

Chairman's Corporate Governance Statement

Overview

As Chair of the Board of Directors of Haydale Graphene Industries Plc ("Haydale", the "Group" or the "Company"), 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 information flow. We regularly review our governance processes to ensure we are constantly improving. The Board members have extensive experience of managing AIM companies, including knowledge of the AIM Rules and the Market Abuse Regulations. Haydale adopts the Quoted Companies Alliance Corporate Governance Code ("QCA Code") and this report follows its structure and explains how we have applied it. The principal methods of communicating our application of the QCA Code are this Annual Report and through our website, at www.haydale.com.

The Board believes that corporate governance is more than just a set of guidelines; we believe that good corporate governance improves long-term success and performance, whilst reducing or mitigating risks.

During the year the following changes were made to the Board's composition:

- The resignation of Laura Redman-Thomas as Chief Financial Officer on 28 October 2019, with Laura leaving the Company on 22 November 2019;
- The appointment of Mark Chapman as Group Chief Financial Officer on 22 November 2019;
- The appointment of Theresa Wallis as an independent non-executive Director on 10 June 2020; and
- The resignation of Roger Humm as an independent non-executive Director on 10 June 2020.

Below are the Company's explanations of how it has complied with the 10 principles of the QCA Code during the year.

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 purpose 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, 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 commercial opportunities in the high growth advanced materials industry. Haydale's business model and strategy, together with the principal risks and uncertainties facing the Group, are set out in the Strategic Report on pages 3 to 11 of this Annual Report.

The Company intends to deliver shareholder returns initially through capital appreciation and eventually through distributions via dividends.

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.

The Directors meet shareholders and other investors or potential investors during the year, especially following the announcement of the Annual and Interim Results. 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 ensure that shareholder enquiries are responded to and take on board shareholder views.

The Company intends to have close ongoing relationships with its larger 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 reports from its corporate registrar and from Argus Vickers. In normal years all shareholders are encouraged to attend the Company's Annual General Meeting ("AGM") but unless the current Government guidance on non essential gatherings and social distancing is materially changed before the AGM and the Company is able to comply with that revised guidance then shareholders will, unfortunately, be unable to attend the next AGM. If there is a resolution passed at a general meeting with a significant number of votes against, the Board seeks to understand the reason for the result and, where appropriate, takes suitable action.

The whole Board normally attends the AGM although due to current restrictions the minimum required to meet quorate will attend the next AGM. The AGM is normally regarded as an opportunity to meet, listen and present to shareholders and shareholders are

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encouraged to attend and the Board regrets that this will not be possible this year due to the current restrictions, however, we will provide further information as to how shareholders can submit questions to the Board in the notice to AGM.

The Company's broker and nominated advisor, Arden Partners, is briefed regularly and updates the Board during the year on shareholders' expectations.

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

The Board is mindful of its statutory duty under s172 of the Companies Act and has worked throughout the year to promote the success of the Company for the benefit of its members as a whole. In doing so, the Board recognises the Company is reliant upon the efforts of the employees of the Company and its collaboration partners, suppliers, regulators and other stakeholders whether they are identified under s172 or not. The Board ensures that there is close oversight and contact with its key resources and relationships and, whilst this has been more challenging since the introduction of Covid-19 meeting, travel and other restrictions the Company has used video conferencing and other modes of communication to maintain its efforts in this regard. The following paragraphs set out how we engage with our stakeholders.

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 Company prepares a detailed budget annually which takes into account the Group's long-term strategy and its available key resources including staffing, working capital, production capacity and functionalisation capabilities.

In depth analysis and reviews of each business unit's budgeted business plan 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 the goals, targets and aspirations of the Company. 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 industry participants, such as customers, graphene producers, R&D facilities, including universities and academic institutions whilst simultaneously embracing influential movers within the advanced materials industry who may positively influence perception of the Company. Feedback received from stakeholders is reviewed, considered, and, if changes are required, actioned appropriately. The Company communicates with its stakeholders and takes account of their feedback in order to develop products that meet the needs of their customers and that can be supplied reliably, cost effectively and in line with applicable standards.

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.

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

The Board oversees and reviews the Group's risk management and internal control mechanisms.

The Company has adopted a risk register, which is reviewed regularly by senior management and the Audit Committee. The principal risks and uncertainties to the business are set out in the Strategic Report in this Annual Report on pages 3 to 11.

The review process involves the review and 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 minimise their likelihood and/or mitigate their impact. The risk register sets out and categorises these risks, and outlines the controls and any further actions required.

The Board has established appropriate reporting and control mechanisms. The system of internal control is structured around the risks set out in the risk register 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.

