

Dynamically navigating change with a clear focus on the longer-term sustainability of the business



Dear shareholder

2021 has been another challenging year but one in which, I'm proud to say, the business has shown great resilience and delivered a record performance. Our culture and our people have successfully steered the Group through the challenges the COVID-19 pandemic continues to present, whilst keeping a close eye on the longer-term sustainability of the Group, particularly its ESG commitments.

Dynamic decision making at both Board and senior management team level has been critical to our success during a time of significant external challenges. Consideration of COVID-19 is now embedded into Board and day-to-day business processes.

The Board has continued to support the strategic ambitions of the business. The Board's approval of a multi-million-pound investment in the new dual block plant at our St Ives factory supports the Group's priority of driving innovation in our product ranges. As we've set out on page 28, the Board's consideration of this investment was measured and thoughtful, ensuring the business considered the interests of all relevant stakeholders.

In addition to supporting evolution and investment in the business, the Board has changed during 2021, with the retirement of our former Group Finance Director, Jack Clarke, and our Senior Independent Non-Executive Director and Remuneration Committee Chair, Janet Ashdown.

We thank Jack and Janet for their commitment to the business during a period of strong performance and growth. These retirements have provided us with the opportunity to introduce further diversity and new skills to the Board through the appointment of our new CFO, Justin Lockwood, and our new Non-Executive Director, Avis Darzins. We provide further detail in our Nomination Committee Report on pages 84 to 87, but these appointments mean the composition of our Board complies with anticipated changes to the Listing Rules that will require UK listed companies to disclose on a "comply or explain" basis against set diversity targets.

Balanced decision making reflective of our culture and purpose is what "good governance" means to Marshalls. This is central to our application of the UK Corporate Governance Code. Our commitment to The Marshalls Way – to do the right things, for the right reasons, in the right way – underpins everything we do.

This Corporate Governance Statement explains how Marshalls' governance framework supports the principles of integrity, strong ethical values and professionalism which are integral to our business.

The Board recognises that we are accountable to shareholders for good corporate governance. This report, together with the Reports of the Audit, Nomination and Remuneration Committees on pages 84 to 112, seeks to demonstrate our commitment to high standards of governance that are recognised and understood by all.



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Our governance framework

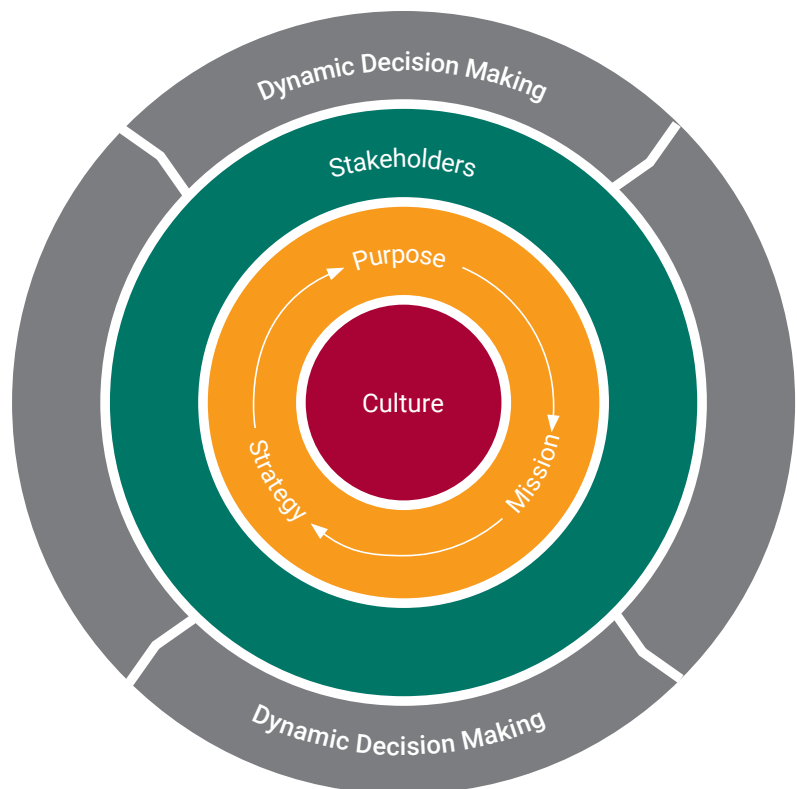


Programme of activities



Governance at Marshalls

Our **Culture** is at the heart of everything we do. Our **Purpose** drives our **Mission**, which in turn drives our **Strategy**. These operate as a virtuous circle with regular reflection by the Board and the business. The operation of our business and the decisions we make have regard to the interests of our **Stakeholders**. This approach to governance enables **Dynamic Decision Making** but ensures we never lose sight of the elements within that drive our long-term sustainability.



