

Corporate Governance

Chairman's Introduction

I am pleased to present Michelmersh Brick Holdings Plc's ("Michelmersh" or the "Company") Corporate Governance statement. The Board is committed to our undertaking at all times "to act as a responsible corporate citizen", and to demonstrating that commitment at Board level by supporting the application of high standards of corporate governance. This section of the Annual Report describes our governance framework, and our approach to ensuring good corporate governance throughout the Group.

The Company has adopted the Quoted Companies Alliance Corporate Governance Code 2018 (the "QCA Code"), and the board of the Company (the "Board"), continues to believe that this is the most appropriate corporate governance code for us as an AIM listed company. The Company supports all 10 principles of the QCA Code and applies these principles in its operations through the Board, and the following report is set out under headings showing how the company has applied those 10 broad principles of the Code. The report should be read in conjunction our section 172 statement on page 16, which describes how the Board has considered the factors set out in section 172 of the Companies Act (including stakeholder interests and long-term consequences) in its decision making.

Despite the continuing challenges of the Covid-19 pandemic, Board and Committee meetings continued unaffected with a mixture of virtual and in-person meetings. We have been able to continue to review and strengthen the Group's corporate governance framework, including through increased focus on internal controls and risk management systems by the Audit Committee (see the Audit Committee report on page 27), a formal Board performance evaluation process, and a review of Executive Remuneration arrangements by the Remuneration Committee (see the Remuneration Committee report on page 31).

The Board is kept up to date on all relevant regulatory and governance developments, and amongst other key policies our Modern Slavery Statement and Anti-Slavery Policy were reviewed, updated and approved during the year. As Covid-19 related restrictions were eased, our Board site visits were re-instated, enabling the Non-Executive Directors to increase their knowledge and understanding of our operations, and, crucially, to interact directly with our site based staff.

Through our employees, the Group acts fairly, openly, professionally and politely towards all stakeholders in all areas of activity. We always seek to provide the highest quality products and services, to protect the environment and to act ethically in all aspects of the business. In this way, business risk should be minimised, stakeholders can trust the Company and its employees are protected. It is expected that this approach will generate reciprocal attitudes from customers, suppliers, investors and employees.

Martin Warner
Chairman

29 March 2022

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Strategy and business model

Principle 1 of the Code requires that companies establish a strategy and business model which promote long-term value for shareholders. Our strategy and business model, including the key challenges in their execution, are set out in the Strategic Report on pages 15 to 16.

The Board regularly discusses the Group's long-term goals, with maximising shareholder value at the core of those goals, and ensures that a business plan aligned to the delivery of the strategy is in place, and is effectively executed by the Executive Directors. A robust structure of targets, key performance indicators and internal measurement is set by the Board. This ensures delivery of a clearly defined and agreed set of sales, market & business objectives. The Board and a sub-board of senior managers continually monitor these objectives to ensure they are met by the collective teams within the Group.

The Board meets at least quarterly to review each quarter's performance and revised forecasts and to discuss strategy and to ensure the business is on track to achieve its stated goals.

Shareholder relations

Principle 2 of the Code provides that the Board should seek to understand and meet the needs and expectations of shareholders. The Board recognises the importance of creating a clear flow of communication with all shareholders and the investment community. The key opportunity for engagement with shareholders, potential shareholders and analysts is on the announcement of the full-year and interim results. The Executives make presentations of those results, and feedback from the recipients of the presentations is shared with the Board ensuring that the Non-Executives are apprised of the views of major shareholders.

There is regular dialogue between the Executive Directors and the Company's brokers, including in respect of shareholder views, and an "Investor" email address is provided on our website through which shareholders can make contact with the Board. The Chairman is available to shareholders if they have concerns that contact through the normal channels of the Executives have failed to resolve or for which such channels of communication are inappropriate.

The AGM is an opportunity for shareholders to meet and put questions to the Board and Chairs of the Board Committees. Subject to any social distancing measures due to the Covid-19 pandemic, we look forward to inviting shareholders to attend the AGM this year. We will welcome questions submitted by shareholders on the day on the business of the AGM, and endeavour to publish responses to such questions on the Company's website. Full details of our AGM arrangements are contained in the Notice of AGM.