Further key features of the Company's internal control system include the following:

- Monthly management accounts information is prepared and reviewed by the Board, including variances against the annual budget, latest forecasts and prior year;
- There is a schedule of matters reserved for decision by the Board;
- A clearly defined organisational structure is in place, with clearly delegated authorities, reporting lines and roles;
- Defined levels/limits for authorisation of expenditure and placing of orders and clearly set out authorisation procedures; and
- Quality management systems are implemented and regularly audited by an independent third party. The Company is ISO 90001:2015 and ISO 14001:2015 certified.

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

The Board comprises two executive directors and three non-executive directors as follows:

Executives

- Chief Executive Officer: Keith Broadbent;
- Chief Financial Officer: Mark Chapman;

Non-executives

- Non-executive Chair: David Banks;
- Independent Non-executive: Graham Eves; and
- Independent Non-executive: Theresa Wallis.

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 Broadbent and Mr Chapman are full time. One third of Board are subject to re-election at each AGM.

Board meetings are open and constructive, with every Director participating fully. Senior management are also invited to meetings, providing the Board with further insights into the Company's activities and performance.

The full Board has at least eight regular meetings in the year, that are scheduled in advance, and also as and when required. In order to be efficient, the Directors meet formally and informally both in person by telephone or videoconference, which became the norm during the Covid-19 lockdown. Board and Committee document authors are made aware of proposed monthly deadlines through the schedule of meetings. Board papers are prepared by the relevant personnel (for example Chair, CEO, CFO, business unit heads) and circulated to the Board at least 48 hours before meetings, allowing time for consideration and necessary clarifications before the meetings. Directors are free to seek any further information they consider necessary.

The Non-executive Directors meet without the presence of the Executive Directors during the year, and also maintain ongoing communications with Executives between Board meetings.

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During the year ended 30 June 2020, the Company held 20 board meetings (FY19: 27), with each member's attendance as follows:

<i>Director</i>	<i>Number of board meetings attended</i>			
	<i>Scheduled FY20</i>	<i>Ad hoc FY20</i>	<i>Total FY20</i>	<i>Total FY19</i>
David Banks	11/11	9/9	20/20	27
Keith Broadbent	11/11	8/9	19/20	24
Laura Redman-Thomas (resigned 22 November 2019)	3/3	3/4	6/7	13
Graham Eves	10/11	6/9	16/20	21
Roger Humm (resigned 9 June 2020)	10/10	4/4	14/14	22
Mark Chapman (appointed 22 November 2019)	8/8	6/6	14/14	–
Theresa Wallis (appointed 10 June 2020)	1/1	–	1/1	–

Attendance at the Company's audit, remuneration and nomination committee meetings during FY20 and the prior year were as follows:

<i>Committee member</i>	<i>Number of committee meetings attended</i>					
	<i>Audit</i>		<i>Remuneration</i>		<i>Nominations</i>	
	<i>FY20</i>	<i>FY19</i>	<i>FY20</i>	<i>FY19</i>	<i>FY20</i>	<i>FY19</i>
David Banks	3/3	1/1	8/8	8/8	3/3	3/3
Graham Eves	3/3	1/1	6/8	6/8	3/3	3/3
Roger Humm (resigned 10 June 2020)	1/2	1/1	8/8	8/8	3/3	3/3
Theresa Wallis (appointed 10 June 2020)	1/1	-/-	-/-	-/-	-/-	-/-

Terms of reference for each of the Board's Committees are published on the Group's website. The Company believes that 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 Company believes that the Directors have an appropriate breadth and depth of skills, knowledge and experience to fulfil their roles, reflecting a broad range of personal, commercial and professional skills across geographies and relevant sectors and experience of public markets. Details of the Directors' experience and areas of expertise are outlined on page 12 of this Annual Report and on the Company's website.

In addition to their general board responsibilities, Non-executive Directors are encouraged to be involved in site visits and meetings, in line with their individual areas of expertise.

The Company has employed the services of ONE Advisory Limited to provide assistance to the Company in its Company Secretarial and MAR compliance needs. Matt Wood, a director of ONE Advisory Limited, is Haydale's Company Secretary.

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.

In addition the Company is a member of the QCA and as such all the directors have access to briefings issued by the QCA.

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

We stated last year that every other year the Board expects to carry out an internal Board and Committee evaluation exercise, including that of the Chair and individual directors. With further significant board changes having taken place during the past year, the exercise will be performed in the year ending June 2021, led by the Chair. A Non-executive Director will lead the review of the performance of the Chair.

The Nomination Committee, comprised entirely of the Non-executive Directors, 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. However as with many small companies, due to financial constraints and limited human resources, internal opportunities for succession to board director roles are circumscribed.

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.

Our culture acts as the glue that binds our staff around the world together - tenacious, 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 five sites to be aligned with the Haydale culture is important in improving operations and ultimately our performance.

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 Board is working to achieve a shared culture across each of our regions of operation, ensuring more effective communications and cooperation between employees across the Group.

The Company intends to carry out a Group-wide employee engagement survey every other year, to commence during the financial year to 30 June 2021, that will determine if ethical values and the Company's corporate culture are recognised and respected, and seek to understand any underlying issues that employees may have.