Achievements in 2021

- We've driven and supported the business to a record year of performance, navigating unprecedented raw materials inflation, HGV driver shortages and soaring shipping costs, all amid an ongoing pandemic.
- In November, we comprehensively reviewed the Group's 5 year Strategy, ensuring it positions us to capitalise on high-growth sectors, having considered the contextual, societal and macro-economic trends that may be risks or opportunities to the business.
- We've successfully managed the succession of our CFO and Senior Independent Non-Executive Director ("SINED"). Whilst the Board retained a core, experienced, multi-skilled group of Directors, notably benefiting from Tim Pile agreeing to further extend his term, we acted on the opportunity to further strengthen our Board by introducing new skills, experience and diversity through the appointments of Justin Lockwood and Avis Darzins.
- Having reported extensively in 2020 on our ESG commitments and having made disclosure against the TCFD recommendations ahead of these becoming mandatory, we've listened to our shareholders and other stakeholders. We've refined our ESG programme and disclosures to show how the programme will drive competitive advantage and the measures we'll use to monitor our progress. Annual targets supporting our commitment to being net zero by 2030 are now incorporated in the measures in our incentive schemes.
- When Government guidance permitted, we combined virtual engagement with the business with the recommencement of "in person" engagement predominantly through site visits. These provide the Board with very valuable insight into the opportunities and challenges presenting themselves to the Group. They also enable the Board to listen to the thoughts and views of those colleagues working at our manufacturing sites, which are the "beating heart" of our business.
- We've continued to reflect on the Board's performance. Our internal evaluation concluded that the Board has been engaged, resilient and supportive during the last year, dynamically navigating change whilst not losing sight of our longer-term strategy. In addition, we have addressed the objectives we set ourselves last year, with further objectives in place for the current year based on the responses we received during the evaluation. See page 82 for further details.
- The Board has reflected upon and updated the matters reserved for the Board's judgement to ensure they reflect the growth of the business in recent years. This will provide appropriate and proportionate operational flexibility for the business to respond to the day-to-day challenges it faces, whilst continuing to ensure the Board has appropriate oversight to give assurances over the Group's internal control and risk management frameworks.
- There has been Board representation at each of the Employee Voice Group ("EVG") meetings with Angela Bromfield succeeding Janet Ashdown as our designated Director for employee engagement. The EVG has broad representation and its agenda continues to evolve and now supports discussion of some of the Group-wide challenges we face.
- We've invested in our people, making a number of senior hires, to drive the change agenda the business faces. In addition to our new CFO and Chief Information Officer, these investments include a new Health and Safety Director, the creation of a process optimisation team and investment in our legal and company secretarial team. These investments support the evolution of our environmental, social and governance agendas.

Priorities in 2022

- To support the execution of our strategic plan as the impact of the pandemic hopefully subsides. Measuring progress will be critical to the long-term sustainability of the Group.
- To challenge the business to be relentless in its customer focus given the criticality of maintaining our strong brand preference, which is a key differentiator.
- To ensure that our ESG programme and commitments drive not only commercial and competitive advantage but also our ability to attract and retain the best talent. How we communicate these and measure performance against our targets, and link these to our incentive schemes, will be areas of focus.
- To give additional focus and time to succession planning. The "war" for talent means recruiting and retaining the best people will be extremely challenging, particularly when trying to build a more representative and diverse business.
- To carefully monitor the implementation and impact of the fundamental audit and corporate governance reforms proposed by the Government, which will have implications for the operation and expectations of the Board.
- To continue to ensure we do everything in The Marshalls Way: the right things, for the right reasons, in the right way, and at all times with our stakeholders in mind.



Ensuring we promote diversity, equity, respect and inclusion and maintaining a zero-tolerance approach to discrimination through the application of our policies is key as well as ensuring there is equality of opportunity for every role we recruit. Our commitment is supported by our Code of Conduct and central to our Group HR strategy."

ESG priorities

The Board views our approach to ESG as central to the achievement of our strategic objectives and the long-term sustainability of the business. The Marshalls Way guides everything we do and our ESG commitments and credentials demonstrate this clearly.

- Environmental – we take our environmental impact seriously and, in 2021, we published our roadmap to net zero by 2030.
- Social – we respect and value the dignity, wellbeing and rights of employees, their families and the wider community, as well as their safety.
- Governance – strong governance supported by effective leadership helps nurture our healthy corporate culture and our processes and controls enable us to operate ethically and responsibly.

Our continuing response to COVID-19

The Group's response to COVID-19 during 2020 has enabled both the Board and senior management team to manage its considerable continuing impact within our existing governance framework. The Board has been committed and made itself available throughout the year to support the business and to act decisively where needed. Safety has remained our number one priority, with a number of the measures put in place during 2020 retained during 2021 even though Government guidance had been relaxed.

The Health and Safety Executive has conducted a number of unannounced COVID-19 audits at our sites with the business being commended for its management of COVID-19 related risks and for putting the safety of colleagues first. The nature of the pandemic has meant that we've not been immune to the challenges, which include increased absence and self-isolation in the workforce, particularly during spikes in case numbers and transmission. Although these have impacted our operations, the Board has given the senior management team its full backing in implementing measures to ensure we can continue to serve our customers safely, including the temporary recommencement of operations at our factory in Falkirk (which has been earmarked for closure) and additional investment in short-term labour to manage peaks in demand when colleague absence was high.

These steps clearly demonstrate how dynamic decision making is central to the way the Board and senior management team have managed the ongoing impact of the pandemic, alongside ensuring the Group is well positioned for future growth. The Board sets the culture for effective risk management and, together with the senior management team, ensures that we're having regard to our key stakeholders when making decisions. As part of our initial response to the pandemic during 2020, the consideration of our people, performance, capital structure and controls was central to the Board's decision making. This structured approach has been the foundation for our resilient performance during 2021.

