk	The Company's top two clients accounted for 48% of the Group's revenue in FY2018 (FY2017: 63%) and any breakdown in these relationships could damage the business	The Company has in place long term contracts with its key customers. Furthermore, it has significantly increased the number of its active customers and its expansion continues to reduce its exposure to any single large client
External Risk	Unforeseen delays in forecasting the commencement of sales, possibly due to regulatory hurdles	Cessation of product development	Improved customer relationships, understanding customer requirements, quarterly review of development projects (Technical Readiness Levels) to ensure commercial feasibility, time to market and market potential. Monthly review of key risks and opportunities to forecast and review longer-term sales pipeline with key milestones, tasks and responsibilities identified to close the sale
Financial Risk	Adequate financial and operational controls	Error or fraud, leading to a loss in reputation, business partners and customers	The Company has invested and continues to invest in its financial reporting functions to facilitate strong reporting and management control as it grows
Government Regulation	Up to date with government regulation for nanoparticles and potential restrictions in use	Fines, penalties, inability to sell product	The Group maintains a vigilant watch on the market and regulatory changes or debates in all territories of trade and manufacture
IT/Data Risk	Cyber Risk	Loss of data, resulting in a reduced confidence from our customers and suppliers. Fines, penalties	The Company maintains a GDPR policy, a third party manages the IT security, regular system backups and disaster recovery
Financial Risk	Company runs out of funds prior to full turnaround into profitability	Closure of business due to lack of funds to continue in operation	Regular review of management accounts, P&L forecasts and cashflow forecast. Information provided to the Board to ensure accurate knowledge with key sensitivities and various options available to ensure a going concern

Chairman's Corporate Governance Statement continued

<i>Activity</i>	<i>Risk</i>	<i>Impact</i>	<i>Mitigating Control</i>
Intellectual Property Risk	Ability to maintain adequate protection of the Company's IP portfolio	Risk that any of the Group's patents will not be held valid if challenged	The Company conducts regular international IP searches as well as monitoring activities and regulations for developments in copyright/intellectual property law and enforcement
External Risk	Brexit	Brexit is likely to bring uncertainty in areas such as imports and exports, regulations and grant income	The Group continues to review imports and exports from and to Europe, and monitors legislation/regulations accordingly

The Board does not currently deem it necessary for an internal audit function, having financial controllers in each of its key operational entities and jurisdictions. The Company went through an extensive Group audit tender process in the spring of 2018, which provided insight into areas where the Group could improve its financial reporting framework. Consequently, the Board believes that it now has in place effective governance and risk management processes, however, it will continue to monitor closely and regularly, assessing its effectiveness and will implement any changes that it deems appropriate.

5. *Maintain the board as a well-functioning, balanced team led by the Chair*

As from 30 September 2019, the Board comprises two executive directors and three non-executive directors as follows:

Executives

- Chief Executive Officer: Keith Broadbent; and
- Chief Financial Officer: Laura Redman-Thomas.

Non-executives

- Non-executive Chairman: David Banks;
- Senior Independent Non-executive: Roger Humm; and
- Independent Non-executive: Graham Eves.

Biographical details of the Directors can be found here at www.haydale.com.

All the Non-Executive Directors are expected to dedicate at least 24 days per annum to the Company. Mr Keith Broadbent and Ms Laura Redman-Thomas are expected to dedicate 227 days per annum to the Company. One third of Board are subject to re-election at each AGM.

Meetings are open and constructive, with every Director participating fully. Senior management can also be invited to meetings, providing the Board with a thorough overview of the Company.

The full Board meets at least 8 times in the year according to the schedule of future meetings intended to be agreed at the beginning of each year, and also as and when required. In order to be efficient, the Directors meet formally and informally both in person and by telephone. Board and Committee document authors are made aware of proposed monthly deadlines through the schedule of meetings agreed at the beginning of the year. Board papers are prepared by the relevant personal (Chair, CEO, CFO) and circulated to the Board at least 48 hours before meetings, allowing time for consideration and necessary clarifications before the meetings.