Our stakeholders

Under principle 3 of the Code, the Company should take into account wider stakeholder and social responsibilities and their implications for long-term success. The Board recognises the fundamental importance of stakeholders other than investors and their contribution to the success of the business and therefore to ensuring their needs are met. Feedback from stakeholders allows the board to monitor the Company's corporate culture, as well as the ethical values and behaviours within the business.

We consider our key stakeholders, other than our shareholders, to be our customers, staff, suppliers, the communities we operate in, and the environment. Further details of our stakeholders, methods of engagement with them as well as examples of stakeholder considerations in certain key Board decisions during the year can be found as part of the Section 172 Statement within the Strategic Report on page 16.

Our customers

The Group aims to deal ethically and honestly with customers, building long term relationships by delivering high quality, value and excellent customer service. Ongoing positive engagement with customers, distribution and stakeholders is at the forefront of the Board's retail strategy. The strategy is constantly monitored. The Group distribution aims are clearly set out within the Approved Distributors Trading Policy and Terms of Business.

Quarterly and annual objectives are set in consultation with our key accounts and relevant buying groups. Objectives, performance and targets are regularly reviewed with call reports monitored by the Sales Directors. This is complemented by strong analytical data.

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The volume of orders, quality of service and products made are monitored and recorded as a matter of course on a daily basis. Value and strong process is at the forefront of the Group offering. A culture of open dialogue combined with strong customer relationships help assess where the Group can make ongoing improvements in key areas for our customers and end users.

Key account review meetings are held throughout the year (attended when appropriate by a Board Director) where issues and performance are monitored, feedback received and follow up action can be taken if required.

Our employees

The Board is dedicated to positive employee engagement; safety, well-being, training, security, and progression are at the forefront of the business ethos. The well-being of employees is addressed through training and health and safety management as a preventative process, and regular updates are provided to the Board. The Human Resources department oversees schemes to support employees through a range of medical and supportive facilities, including stress management, legal and social well-being helplines, along with a robust pension and life insurance cover package that provides financial support for the long term.

The Group seeks to align the interests of employees with the success of the Company through a range of share incentive schemes, including all employee sharesave schemes and, for senior staff, nil-cost option awards under the Group's Long-Term Incentive Plan ("LTIP").

During the year the Non-Executives have visited sites, and engaged directly with staff. The Covid-19 pandemic had previously curtailed these opportunities, however, as soon as restrictions were lifted site visits were reinstated as soon as practicable.

The Company ensures that it complies with the requirements of the Immigration Act, anti-bribery and equality legislation and takes appropriate steps to ensure all senior staff are aware of their responsibilities and is committed to maintaining the highest standards for all business activities and ensuring these standards are set out in written policies.

Our suppliers

The Group holds a diverse database of more than 2,500 suppliers, typically 30% of these will be engaged with annually. We strive to honour our payment term obligations and make a mid-month payment run as well as the monthly payments to ensure supplier terms are met. Our payment practices and reporting are in accordance with the recently implemented regulations and are published on the Government's website. By adopting responsible sourcing and sustainable resource and energy planning, we minimise waste and ensure the efficient use of energy, resources, water and raw materials. Energy performance is a key factor in the design, purchase and operation of equipment, vehicles and services.

Our community

The Company is committed to supporting the communities in which we operate, including providing financial support to registered local and national charities and youth sport. The main charitable budget is allocated at the Group under the direction of the Group's Charity Committee and approved by the Board. This comprises of both small donations to local charities, across the Group's areas of operation, as well as larger donations to national charities that the Group may choose to support each year. The Board is particularly keen to support charities with which our employees are personally involved, and the aim is to support causes which can make a real difference to local communities across the country.

Michelmersh is also committed to helping meet the future needs of the construction industry. Education has become a key part of the Group's culture and Board focus. The Group supports education in a number of ways, including student sponsorship, material donations, technical resources, and (where appropriate) providing funds through the Charity Committee.