Diversity

The Board recognises the opportunity greater diversity in the business represents but acknowledges the challenge this presents in our sector. Ensuring we promote diversity, equity, respect and inclusion and maintaining a zero-tolerance approach to discrimination through the application of our policies is key, as is ensuring there is equality of opportunity for every role we recruit. Our commitment is supported by our Code of Conduct and central to our Group HR strategy.

At Board level, we have achieved greater gender and ethnic diversity during 2021 and, in addition to myself, a female Chair, we have 43 per cent female representation on our Board overall and one Director from an ethnic minority background. Whilst we have acted upon the opportunity that greater Board diversity presents, we recognise there is much more work to do at senior management team level and throughout the business to realise the benefits that greater diversity brings. This will take time, particularly given the challenges in our sector, but the Board has approved the Group-wide Diversity and Inclusion Policy and will work closely with the CEO and Group HR Director as we begin to implement our longer-term strategy. This will be supported by our newly created Diversity and Equity Taskforce, which has broad colleague representation from across the Group, including our Group Trading Director and General Counsel and Company Secretary, who are both members of our senior management team.

Following our agreement during 2020 to participate in Target Gender Equality (which is a gender equality accelerator programme that involves setting and reaching ambitious corporate targets for women's representation and leadership, starting with the Board and Executive Management levels) our General Counsel, Shiv Sibal, participated in a UN Global Compact Roundtable at which we gave an open and transparent account of our progress and the challenges we face. Challenging ourselves in this way is at the heart of The Marshalls Way.

Board evaluation

I conducted, with the support of the Company Secretary, an internal evaluation of the Board and its Committees using a tailored online questionnaire that considered both performance during the year and future priorities for the Board. It measured both Board behaviours and process. Having redesigned the internal evaluation in 2020 with the Company Secretary's support, I conducted this year's evaluation on a consistent basis to enable the Board to reflect on its year-on-year performance and on the achievement against the specific objectives agreed last year. As required by the UK Corporate Governance Code, the Board will conduct an externally facilitated evaluation during 2022. Page 82 of this report gives more detail on the most recent evaluation and the extent to which the objectives from 2020 were achieved.

Responsibility statement

In the opinion of the Directors, these Annual Financial Statements present a fair, balanced and understandable assessment of the Group's position and prospects and provide the information necessary for shareholders to assess the Group's position and performance, business model and strategy. The respective responsibilities of the Directors and the auditor in connection with the Financial Statements are explained in the Statement of Directors' Responsibilities and the Auditor's Report on pages 115 and 116 and 117 to 124 respectively.

Vanda Murray OBE

Chair

17 March 2022

Corporate Governance Statement continued

Compliance statement

This Corporate Governance Statement has been prepared in accordance with the principles of the UK Corporate Governance Code dated July 2018 (the "UK Code") which applies to the financial year 2021. We have complied with the principles and provisions of the UK Code throughout 2021.

Our Governance sections over the following pages explain how the Group has applied the principles throughout the year and up to the date of this Annual Report.

1. Board leadership and Company purpose

- Led by an experienced female Chair who drives collaboration and challenge
- Experienced, diverse and multi-skilled Board with clear focus on long-term sustainability

Read more on pages 78 and 79

- 2021 focus on our culture, ESG, strategy and succession
- Our culture, "The Marshalls Way", and purpose, "creating better spaces for everyone", are at the heart of all decision making

2. Division of responsibilities

- Effective, transparent communication and information supporting dynamic decision making
- Collaborative and constructive relationship between Board and senior management team

Read more on pages 79 and 81

- Robust challenge and support provided and well received by management
- Clear, proportionate decision-making parameters balance Board control and operational flexibility

3. Composition, succession and evaluation

- More diverse Board with greater breadth of experience, knowledge and skills
- Majority of independent Directors
- Further term extension providing stability, strongly supported by shareholders

Read more on pages 81 and 82

- Renewed and more consistent approach to internal effectiveness review enabling measurement of progress and reflection
- Engagement with shareholders ensuring the Board evolves to reflect their priorities

4. Audit, risk and internal control

- Clear oversight of external and internal audit functions and planning
- Strong focus on effectiveness of internal control environment, with prospective governance reforms in mind
- Detailed consideration of climate related financial disclosures, addressing new regulatory requirements

Read more on page 83

- Oversight and participation in Risk Register reviews and determination of risk appetite
- Ensuring clear accountability for actions with outcomes monitored to preserve continuous improvement culture

5. Remuneration

- Well-established, UK Code compliant, Remuneration Policy
- Incorporated annual target, forming part of our 2030 net zero roadmap, into our incentive schemes
- Engaged with shareholders to understand their views on our application of the Remuneration Policy