During the year ended 30 June 2019, the Company held 27 board meetings (FY18: 12), with each member's attendance as follows:

<i>Director</i>	<i>Number of board meetings attended</i>	
	<i>FY19</i>	<i>FY18</i>
David Banks	27	12
Keith Broadbent (appointed 5 September 2018)	24	–
Laura Redman-Thomas (appointed 20 December 2018)	13	–
Graham Eves	21	11
Roger Humm	22	12
Raymond Gibbs (resigned 20 December 2018)	12	12
Matthew Wood (resigned 20 December 2018)	14	12
Roger Smith (resigned 31 January 2019)	13	12

Attendance at the Company's audit, remuneration and nomination committee meetings during FY19 and FY18 were as follows:

<i>Committee member</i>	<i>Number of committee meetings attended</i>					
	<i>Audit</i>		<i>Remuneration</i>		<i>Nominations</i>	
	<i>FY19</i>	<i>FY18</i>	<i>FY19</i>	<i>FY18</i>	<i>FY19</i>	<i>FY18</i>
David Banks	1	3	8	2	3	1
Graham Eves	1	3	6	2	3	1
Roger Humm	1	4	8	2	3	1

The Company has Audit, Remuneration and Nominations (from 12 June 2018) Committees. Terms of reference for the each of the Company's Committees are published on the Group's website, see www.haydale.com. The Committees have the necessary skills and knowledge to discharge their duties effectively.

6. *Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities*

The Non-executive Directors have both a breadth and depth of skills and experience to fulfil their roles. The Company believes that the current balance of skills in the Board as a whole, reflects a very broad range of personal, commercial and professional skills across geographies and industries and the Board has experience of public markets. Details of the Directors' experience and areas of expertise are outlined on the Company's website at <http://www.haydale-ir.com/content/investors/board>. The Non-executive Directors meet without the presence of the Executive Directors during the year, and also maintain ongoing communications with Executives between formal Board meetings.

In addition to their general board responsibilities, Non-executive Directors are encouraged to be involved in specific workshops or meetings, in line with their individual areas of expertise. The Board shall review annually the appropriateness and opportunity for continuing professional development whether formal or informal. If required, the Directors are entitled to take independent legal advice and, if the Board is informed in advance, the cost of the advice will be reimbursed by the Company.

The Company utilises the services of ONE Advisory Limited, company secretarial and corporate governance specialists, to provide assistance to the Company in its company secretarial and MAR compliance needs. Matt Wood, a former director of the Company and its Company Secretary, is a director of ONE Advisory Limited.

Chairman's Corporate Governance Statement continued

7. *Evaluate board performance based on clear and relevant objectives, seeking continuous improvement*

Every other year the Board expects to carry out an internal Board and Committee evaluation exercise, including that of the Chairman. The exercise will be led by Roger Humm, the SID. The areas of evaluation covered include Board structure and knowledge, operating effectiveness, operating efficiency, quality of information and ongoing professional development. Individual reviews of Non-executive Director performance will also be carried out by the SID, and the Chairman will undertake a review of the performance of the SID. The Chairman will usually chair meetings of the non-executive directors, where necessary.

Responses will be received and recorded and circulated in a timely fashion, identifying positive areas and areas for improvement to ensure that it is functioning at its full potential. The results and recommendations that come out of the appraisals for the Directors shall identify the key corporate and financial targets that are relevant to each Director and their personal targets in terms of career development and training. Targets will be addressed during the FY20 financial year and will be used to assess the progress the Board in future evaluation exercises.