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 to evolve these over time, in line with the Company's growth. The Board delegates responsibilities to committees and individuals as it sees fit, with the Chair being responsible for the effectiveness of the Board, and the Executive Directors being accountable for the management of the Company's business and primary contact with stakeholders.

The Chair 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 CEO is responsible for the day-to-day running of the business: as well as developing corporate strategy while the Non-Executive Directors are tasked with, for example, constructively challenging the decisions and recommendations of executive management and satisfying themselves that the systems of business risk management and internal financial controls are robust.

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

- The Group's strategy and vision
- Determining management's performance and changes in senior personnel
- Board membership
- Approval of major capital expenditure
- Financial reporting, risk management and internal controls

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- 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 certain duties and, where applicable, authority, to the following three board 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, Theresa Wallis (Chair), Graham Eves and David Banks. For most of the year under review, Roger Humm was a member and Chair of the Committee, with Ms Wallis taking over this role on 10 June 2020. The CFO and external auditors normally 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. 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 intend to meet not less than twice in each financial year.

During the year the Committee met twice. At the first meeting in September 2019 it reviewed the feedback from the auditors (BDO) on the audit for the financial year ended 30 June 2019 and considered the specific representations set out in the draft letter of representation. Key audit matters were discussed including going concern and impairment of intangible assets. At this meeting the Committee also considered the risk register and the draft governance statement.

The second meeting of the Committee was held in June 2020 following the appointment of the new Committee chair, Theresa Wallis. The meeting considered the terms of engagement between the Company and Grant Thornton UK LLP, who would be taking over as the Company's financial auditors as well as the audit plan for the Company and its subsidiaries.

The Committee met on 26 October 2020 to consider the report and accounts for the year ended 30 June 2020, including the key judgements and estimates including revenue recognition, going concern, impairment of intangibles and valuation of the defined benefit pension scheme set out in notes 1, 10 and 26 to the accounts on pages 37, 52 and 66, as well as the independence of the auditors and their fees.

Remuneration Committee

The Remuneration Committee has three members, David Banks (Chair), Graham Eves and Theresa Wallis. Roger Humm was a member of the Committee until 10 June 2020, when Ms Wallis was appointed. The Directors' Remuneration Report is set out on pages 22 to 24 of this Annual Report. The members are all Independent Non-executive Directors. Other members of the Board may attend the Committee's meetings at the request of the Committee Chair.

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 performance of the Executive Directors and considers 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 as and when required.

The Directors' Remuneration Report is on pages 22 to 24.

Nomination Committee

The Nomination Committee has responsibility for evaluating the structure, size and composition of the Board in order to ensure a suitable balance of experience, knowledge, skills and independence, as well as for recommending to the Board the appointment of Executive and Non-Executive Directors. The Committees' Terms of Reference may be found on the Company's website.

Set out below is an update on the activities of the Committee for the year ended 30 June 2020, in which positive progress was made and which involved a number of significant changes.

The composition of the Committee changed during the year. Graham Eves took over the chair from David Banks, who remains on the Committee, and Theresa Wallis replaced Roger Humm.

The Committee met twice during the year and held a number of additional meetings involving the Chief Executive Officer (CEO) as well as telephone conference calls to discuss two key appointments: the recruitment of a new Chief Financial Officer (CFO); and, the appointment of a Non-Executive Director to replace Roger Humm, who was retiring from the Board. I am pleased to report that we have been very fortunate with the two appointments. Mark Chapman as CFO has had a major impact on the Company's financial controls and he is supporting the CEO. Theresa Wallis brings considerable AIM company experience and has taken over as chair of the Audit Committee. Both are enhancing the Company's corporate governance.

Tasked with succession planning, the Committee feels that it has carried out its role with the above-mentioned appointments and that the Company now needs a period of stability before evaluating the success of the business and any further Board developments that might be required.

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

As stated in relation to Principle 2, the Board is committed to maintaining effective communication and having constructive dialogue with its shareholders. We communicate through our Interim and Annual Reports along with Regulatory News Service announcements. We also use the Company's website for both financial and general news relevant to shareholders.

In addition, the Company engaged Hardman & Co in the year ended 30 June 2020 to publish research on the Company that can be distributed to both private and institutional existing and potential shareholders.

The Board keeps in mind the proportions of direct, nominee and institutional shareholders, and distributes communications accordingly.

The latest corporate documents (including Annual Reports and Notices of AGMs) can be found on the Company's website.

Investors also will have access to the latest information about the Group which is set out on the Company's website at www.haydale.com. The Company uses electronic communications with shareholders, where possible, in order to maximise efficiency.

A summary of the work carried out by the Audit and Nomination committees during the year is set out in section 9 above. The Directors' Remuneration Report is on pages 22 to 24.

By order of the Board on 29 October 2020

David Banks

Chairman