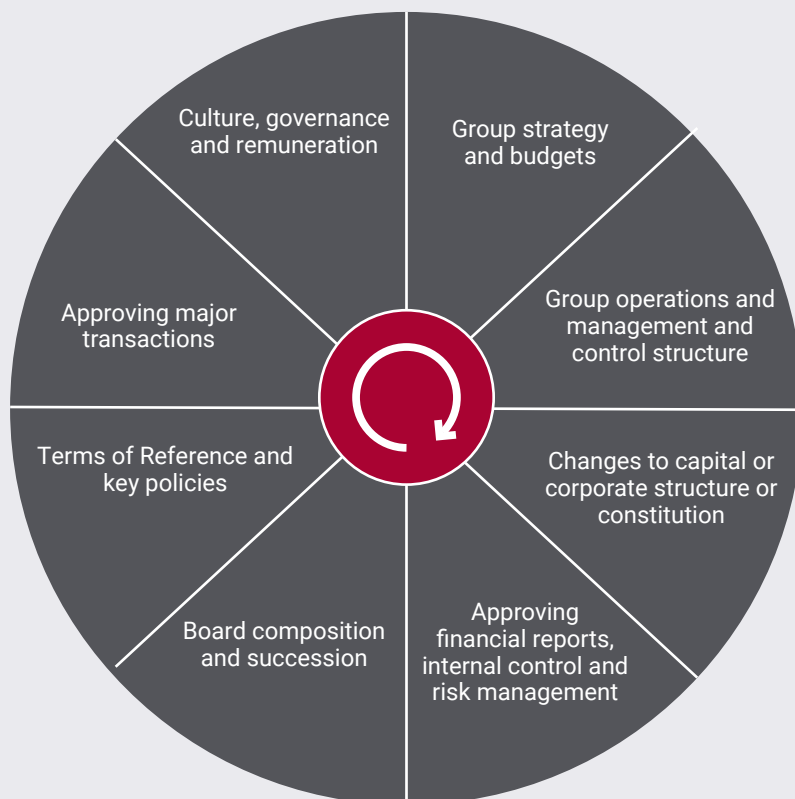
Read more on page 83

- Remuneration outcomes aligned with interests of all stakeholders
- Committee discretion to override formulaic outcomes

Role of the Board

The Board currently comprises an Independent Non-Executive Chair, four independent Non-Executive Directors and two Executive Directors. Their biographical details are on pages 70 and 71.

Our Schedule of Matters Reserved for the Board, reviewed annually and available on our website, includes:



Delegation to Board Committees

The Board delegates specific responsibilities to the Audit, Remuneration and Nomination Committees. The Audit Committee Report on pages 88 to 91 provides details of the Board's application of UK Code principles in relation to financial reporting, audit, risk management and internal controls. The Nomination Committee Report on pages 84 to 87 reports how Board and senior management composition (including diversity), succession and development are managed to reflect UK Code principles. The Remuneration Report on pages 92 to 112 explains how the Group's Remuneration Policy has been implemented and shows Directors' remuneration for 2021. The Remuneration Report also provides gender pay and balance information. Ad hoc Board Committees are established for particular purposes: for example, during 2021, Board Committees were established to approve preliminary and half year results.

Delegation to the Executive and management

The day-to-day management of the business and the execution of the Group's strategy are delegated to the Executive Directors. The Group's reporting and governance structure (see page 73) and controls below Board level are designed so that decisions are made by the most appropriate people in an effective and timely manner. In deciding what is "appropriate" for these purposes, we consider the scale and complexity of our business and reflect how this has grown over time. Management teams report to members of the Executive Committee which is comprised of the senior management team, including the two Executive Directors. The Executive Directors and other Executive Committee members give regular briefings to the Board in relation to business issues, developments and, most importantly, progress against our strategic priorities. Clear and measurable KPIs are in place to enable the Board to monitor progress. This structure, our controls and open and transparent information and communication enable the Board to make informed decisions on key issues including our strategy, capital structure, internal control and risk frameworks and our risk appetite whilst having regard to the interests of all of our key stakeholders.

1

Board leadership and Company purpose

Leadership and purpose

Our resilient corporate culture and strong leadership, both at Board and senior management team level, are the driving forces behind our approach to governance at Marshalls and underpinned the Group's record performance during the year.

The Board is committed to building its understanding of how our business model creates value and how our strategy must evolve to ensure the long-term success and viability of the business. This understanding comes from working collaboratively with the senior management team, engaging with the business and applying the Board's skills and experience to provide the robust challenge that helps shape that strategic evolution.

The Board has continued to regularly engage with shareholders and employees, not allowing the practical challenges of COVID-19 to be an obstacle. Technology has supported and enhanced Board engagement, particularly when combined with in-person meetings that took place during 2021, when Government guidelines permitted.

Our Strategic Report on pages 1 to 69 explains how we seek to fulfil our purpose, how this is supported by our policies and procedures and how we identify and manage our key risks. Transparency and openness between management and the Board have built trust and confidence in how the business is operated on a day-to-day basis, enabling the Board to steer our strategy and business model towards a sustainable future.

The reports of our Board Committees give further detail on how our policies and processes, and the principles of the UK Corporate Governance Code, have been applied during the year in particular areas and how this relates to our culture and strategy.

Dynamic decision making in volatile market conditions has enabled us to respond to the challenges we've faced whilst ensuring we have a stable platform for the execution of our long-term strategy.

We've given renewed focus to our long-established sustainability programme, with our commitment to a 2030 net zero target epitomising our sector leadership in ensuring our business minimises its environmental impact.

Having emerged from a difficult period during 2020 in which we restructured the business, we've made significant investments in our operations and our people. Most notably, we approved a multi-million-investment in the installation of a dual block plant at our St Ives site, further details of which are set out on page 28.