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The environment

The Board is fully committed to the protection of the environment, biodiversity, ecosystems and minimisation of pollution. We ensure compliance with all legal, regulatory and other obligations, have established procedures to ensure any breaches are reported transparently, and monitor, control and report our relevant greenhouse gas emissions in line with our regulated targets.

More information on the actions we take to mitigate our environmental impact and to ensure the sustainability of our business are set out in the Sustainability section of the annual report on pages 10 to 14.

Risk management

Principle 4 of the Code requires that the Board ensures that effective risk management, including the consideration of both opportunities and threats, is embedded throughout the Group. The Board has an established risk register which is reviewed at each quarterly Board meeting. Key risks to the business, as well as controls and mitigating factors, have been identified, and the risk are categorised according to likelihood and impact. This allows the Board to assess the effectiveness of controls, and monitor emerging and changing risks on an ongoing basis.

The risk register is reviewed and updated regularly with key personnel across the business, and the Group's open management structure ensures free communication of risk throughout the organisation.

Further information on the key risks faced by the business is set out on page 18 of the Strategic Report.

The Board

Principle 5 of the code requires that the Board is maintained as a well-functioning, balanced team led by the Chair.

Our Chairman, Martin Warner, is responsible for leading the Board which also currently comprises three Executive Directors (Frank Hanna and Peter Sharp, the Joint Chief Executives, and Ryan Mahoney, the Chief Financial Officer) and two independent Non-Executive Directors (Paula Hay-Plumb and Tony Morris).

During the year, Stephen Morgan and Bob Carlton-Porter stood down as Directors at the Company's 2021 AGM.

The Non-Executives are committed to devoting adequate time to the business to discharge their responsibilities effectively. As set out in their appointment letters they are required to attend scheduled Board and Committee meetings, and to become more involved for periodic special activity if required. Before accepting any additional commitments that might affect the time that they devote to their roles as Non-Executive Directors of the Company they must obtain agreement from the Board first.

There were five formally scheduled Board meetings during the year, with additional ad-hoc meetings convened when required, including to consider routine matters such as the issue of shares under company share schemes. During 2021 additional Board meetings were convened to appoint Paula Hay-Plumb as Senior Independent Non-Executive Director with effect from 1 August 2021 following the retirement of Bob Carlton-Porter and to approve the allotment of shares relating to the Scrip Dividend Offer.

There are three Board Committees: the Audit Committee, the Remuneration Committee and the Nomination Committee. The Remuneration and Audit Committees each meet as required but at least twice a year; and the Nominations Committee meets at least once a year. More information on the activities of the Audit Committee and Remuneration Committee is set out in their respective reports below. Each of the Committees has formal terms of reference, in line with corporate guidelines, and reports back to the Board and to shareholders through the annual report as a matter of course.

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Attendance at the formally scheduled Board and Committee meetings during the year was as follows:

Director	Board Meetings (6 Meetings)	Audit Committee (3 Meetings)	Remuneration Committee (5 Meetings)	Nominations Committee (1 Meeting)
M Warner	6	N/A	5	1
F Hanna	6	N/A	N/A	N/A
P Sharp	6	N/A	N/A	N/A
P Hay-Plumb	6	3	5	1
T Morris	6	3	5	1
R Mahoney*	4	N/A	N/A	N/A

* Ryan Mahoney was appointed to the Board on 3 June 2021 and has attended all Board meetings since his appointment.

Outside the formal meetings, the Chairman meets regularly with each of the Executives individually, promotes an open and constructive environment in the boardroom and actively invites the Non-Executives to express their views. The Non-Executives provide objective, rigorous and constructive challenge to management and hold meetings at which the Executive Directors are not present.

At each quarterly Board meeting, the Executives report on financial and operational performance along with upcoming expectations and strategic opportunities. The Non-Executives review the executives' reports with a balanced view against the company's business and risk model. The Board periodically invites the Company's Broker and legal adviser to address Board meetings to provide comment on current market issues and specific developments. The Company Secretary and the Senior Independent Director co-ordinate internal procedures that relate to corporate governance issues and provide independent guidance to individual board members.

