

# Corporate Governance Statement

## Corporate Governance Code published by the Quoted Companies Alliance (the 'QCA Code')

The Group has adopted formally the QCA Code first published in April 2018 and as subsequently updated. It remains the policy of the Board to comply with the Code wherever it is practicable to do so. The following statements set out how the Group has complied with the salient aspects of the Code in the financial year ending 30th September 2022. It is expected that further enhancements may be instituted during the course of the new financial year.

## The Board

### Attendance at Hardide plc Board & Committee Meetings in 2021-22

During the year, regular scheduled Board meetings were held each month, with Committee meetings scheduled quarterly or called as required. As shown in the table below, all directors attended each Board meeting for which they were eligible and members of each Committee Board also attended each meeting for which they were eligible.

	Board Meetings <sup>1</sup>		NEDs only	Meetings of Board Sub-committees			
	Scheduled Monthly	Additional		Audit Committee <sup>2</sup>	Remuneration & Nomination	Risk & Sustainability	Intellectual Property
R J Goddard	12	6	1	1		4	4
P D Kirkham	12	6				4	4
S A Hallam	12	6				4	
Y N Zhuk	12	6					4
A R Boyce	12	6	1		10		
T J Rice	11	6	1	1	10		

<sup>1</sup> Where a Board-level decision is required to consider and accept a recommendation from a Board Committee, a single purpose Board meeting may be convened.

<sup>2</sup> In some instances, directors who were not members of a Committee at the date of its meeting, attended by invitation some or all parts of the meetings of the Audit, and Remuneration & Nomination Committees.

### Non-executive director only meetings

One 'NEDs-only' meeting took place in this financial year. These meetings serve to bring together matters better covered in this way and supplement the ongoing but less-formal contact between and among non-executive directors.

These meetings have formal agenda and minutes are taken. Matters considered include the performance of the Board as a whole and that of individual executive directors. Also considered may be the effectiveness of Board Committees, the identification and management of major risks; together with achievement of strategic plans and the characteristics of incentive schemes for executive directors.

### Board Committees

There are four standing Board Committees, as described later in this section. In the normal course, these Committees make recommendations to the Board. Minutes of these Committee meetings are

included in the papers for the first Board meeting following each Committee but may be redacted at the discretion of the chair of the Committee, if necessary in consultation with the Group Chair. There have been no instances where redaction was called for. Where it is urgent that a recommendation of a Committee needs to be accepted by the Board, this may be done by a directors' resolution in writing.

From time to time ad hoc Board or Committee meetings are convened when prompt decisions are required.

### Matters reserved by the Board and authority levels

There is a formal schedule of matters reserved for a Board decision. This includes the appointment of directors, any raising of funds, the setting of high-level targets, approval of budgets, strategy, capital and revenue expenditure above certain limits, license agreements and incentive schemes. Authority levels for expenditure are delegated to individual executives or management committees according to a schedule agreed by the Board from time to time.

### Formulation of strategy

Each year the whole Board considers and develops the Corporate Strategy set out in the previous year. The formulation or re-formulation of Corporate Strategy is led by the Chair but set and agreed to by the whole Board. The creation of budgets and Business Strategy is set within the framework of the Corporate Strategy and prepared by the executive directors and other senior management. This Business Strategy is then challenged by the Board, adjusted if necessary, finally approved and then monitored by it. Adjustments agreed necessary are formalised in writing shortly after the review.

A summary of Hardide's Strategy can be found in this Annual Report.

### Business Reviews

At its regular monthly meetings, the Board reviews both the financial and non-financial performance of the Group. Financial information for the Group and its subsidiaries includes detailed profit & loss accounts, cash flow statements and balance sheets; together with analyses of movements in cash, trade debtors, trade creditors and fixed assets. Close attention is also paid to the development of sales by sector and by customer; as well as progress with initiatives to develop major new applications, sectors and customers. Directors may call for further analysis of a particular matter, and frequently do.

Non-financial information is reviewed at least monthly by the Board. It includes reports from each executive director and key performance indicators such as health, safety & environmental performance, plant performance, delivery performance, research & development and sales activity. Progress on strategic projects is also reviewed monthly.