Having completed a review of the Group's strategy in November, the Board is confident the Group's application of the UK Code principles during 2021 will drive its long-term sustainable success by providing a platform to execute the strategic plan the Board approved in 2019. That strategic plan remains well balanced and considers the interests of all of our key stakeholders. The Board and senior management team do recognise, however, the importance of ensuring our ESG and commercial objectives operate in harmony to drive competitive advantage and differentiation. This will, in turn, drive brand preference. Our environmental and social reports on pages 50 to 69 provide further information of our progress and commitments in this respect.

The Board receives regular updates from the Executive Directors on the agreed KPIs set out on pages 32 and 33 that enable it to determine whether the Group's objectives are being met and to provide additional challenge and support where necessary.

Our people strategy is core to our long-term sustainability and we've continued with its implementation in spite of the challenges during the last year. Our Group HR Director engages regularly with the Board on our progress with improving recruitment, retention, development and progression. This is supported by an aligned reward strategy centred around diversity and inclusion.

During the year, we undertook a Group-wide project to standardise employment terms and introduced more user-friendly employment documentation. Fairness and transparency were at the heart of this exercise, the goal being to provide certainty as to terms and how these progress as careers develop in the business. We undertook a full consultation exercise as part of this. This project epitomises our commitment to The Marshalls Way.

We've introduced new benefits such as a Healthcare Cash Plan and a Cycle to Work scheme in addition to awarding a grant under our Sharesave Scheme. We made a thank you award of £600 in December 2021 to all employees (with the exception of the Executive Directors) with colleagues able to take the award as cash, shares or a contribution to their pensions. Facilitating all of these developments and awards has been our Group reward platform that acts as a central hub for all key employment and reward related information.

Our internal communications team has worked tirelessly to develop this channel and our social media channels to ensure we create forums in which colleagues feel empowered to speak up and share their views about any aspect of the business. The team has helped colleagues navigate the ever-changing COVID-19 guidance throughout the year, ensuring we operate safely and legally.

The development of our Employee Voice Group as an effective and representative colleague engagement forum, the outcome of our annual employee engagement survey and the Board's engagement have given the Board confidence that the Group's purpose, values and strategy remain aligned with our culture. Further details of how we engage with employees are set out in the ESG section on pages 64 to 67. Further developing the EVG's agenda and reach will be an area of focus in 2022.

We've consolidated our work on culture and begun to implement our diversity and inclusion strategy; the creation of our Diversity and Equity Taskforce is a major step. Greater diversity and becoming representative of the communities in which we operate are important components of our long-term success.

Good governance is supported at Marshalls by robust systems and processes and a good understanding of risk and risk appetite. The Group's control and risk management frameworks are reviewed annually and have been critically reviewed during the year in light of the additional challenges we've experienced during the last year including materials availability and inflation, labour shortages and logistics. Occupying the ground around all of our risks is the existential threat climate change presents, not only to Marshalls but to all of society. We review our Risk Register at least twice a year and our internal audit plan factors in the results of these reviews. The Board and the Audit Committee receive periodic reports from the internal auditor on a range of topics each year that are approved by the Audit Committee.

Further details of our approach to risk identification and management are set out in the Strategic Report on pages 34 to 43.

Conflicts and concerns

The Board maintains a conflicts register that identifies situations in which conflicts may arise, which is reviewed regularly. In situations where an actual conflict is identified, the affected Director may be excluded from participating in relevant Board meetings or voting on decisions. There is no shareholder with a holding of sufficient significance to exercise undue influence over the Board or compromise independent judgement.

Concerns about the running of the Company or proposed action would be recorded in the Board minutes. On resignation, if a Non-Executive Director did have any such concerns, the Chair would invite the Non-Executive Director to provide a written statement for circulation to the Board.

Whistleblowing

The Group's Serious Concerns Policy sets out the principles under which employees can raise concerns in confidence. This is supported by an independent whistleblowing telephone and online reporting service, through which concerns may be reported anonymously if preferred. The Audit Committee receives reports on matters raised under this policy and the outcome of investigations. Any concerns raised are investigated appropriately by individuals whose judgement is independent and who are not directly involved with the matters raised.

Read more about diversity on page 65

Read more about sustainability, ethics and climate change from pages 50 to 63

2

Division of responsibilities

Roles and division of responsibilities

There is a clear division between Executive leadership and leadership of the Board expressed in the written Terms of Reference of the Chair and Chief Executive.

The Chair leads the Board and is responsible for its overall effectiveness. She was independent on appointment in 2018 and brings her judgement, experience and skills to the role. Our internal Board evaluation assesses the behaviours and processes of the Board including the quality, constructiveness and robustness of Board debates, the relevance and clarity of Board information and how the Board works as a team (including relationships within the Board). Our evaluation concluded that the Board continues to operate effectively and as a unit.

The Chief Executive has responsibility for all operational matters which include the implementation of strategy and policies approved by the Board.

The Senior Independent Director provides a sounding board for the Chair and also acts as an intermediary for other Directors and shareholders.

The Board has determined each of the Non-Executive Directors to be independent in accordance with Section 2, Provision 10 of the UK Code. Although Tim Pile's term of office has been extended until 2023, we are confident this has not affected his independence and further details of why we believe this to be the case are set out on page 80.