The Nominations Committee comprises the three Non-executive Directors, and regularly reviews the structure, size and composition required of the Board compared to its current position, makes recommendations to the Board, considers succession planning and oversees the process to fill Board vacancies. The Nominations Committee also keeps key positions outside the main board and other personnel considered critical to the business under review; such positions include that of subsidiary directors. Going forward, findings from the Company's evaluation exercises will inform the Nominations Committee's succession planning discussions.

8. *Promote a corporate culture that is based on ethical values and behaviours*

The Board recognises that its decisions regarding strategy and risk will impact the corporate culture of the Company as a whole and that this will impact the performance of the Company. The Board is very aware that the tone and culture set by the Board will greatly impact all aspects of the Company as a whole and the way that employees behave. The corporate governance arrangements that the Board has adopted are designed to ensure that the Company delivers long-term value to its shareholders, and that shareholders have the opportunity to express their views and expectations for the Company in a manner that encourages open dialogue with the Board.

Our culture acts as the glue that binds our staff around the world together – relaxed, professional and humble with a focus on doing the very best we can for each project entrusted to us. Group culture is at the centre of everything we do and to ensure and assist all of our employees across our six operational/sales sites to be aligned with the Haydale culture is important in improving operations and ultimately our performance. We are in the process of developing a set of seven guidelines which sets out our culture.

- We communicate openly
- We focus on delivering on our projects
- We empower our people
- We are passionate about making material change
- We will make a difference for our customers
- We have a “can do” attitude
- We learn at every opportunity

A large part of the Company's activities is centred upon what needs to be an open and respectful dialogue with employees, clients and other stakeholders. Therefore, the importance of sound ethical values and behaviours is crucial to the ability of the Company to successfully achieve its corporate objectives. The Board places great importance on this aspect of corporate life and seeks to ensure that this flows through all that the Company does. The Directors consider that at present the Company is moving towards its objective of having an open culture across each of our regions of operation facilitating comprehensive dialogue and feedback and enabling positive and constructive challenge.

Because the size of the Group's global workforce has changed considerably over the last few years, the Company intends to carry out an employee engagement survey every other year, to commence in early 2020, that will determine if ethical values and the Company's corporate culture are recognised and respected, and seek to understand any underlying issues with the workforce.

9. *Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board*

The Board is committed to, and ultimately responsible for, high standards of corporate governance, and has chosen to adopt the QCA Corporate Governance Code. We review our corporate governance arrangements regularly and expect these to evolve over time, in line with the Company's growth. The Board delegates responsibilities to Committees and individuals as it sees fit, with the Chairman being responsible for the effectiveness of the Board and the primary contact with shareholders, and the Executive Directors being accountable for the management of the Company's business.

The Chairman is responsible for the leadership of the Board and ensuring its effectiveness in all aspects of its role. He is also responsible for creating the right Board dynamic and for ensuring that all important matters, in particular strategic decisions, receive adequate time and attention at Board meetings. The two executive directors, Keith Broadbent (Chief Executive Officer) and Laura Redman-Thomas (Chief Financial Officer) are responsible for the day-to-day running of the business, as well as developing corporate strategy while the Non-executive Directors are tasked with constructively challenging the decisions of executive management and satisfying themselves that the systems of business risk management and internal financial controls are robust.

The role of the SID is to serve as a sounding board for the Chairman and act as an intermediary for other Directors. The SID is also available to shareholders, if the Chairman is unavailable, if they have reason for concern that contact through the normal channels of the Executive Directors has failed to resolve. The SID is responsible for holding annual meetings with the executives and non-executives, without the Chairman present, to appraise the Chairman's performance.

The Board has adopted appropriate delegations of authority which sets out matters which are reserved to the Board as set out below:

- The Group's strategy and vision
- Determining management's performance and changes in senior personnel
- Approval of major capital expenditure
- Financial reporting, risk management and internal controls
- Contracts, including potential acquisitions or investments in new projects or products
- Corporate governance
- Approval of annual budgets
- Approval of annual and interim reports
- Approval of changes in equity or debt funding
- Dividend recommendations and policy

The Board delegates authority to three Committees to assist in meeting its business objectives whilst ensuring a sound system of internal control and risk management. The Committees meet independently of Board meetings.