The Board has a formal policy designed to ensure Board leadership of health & safety matters and institute a board-level review of progress against objectives and KPIs. An important feature of this is normally a joint presentation made at least yearly by the CEO and VP of Operations.

### Composition, Culture and Effectiveness of the Board

#### Independence of directors

Each of the directors, except Mr Magson who was appointed on 24 October 2022, directly owns ordinary shares in Hardide plc. Mr Boyce represents a large percentage of shares by virtue of his directorship of companies that own Hardide shares. Each of Mr Kirkham, Mr Hallam, Dr Zhuk and Mr Goddard has options on ordinary shares of Hardide plc; all as declared in the Annual Report and on the Regulatory News Service (RNS) at the time of grant.

As in previous years, the main criteria for independence were:

- i Based on the observed conduct of the director at and outside Board and Committee meetings, has that director acted clearly and consistently in the best interests of the Group?
- ii Has there been any matter affecting the Group that might have given rise or might give rise in the future to any conflict of interest?

- iii Is the director's direct or indirect holding of shares or other financial instruments of the Group substantial enough to cause an external observer to believe the director in question might possibly have a potential conflict of interest? In this case, 'substantial' has been taken to mean 10% or more of the total issued share capital.

Mr Boyce is not considered independent based on the third of these tests. The Board is aware therefore that the composition of the Remuneration and Nomination Committee does not comprise entirely of independent directors as set out in the QCA Code. Following the appointment of Andrew Magson to this Committee following the financial year end, independent directors do now represent a majority of Committee members. Mr Boyce's ongoing input to this Committee is considered important to its effectiveness given the perspective he brings from his substantial external Board and governance experience and alignment with Hardide shareholders' interests through his representation of family holdings in the Group. It should be noted that Mr Boyce is party to a Relationship Agreement with the Group. This assessment will be kept under review.

#### Number of directors

In the past year there has been a total of six directors and three of these are non-executive. Tim Rice remains the senior independent director ('SID'). In addition, and in compliance with the Code, Tim Rice is the chair of the Remuneration & Nomination Committee. The chair of the Audit Committee during the year was Robert Goddard. Andrew Magson succeeded Robert Goddard as chair of the Audit Committee on his appointment to the Board and chaired the committee meeting that recommended to the Board the approval of this report and accounts.

#### Culture of the Board and its capability to meet new challenges

Non-executive directors have been actively and regularly consulted by the Chair on a one-to-one basis and more formally during meetings of the non-executive directors alone. With the knowledge of the Chief Executive, from time to time the Chair has sought directly the views of the two other executive directors. Also, the Chair has contact with major shareholders and they are encouraged to contact him outside those meetings. The Chair or the SID relays shareholder opinion to the non-executive directors or the full Board, as appropriate.

Open exchange and mutual challenge among Board members and staff is a well-established part of the culture of the Group. The Chair is made aware promptly of matters of substance and style that merit his attention. In addition, each director is free to speak in confidence to the Chair or the SID; as is any member of staff.

An open exchange of views takes place not only up and down the management pyramid, but also 'sideways' between disciplines. This is vital for a high-tech company that is continually developing new substances and methods. Maintenance of this and other aspects of Group culture is explicitly one of the CEO's important tasks and, implicitly, of each member of staff. Any concerns about corporate culture are raised initially by the CEO with the Chair.

The CEO and Chair have an off-site or video meeting every month. At this meeting they discuss the upcoming Board meeting, the latest performance indicators and particular challenges facing the Group; together with high-level 'people issues'.

This year has seen the continuation of the process of face-to-face, one-to-one confidential meetings of the Chair and each of the non-executive directors. In these meetings the two participants give their views of the other's performance and identifies if there are area aspects meriting attention. These meetings have been private and not minuted.

Any director may have access to independent professional advice at Group expense. So long as the matter concerns the business of the Company.

All directors are conscious that the growth now expected of Hardide will present additional challenges. There will be more specialism and the dynamics of staff interaction will change. The Board is very well equipped with directors who have experience of the 'growing pains' associated with the organisational changes and other adjustments that result inevitably from growth in a high-tech company. The directors are well able to support the changes that will arise and deal with the challenges of such growth.