At least once a year the Chair meets the Non-Executive Directors without the Executive Directors being present. The Senior Independent Director meets the other Non-Executive Directors annually without the Chair to appraise the Chair's performance.





























On appointment, the expected time commitment for Board members is made clear. The Chair and other Non-Executive Directors disclosed their other commitments prior to appointment and agreed to allocate sufficient time to the Company to discharge their duties effectively and ensure that these other commitments do not affect their contribution. The current commitments of the Chair and other Directors are shown on pages 70 and 71.

2

Division of responsibilities continued

Board meetings and attendance*

Key =  Present  Absent

	Board	Audit Committee	Remuneration Committee	Nomination Committee
Vanda Murray OBE (Non-Executive Chair)		–		
Martyn Coffey		–	–	–
Jack Clarke		–	–	–
Justin Lockwood		–	–	–
Janet Ashdown (Non-Executive)				
Graham Prothero (Non-Executive)				
Tim Pile (Non-Executive)				
Angela Bromfield (Non-Executive)				
Avis Darzins (Non-Executive)				
Philip Rogerson (Non-Executive)		–		–

* The Board held eight meetings during the year, with the management of the ongoing impact of the COVID-19 pandemic, and any decision in connection with it, forming part of the Board's scheduled meetings.

The Chief Executive and the Chief Financial Officer (formerly the Group Finance Director) are not members of the Audit Committee but normally attend Audit Committee meetings by invitation. Tim Pile stepped down from the Audit Committee in March 2021. The Non-Executive Directors, excluding Tim Pile, also meet the auditor in private.

The Chief Executive attends Remuneration and Nomination Committee meetings by invitation. The Company Secretary attends Board and Committee meetings as Secretary. Board members also participate in the Group's annual strategy day with the senior management team, which during 2021 was held over two days in November. In addition, the Board participates in site visits, training sessions, the Employee Voice Group and other activities with operational teams where they have relevant expertise and experience. Historically, the Board has attended events like the Group's annual management conference but COVID-19 guidance at the time meant this was cancelled in 2021.

Justin Lockwood joined the Company as Chief Financial Officer in July 2021 (with Jack Clarke having stepped down as Group Finance Director in March 2021). Janet Ashdown retired from the Board at the end of the Group's 2021 AGM in May. Avis Darzins and Philip Rogerson joined the Board in June and September respectively, with Philip subsequently stepping down in December 2021 for health reasons.

Tim Pile's independence

We consider Tim Pile to be independent even though he has served more than eleven years as a Non-Executive Director. Tim originally intended to step down during 2021 but agreed to continue in light of the challenges presented by the pandemic, with the Board recognising the value of his skills and extensive knowledge and experience of the Group. Further details of these are set out in his biography on page 70.

With his intended successor, Philip Rogerson, stepping down for health reasons shortly after his appointment in September 2021, Tim has agreed to extend his appointment by a further year until 2023.

We are mindful that the UK Code directs that this length of service is likely to impair or could appear to impair his judgement, but we strongly believe this not to be the case given Tim's track record with the business.

Tim continues to bring invaluable support and experience to the business whilst, together with the Chair and the other Non-Executive Directors, effectively holding the Executive Directors and senior management team to account on behalf of shareholders. He remains independent in thought and judgement and provides unique insight and challenge given his experience of how the business has evolved over a number of years. As we pursue a significant change and transformation agenda, we think his knowledge and experience will act a bridge to the Group's development in the short to medium term and this continuity will benefit his successor. In addition, we've listened to shareholder feedback, with Tim stepping down as a member of the Audit Committee in March 2021.

Aside from his length of service, there are no other relevant factors (as set out in UK Code Provision 10) that would affect his independence. He has no associations with management or otherwise that might compromise his ability to exercise independent judgement or act in the best interests of the Group.

The Chair has conducted an individual performance evaluation of all the Directors, including Tim, and has concluded that Tim's contribution remains extremely valuable, particularly given that his independence has been maintained. The Nomination Committee will again, during 2022, plan for Tim's succession.

Board meetings

There is an established format and programme for Board meetings, which, for the most part, were held virtually during the last year.

This programme is supported by a forward-looking planner that focuses on Board business for the year ahead and ensures an appropriate balance between the Board's consideration of strategy, operations and governance. The Board's agenda is flexible, enabling dynamic consideration of any urgent matters. The Board's consideration of the continuing impact of the COVID-19 pandemic has been within its existing schedule of meetings but the Board remains committed to ensuring it is always available to convene if urgent matters need to be addressed.

The Chief Executive and the Chief Financial Officer report on operational and financial performance respectively at each Board meeting. The Chief Executive also updates the Board, at each meeting, on wider industry, sector and competitor considerations that are relevant to ensuring that decision making has regard to all stakeholder interests.

Health and safety remains a top priority and is reported on and considered on a standalone basis at every scheduled Board meeting. The safe operation of our sites and our safety culture are constantly monitored to ensure they are aligned with The Marshalls Way, i.e. we are doing the right things, for the right reasons, in the right way.

The Board participated fully in the Group's strategy day which was held across two days in November 2021. This involved engagement with key members of the senior management team and other senior leaders in the business in considering the continuing relevance and appropriateness of the Group's strategy particularly in light of the existential climate change challenges that affect all of society.