Audit Committee

The Audit Committee has three members, Roger Humm (Chair), Graham Eves and David Banks. The CFO, Group FC and external auditors attend meetings by invitation. The Audit Committee is responsible for assisting the Board in fulfilling its financial and risk responsibilities. The Audit Committee oversees the financial reporting, risk management and internal control procedures. The Audit Committee advises the Board on the appointment and removal of the external auditor and discusses the nature, scope and results of the audit with the auditors. The Audit Committee reviews the extent of non-audit services provided by the auditors and reviews with them their independence and objectivity. The Audit Committee met once during the year ended 30 June 2019 and intends to meet at least twice in the current financial year.

Remuneration Committee

The Directors' Remuneration Report and Directors' Remuneration Policy Report are set out in the 2019 Annual Report. The Remuneration Committee is made up of the three Non-executive Directors, with Graham Eves as its Chair. The committee's members are all Independent Non-executive Directors. Other members of the Board may attend the Committee's meetings at the request of the Committee Chairman.

The remit of the Committee is primarily to determine and agree with the Board the framework or broad policy for the remuneration of the Company's Executive Directors and the Senior Management of the Group. The Remuneration Committee reviews the

Chairman's Corporate Governance Statement continued

performance of the Executive Directors and makes recommendations to the Board on matters relating to their terms of employment and remuneration, including short term bonus and long-term incentives. The Remuneration Committee also considers the granting of share options pursuant to the Company's share option schemes. The Remuneration Committee shall meet not less than twice a year and will meet on other occasions and as and when required.

Nominations Committee

The Nominations Committee was created in June 2018 and has three members, Graham Eves (Chair), Roger Humm and David Banks. The Nominations Committee reviews the structure, size and composition required of the Board compared to its current position and make recommendations to the Board, considers succession planning and nominates candidates to fill Board vacancies. The Nominations Committee shall meet at least once per year, and otherwise as necessary to consider proposals for Board appointments and other matters.

Terms of Reference for each of the Committees can be found here www.haydale.com.

In accordance with the Companies Act 2006, the Board complies with: a duty to act within their powers; a duty to promote the success of the Company; a duty to exercise independent judgement; a duty to exercise reasonable care, skill and diligence; a duty to avoid conflicts of interest; a duty not to accept benefits from third parties and a duty to declare any interest in a proposed transaction or arrangement.

As the Company expands it expects its corporate governance requirements to expand, for example see employee engagement evaluation/adoption of risk register.

10. Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

The Board is committed to maintaining effective communication and having constructive dialogue with its shareholders. The Company intends to have close ongoing relationships with its private shareholders, Institutional shareholders and analysts and for them to have the opportunity to discuss issues and provide feedback at meetings with the Company. The Company receives regular transfer reports from its corporate registrar and in-depth quarterly analysis from Argus Vickers. In addition, all shareholders are encouraged to attend the Company's Annual General Meeting. All 2018 AGM resolutions were passed comfortably, and the proxy votes received for each resolution put to the meeting was disclosed by the Company via RNS and on its website. The Board maintains that, if there is a resolution passed at a GM with 20% votes against, the Company will seek to understand the reason for the result and, where appropriate, take suitable action.

The latest Corporate Documents (including Annual Reports and Notices of AGMs) can be found here www.haydale.com.

Investors also will have access to current information on the Company through its website, www.haydale.com. The Company uses electronic communications with shareholders, where possible, in order to maximise efficiency.

Going forwards a summary of work carried out by board committees during the year will be included in the Company's Annual Report.

The Company intends to update its Corporate Governance Statement at least every six months or when there is a material change in the Company's personnel or its activities.

By order of the Board on 14 October 2019.

David Banks

Chairman