#### Roles of CEO, Senior Independent Director and Chair

Presently, Hardide is a small company and so most directors have a range of tasks and responsibilities.

##### CEO:

All members of the senior management team, including the other two executive directors report to the CEO. The CEO develops, gains Board approval for, and implements the Business Strategy. Also, he designs and implements the sales and marketing plans. By virtue of his experience as a professional engineer, he provides strong support for operations and engineering. Also, he has the principal responsibility for the Group's financial performance. He maintains a strong relationship with the Chair and is jointly responsible with him for shareholder communication and, by way of staff briefings, ensures awareness among all staff of the Group's performance and challenges; including increasing their awareness of the Group's environmental and social responsibilities. These briefings are held on a frequent basis throughout the year.

Ensuring compliance with the quality management systems, adequate staff training, the health & safety of employees and the environmental performance are direct accountabilities of the CEO.

##### Senior Independent Director ('SID'):

The SID is charged with:

- i Being a conduit for the concerns of directors, shareholders and other stakeholders who prefer to discuss matters that they have been unable to resolve through other channels;
- ii being available to meet principal shareholders;
- iii being a sounding board for the Chair; and
- iv along with other non-executive directors and having taken soundings among other suitable parties, conducting reviews of the performance of the Chair.

##### Chair:

The role of the Group's Chair is to:

- i Ensure effective communication with shareholders;
- ii be available for private meetings or calls with principal shareholders;<sup>1</sup>

- iii set the overall rules for corporate governance and ensure compliance with these;
- iv lead the development of Corporate Strategy;
- v ensure effective and open communication among directors; particularly at Board meetings;
- vi chair the Audit Committee and the Sustainability & Risk Committee, and be an ordinary member of the Intellectual Property Committee;
- vii together with the CEO, direct and lead recruitment and induction programmes for new directors and senior recruits; and
- viii ensure the appropriate content, format and presentation of information for the Board.

#### Evaluation of the Board and individual directors

The Chair and the CEO undertake a performance planning exercise and agree annually on a set of objectives for the CEO. This is shared with other directors. These objectives are taken into account when setting remuneration for the CEO. The CEO conducts performance planning exercises for his direct reports. The previous year's performance is discussed each time. As with the CEO, and in co-operation with him, the Remuneration & Nomination Committee takes account of personal performance plans for each executive director.

Collectively and individually, the directors monitor the performance of the Board as a whole and its members on a range of measures. These include attendance, familiarity with the Board packs, the quality of those Board packs, an understanding of the matters under discussion, the ability to contribute to Board discussion and the quality of the challenge made to executive proposals; together with the performance and thoroughness of reporting and recommendations made by Board Committees. Given its size, a formal evaluation of Board performance by an outside agency is not believed to be appropriate. Instead, a process has been agreed whereby objectives for the Board are agreed and responsibility for the skills and behaviour needed to meet those objectives is identified. Thereafter these are taken account of during the performance planning process for each individual director. Alongside this formal process, the Chair has frequent contact with individual directors. This provides the opportunity for effective two-way 'calibration' and is another way of addressing performance concerns on a one-to-one basis. The SID is also available for one-to-one meetings with other directors.

It is proposed that Andrew Magson, as the incoming Group Chair, will lead a review of the Board's performance in FY23.

#### Range of skills and experience

A formal exercise is undertaken annually to establish the range of skills and experience among the directors as a whole, and 'mark' these against those ideally needed to achieve the Board's objectives. These include professional qualifications and practice in engineering and finance, together with relevant experience in corporate governance (including governance of public companies) and the formulation and implementation of strategy. Each director is 'assessed' against the criteria. Two of the ongoing directors have MBAs. One director has in-depth knowledge of advanced CVD coating technology. A further director is a Chartered Engineer. The Group's Finance Director and recently appointed Chair are Chartered Accountants.

<sup>1</sup> Yearly, the Chair writes to all identifiable holders of shares representing 1% or more of the total. In that letter he makes clear that he or the SID are available for private meetings or telephone calls.