In addition to the standing items on the Board's agenda, the principal areas of focus discussed by the Board in 2021 were:

Strategy

- Group strategy including culture and purpose
- ESG: embedding good practice and measuring performance
- 2022 budget
- Major investments including our dual block plant
- Capital structure and dividends
- Customer experience and specification selling
- People and culture including succession and talent development review
- Operations strategy including a full manufacturing network review
- IT strategy including digital
- Emerging businesses strategy
- Market, sector and competitor updates and outlook

Operations

- Supply chain planning including procurement and logistics
- Manufacturing capacity
- Process optimisation and project management
- Health and safety
- COVID-19 maintaining operational safety and monitoring impact
- Management of major customer projects
- Employee engagement and morale

Governance and risk

- COVID-19 oversight of monitoring and management of risk
- Risk and internal control
- Board composition including diversity, skills and succession
- Board and Committee performance
- Annual shareholder governance meetings
- Employee Voice Group feedback
- Whistleblowing
- Ethical sourcing and modern slavery
- Cyber security and data protection
- Stakeholder engagement
- AGM voting and guidance

3

Composition, succession and evaluation

There is a transparent and formal process for appointments led by the Nomination Committee and supported by external specialist recruiters. Board succession planning is reviewed at least annually by the Nomination Committee, while succession planning at Executive level is reviewed by the Board.

The Board also reviews succession planning for senior management and is able to consider and challenge, as appropriate, the Group's recruitment policies and how they promote diversity and inclusion. During 2021, the Board considered the Group's wider talent pipeline and the initiatives supporting their development. The policies and process are commented on further in the Nomination Committee Report.

Organic development of future leaders is an important element of our Group-wide people strategy and something we see as critical to the long-term sustainability of the Group.

We believe our Board is diverse and has a good combination of skills, experience and knowledge. The Board reviews its own composition each year and assesses whether the current skills, experience and knowledge are aligned with the Group's strategy and expected future leadership needs. Further details of the Board and their skills are set out on pages 70 and 71.

In the same way the business recognises the importance of change, the Board acknowledges the importance of continually evolving and has a succession plan designed to ensure that Board members' terms expire or they retire over clearly defined periods, normally not exceeding nine years. We've explained the circumstances surrounding Tim Pile's term and, as we've explained, feel the value Tim brings, particularly given that his successor had to step down suddenly, far outweighs the fact he has served more than nine years. During 2021, we conducted an internal Board effectiveness review led by the Chair and the Company Secretary (as referenced in the Chair's introduction). We will carry out an externally facilitated effectiveness review during 2022.

All Directors stand for election or re-election (as appropriate) at every Annual General Meeting, and all current Directors will stand for re-election or election at the 2022 Annual General Meeting. The Directors' biographical details on pages 70 and 71 show their roles, date of appointment and length of service on the Board.

Directors have access to the advice and services of the Company Secretary who is responsible for ensuring that Board procedures are complied with and, through the Chair, advises the Board on governance matters. The appointment or removal of the Company Secretary are matters for the whole Board.

3

Composition, succession and evaluation continued

How Board priorities were addressed during the year

Board and Executive succession planning

- We have successfully managed the succession of our Group Finance Director with the appointment of Justin Lockwood as Chief Financial Officer.
- We appointed two new independent NEDs, achieving our objective of bringing additional diversity, skill and experience to the Board.
- We secured the services of Tim Pile for another year, with shareholders almost unanimously supporting our belief that he remains independent even though he had served over ten years. Following the unexpected resignation of Philip Rogerson for health reasons, Tim has agreed to extend his term by another year until 2023.

ESG

- We have clearly and cohesively articulated our ESG programme, credentials and, most importantly, objectives and KPIs. This has been externally recognised by various ratings agencies.
- The importance of commercialising our ESG credentials to drive competitive advantage and margin is embedded in our 5 year Strategy. This will ensure our investments provide returns not only to society but to shareholders

by driving business performance. It is also vital to attracting and retaining talent.

- We have included an annual carbon reduction commitment target, which is part of our 2030 net zero commitment, in the performance measures in our management incentive schemes.

Market-facing strategy

- We continue to operate in a strong market. 2021 has presented us with many significant operational challenges and cost headwinds, with Brexit and the prolonged impact of COVID-19 each playing a part.
- Our supply chain has, in particular, presented a number of challenges such as materials inflation, shipping costs and availability of HGV drivers.
- The Board has remained focused on ensuring the business is resilient in the face of these challenges and has undertaken an “in-flight” review of the Group’s strategy to ensure it remains relevant given the turbulence of the last 18 months.
- The strategic review considered all investment and growth opportunities, both organic and through acquisitions, together with the enablers that underpin these.

Focus areas and actions to enhance effectiveness in 2022 (from 2021 review)

The 2021 Board evaluation was conducted internally by the Chair and Company Secretary using a comprehensive tailored questionnaire that evaluated Board behaviour and processes as well as providing the Board an opportunity to reflect openly on the Board and Group’s strengths, weaknesses and opportunities, threats and strategic priorities. This year’s review was carried out immediately after the Board’s annual strategy review to ensure it captured the Board’s view.