### Company Secretary

At present, the Finance Director (Simon Hallam) also acts as the Company Secretary. The directors consider that to be acceptable. This is on the grounds of the size of the Group, and its corporate structure is simple. Moreover, Mr Hallam has ready access to advice from a specialist firm that is familiar with Hardide's needs in respect of secretarial matters.

### Succession planning

Overseen by the Remuneration and Nominations Committee, a formal succession plan is maintained for those directors and senior staff who are vital to the operation and ultimate success of the business. The relevant roles and individuals are identified, and the Chair, CEO and Remuneration & Nominations Committee agree on action in respect of the roles covered by the plan.

### Terms of appointment of non-executive directors

The non-executives' principal terms and conditions are available for inspection by shareholders ahead of any general meeting of the Group. What follows is a summary of those terms and conditions.

Annual fees remain unchanged at £50,000 for the Chair in place at the year end, as are those for the other non-executive directors, each of whom receive £25,000. The new Chair has a fee of £60,000 from appointment. Fees are paid wholly under the PAYE system; except for Andrew Boyce whose fees are paid split between his personal service company and the PAYE system.

The terms of appointment of all non-executive directors require them to serve on Board Committees and to devote sufficient time to their roles. All directors are entitled to seek independent legal advice and have personal indemnity insurance paid for by the Group.

All directors are obliged to inform the Board of any new professional commitments or potential conflicts of interest; whereupon, other directors will consider the acceptability of such roles. To date, no additional commitment of a director has been found to be unacceptable.

Directors are bound by confidentiality, especially with regard to technology and to the identity of certain customers. Following the end of their appointment, directors may not, for one year, be engaged in any business or technology that does, or reasonably may be expected to, compete with Hardide.

All non-executive directors' appointments are terminable at one month's notice by either party.

### Board Committees

The four standing Committees of the Board are as follows:

1. Remuneration and Nomination Committee
2. Audit Committee
3. Intellectual Property Committee
4. Sustainability and Risk Committee

Each Committee has written terms of reference approved by the Board. These are kept under review and updated as needed. The membership and chair of Board Committees are determined by the Board.

The terms of Reference for each Board Committee can be found on the Group's website.

The reports of the first of these two committees are in the following sections of the Annual Report and a summary of the roles and activities of the other Committees are provided below.

### Intellectual Property Committee

Dr Yuri Zhuk, Technical Director, chairs the quarterly meeting of the IP Committee, with Robert Goddard and Philip Kirkham as the other members. Andrew Magson joined the Committee following his appointment to the Board in October 2022. The Committee is charged with reviewing, and in most cases deciding upon all matters relating to intellectual property, including patents, trademarks and know-how. The Committee is also responsible for non-disclosure agreements and joint development agreements designed to protect and develop intellectual property. When necessary, the Committee uses the services of the Group's Patent Attorneys (HGF Ltd) to perform patent searches and provide a range of advice on IP matters. Where the Committee does not have delegated powers, the Committee will make recommendations to the Board.

### Sustainability & Risk Committee

The Board has overall responsibility for the Group's system of management of sustainability and risk, and does so in cooperation with its Sustainability & Risk Committee. The Committee's role is to identify the strategic, operational, environmental and financial risks to which the Group may be exposed and recommends how these may be avoided, mitigated, insured against, or some combination of these. Risks are ranked by assessing their likelihood of occurrence and their potential impact. Risks considered by the Committee include those relating to movements in exchange rates, solvency, and liquidity, as well as operational and environmental risks.

This Committee, which meets quarterly, has comprised Robert Goddard (Chair), Philip Kirkham, and Simon Hallam. Andrew Magson joined the Committee following his appointment to the Board in October 2022. Reports of the Committee and its assessment of sustainability and risks are made to the Board and the Audit Committee. Descriptions of the principal matters that the Committee has identified are included in the Strategic Report.

The Group has a comprehensive 'Bid Alert Manual' and this is updated as needed. Much of its content would also be used in the management of a major adverse incident. Directors are asked to ensure that a copy is available to them at all times. In addition, the Group has a Crisis Management and Disaster Recovery Procedure.

### Conflict Minerals

The Group has undertaken a due diligence exercise with its suppliers of key process gasses to ensure that conflict minerals are not used in their manufacture. We can advise that all suppliers of these gases have confirmed that conflict minerals are not involved in their processes. A statement to this effect may be found on the Group's website.

### **Bribery Act, 2010 (the 'Act') and unethical behaviour**

The Group has in place a full 'Anti-bribery Policy', and this is in parallel with a 'Whistle-blowers' Policy'. Under guidelines set by the Board, a designated 'Group Compliance Officer' manages the processes and procedures that flow from these policies; in particular the areas perceived to be most at risk from bribery or from behaviour that is fraudulent or unethical. Any member of staff may raise, in confidence with any director, their concerns about financial or other impropriety. The Group Compliance Officer reports to the Board. From time to time, the Board considers whether these policies need to be updated. The main provisions of the Act and of Group policies and procedures appear in the staff handbook. Annually, all staff are required to confirm that they have read, understood and complied with these.

Hardide's policy regarding its anti-bribery policy and guidance thereon may be found on the Group's website.

### **The Market Abuse Regulation ('MAR')**

The Group has comprehensive policies and procedures designed to achieve compliance with MAR. Adherence to this regulation is facilitated by software that, among other things, maintains insider lists and can provide data to the FCA. All relevant members of staff have received copies of the policies and procedures.

Hardide has elected to adopt a closed period of 30-days ahead of the announcement of its interim and preliminary full-year results; as well as a planned event that may have an influence on share price; all in accordance with MAR requirements.

### **The UK General Data Protection Regulation ('UK-GDPR' or 'Regulation') and the UK Data Protection Act 2018**

These EU Regulations originally came into effect in May 2018 and subsequently adopted into UK law in January 2021 upon Brexit. All the procedures and proper records are in place to achieve and demonstrate compliance.

### **Cyber security**

The Group has strong and regularly updated cyber security systems. It has an ongoing contract with an external specialist cyber security company and is accredited to the government-backed Cyber Essentials Plus scheme.

### **Communication with Stakeholders**

#### **Shareholders**

When there is a significant event regarding the Group, full use is made of the Regulatory News Service (the 'RNS'). Shortly after the full- and half-year results are published, as well when seeking new funding, the CEO, FD and Chair have made themselves available to present the results in person, or by means of virtual meetings. In addition, the Chair has regular contact with significant shareholders, and they are free to contact him with any concerns. Face-to-face, telephone or video contact between the Chair and shareholders is encouraged. This includes letters to significant shareholders inviting them to make direct contact with either him or the Senior Independent Director. Alternatively, shareholders are free to make contact via finnCap or Allenby Capital, the Group's joint brokers.

From time to time, shareholders visit Hardide's premises. On these occasions, they are invited to ask questions and are welcome to express concerns that they may have and give their opinion on how they would like to see the Group develop. Available on the Group's website is a video showing the new facility and the equipment installed within it. Hardide's website is comprehensive and, as well as statutory documents, includes profiles of directors and descriptions of a wide range of Group features and activity. On request, hard copies of Hardide's Annual Report are available from the Group.

#### **Other Stakeholders**

In addition to shareholders, the Group considers stakeholders to include its employees, customers, suppliers, contractors, the local community and other parties with whom it interacts. As part of its Quality and Environmental Management Systems, the Group has and refers to a comprehensive 'map' of all of its stakeholders.

From time to time, all staff are invited to briefings where the CEO presents, explains, and responds to questions about, important developments in the Group or its environment.

Since Hardide's processes are unique in many respects, new staff are most unlikely to have knowledge of the processes and so require lengthy training. Therefore, the Group attaches great importance to the wellbeing and retention of its staff. All employees have health plan benefits and undergo regular health checks as appropriate to their work activity.

Both the UK and US sites are accredited to aerospace Quality Management System AS9100 RevD, and ISO9001:2015. The UK site is also accredited to the international Environmental Management standard ISO 14001:2015 and to Nadcap Gold Merit Status (National Aerospace Defense Contractors Accreditation Program).

On behalf of the Board,  
**Andrew Magson**

7 February 2023