Having redesigned the internal evaluation in 2020 with the Company Secretary’s support, the Chair conducted this year’s evaluation on a consistent basis to enable the Board to reflect on its year-on-year performance and on the achievement against the specific objectives agreed last year.

During 2021, the Board made good progress against the priorities identified in 2020 against a backdrop of prolonged COVID-19 and Brexit related disruption. This was reflected in the scoring in the review. As previously outlined, succession, ESG and strategic development have all been on the Board’s agenda this year with significant progress made but with a recognition that building on the momentum in ESG and effective execution of our strategic priorities are critical to capitalising on this.

The Board has remained focused and agile, balancing both short-term decision-making requirements and the need to reassess the longer-term strategic priorities of the business, ensuring they address, in particular, our approach and commitment to addressing global climate related challenges. The Board has continued to support the Group’s investment programme with the approval of the £23 million plus dual block plant investment at St Ives being the best example of this.

2021 has also seen a welcome return to “in person” Board meetings and site visits, both of which remain critical to

the Board’s engagement with, and understanding of, the business. The induction process for new Directors has been comprehensively refreshed by the Company Secretary.

The specific areas identified for focus during 2022 are:

Executing our strategic plan

- Executing our plan and measuring progress are critical to the long-term sustainability of the Group.
- Additional time will be allocated so the performance, challenges and opportunities can be continually reviewed.

ESG

- In its most complete sense, ESG remains a key priority and will drive not only commercial and competitive advantage but our ability to attract and retain the best talent.
- Investors will focus on our objectives, how we measure performance against these and the link to pay.
- Given developing practice and increased stakeholder focus, the Board will consider whether a separate ESG Board Committee is required.

Customers

- Given the criticality of maintaining our brand preference, a relentless focus on the customer is required.
- Part of this will be ensuring we are future-fit. Being low carbon and digitally enabled are key parts of this.

Succession planning

- The “war” for talent means recruiting and retaining the best people will be extremely challenging, particularly when trying to build a more representative and diverse business.
- Comprehensive succession planning for our senior management team is a key priority in the medium term.

4

Audit, risk and internal control

The Board has established written policies and procedures for external and internal audit functions designed to ensure that they remain independent and effective and these are regularly reviewed. Annual questionnaire-based evaluations are conducted of both our internal and external audit partners with the Board and members of the senior management team participating. The Board scrutinises financial and narrative statements in accordance with best practice supported by the advice of the auditor.

The Board has a well-established procedure to identify, monitor and manage risk, and has carried out reviews of the Group's risk management and internal control systems and the effectiveness of: all material controls, including financial, operational and compliance controls; and the mitigation of material risks.

The Strategic Report comments in detail (pages 34 to 43) on the principal risks facing the Group, in particular those that would threaten our business model, future performance, solvency or liquidity, and the controls in place to mitigate them. The Board conducts a rigorous assessment of these risks, particularly operational risks that might affect the Group's viability in the short term and emerging risks that might impact the medium to longer term.

The Board's risk and viability review incorporates stress testing, by envisaging scenarios that might arise during the financial year and/or the planning cycle, and considering, with financial impact modelling where appropriate, the likely effect on the business and its prospects. Additionally, the outcomes of our risk reviews drive our internal audit planning ensuring our resources are being directed at the most appropriate areas.

The Audit Committee reviews the effectiveness of the Group's risk management system and the system of internal control annually. The Risk Register was reviewed by the Audit Committee in March 2021 and the Non-Executive Directors carried out a standalone risk review in December 2021, the outcome of which has been incorporated into the Risk Register. In addition, our internal and external auditors participated in our most recent risk review meeting in November 2021. Our approach underpins our commitment to transparency in managing risk and internal controls and lends additional efficacy to our procedures.

In addition to our scheduled reviews, our risks and controls have all been carefully assessed to take into account the continuing impact of the COVID-19 pandemic. Internal audits carried out during the year have also challenged whether the adjustments we made to the controls in the areas being reviewed (to address the pandemic's impact) remain effective.

The Audit Committee Report on pages 88 to 91 describes the Group's internal control system, how the Board assures itself of the independence and effectiveness of internal and external audit functions and how they are managed and monitored. The Board is also considering the requirements set out in proposed changes to the UK corporate governance regime and the changes we need to make to ensure our control environment supports the assurances the Board needs to provide.

The Board acknowledges that such systems are designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

Read the Audit Committee Report on pages 88 to 91

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Remuneration

The current Remuneration Policy was approved by shareholders in 2020 and is set out in the Directors' Remuneration Report on pages 64 to 76 of our 2019 Annual Report and Accounts. It addresses the relevant requirements of the UK Code and was prepared in consultation with the Company's top 20 shareholders and external voting agencies.

The Remuneration Committee Report describes how the Remuneration Policy has been implemented during 2021 and the outcomes achieved. It also describes how the Remuneration Committee has carried out its responsibilities during the year.

The Remuneration Committee continues to effectively discharge the duties delegated to it by the Board under the leadership of the Committee Chair, ensuring outcomes reflect performance and taking a holistic view of remuneration across the Group, having consulted employees appropriately, the importance of which is recognised by the Board.

Read the Remuneration Committee Report on pages 92 to 112

Vanda Murray OBE

Chair

17 March 2022