Directors' experience, skills and capabilities

Principle 6 of the Code provides that between them the Directors should have the necessary up to date experience, skills and capabilities.

Our Chairman and Executive Directors have extensive experience in the brick industry, and our Non-Executives have broad experience in relevant sectors (including property, governance, finance and M&A), and Board level experience in the listed company environment, as highlighted in their biographies on page 19. The Board is satisfied that the composition of the Board and its Committees provides an appropriate balance of skills, experience, independence and knowledge.

Each Director maintains and updates their skillset by attending technical briefings from industry forums, and attends seminars and training offered by accounting, legal and financial organisations. These are augmented by interaction with the Company's professional advisers including legal, audit and tax, Nominated Adviser and Registrar. The Executives regularly attend meetings with the brick and ceramic trade body, government departments, the unions and industry regulators, covering a wide range of operational and business subjects.

Board performance evaluations and succession planning

Principle 7 of the Code requires that the Board and Committees evaluate their own performance and seek continuous improvement.

As part of the process for monitoring Board performance there is a biannual meeting of the Non-Executives to assess the performance of the Executives, and an annual meeting of the independent Non-Executives to appraise the performance of the Chairman. The performance of the independent Non-Executive Directors is considered by the Board prior to the proposal for their re-election at the AGM to ensure that they remain effective in their role and that they retain their independence.

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During the year the Board also formalised the evaluation process for Board and Committee performance. A questionnaire was circulated to all Directors to complete, and the results were collated by the Company Secretary with a summary report tabled to the Board for discussion at its meeting in February 2022. Responses recognised that relationships are continuing to develop, given the significant changes to the composition of the Board over the last 18 months, but were overwhelmingly positive and supportive of the view that the Board is operating effectively.

Nomination Committee

The Nomination Committee reviews the structure and constitution of the Board and plans for succession issues. The balance of the Board is kept under regular review and, following the significant change to Board composition over the last 18 months, the Nomination Committee has agreed that the current composition of the Board and its Committees is appropriate. The Committee is mindful that the Board does not currently comply with developing guidance on diversity, and will ensure that diversity considerations are included as part of future Board appointment processes.

During the year, the Nomination committee oversaw the recruitment of Ryan Mahoney, who joined the Company as CFO following the departure of Stephen Morgan at the AGM in 2021.

The Nomination committee also ensures that newly appointed Non-Executive directors undergo an induction programme which includes visits to Group plants, the introduction to the business's productions and manufacturing operations and meeting key members of the team. The induction programme also includes meetings with each of the other Board members as well as the Company's Nominated Adviser and Broker.

Corporate culture

Principle 8 of the Code requires that the Company promotes a corporate culture that is based on ethical values and behaviours.

The Group undertakes to at all times act as a responsible corporate citizen. Through our employees, we aim to act fairly, openly, professionally and politely with all stakeholders in all areas of activity. We seek to provide the highest quality products and services, to protect the environment and to act ethically in all aspects of the business. In this way, business risk should be minimised, stakeholders can trust the Company and its employees are protected.

The Company ensures that it complies with all relevant legislation (including the Immigration Act, Bribery Act and equality legislation) and takes appropriate steps to ensure staff are aware of their responsibilities. We are committed to maintaining the highest standards for all business activities and ensuring that these standards are set out in written policies.

Feedback from stakeholders (in particular employees, customers and suppliers) allows the Board to monitor the Company's corporate culture, as well as the ethical values and behaviours within the business, and the Non-Executive Directors further test the extent to which this culture is embedded across the organisation in their interactions with employees during site visits.

Governance structure

Principle 9 of the Code requires that the Company maintains governance structures and processes that are fit for purpose and support good decision-making by the Board.

The Chairman is responsible for effectively leading the Board and ensuring that the Group's corporate governance framework is appropriate and effective. The Board has adopted the Code as a guide by which to measure its corporate governance procedures, and regularly reviews all aspects of its corporate governance policies and procedures. As noted in last year's Annual Report, our Company Secretary, Prism Cossec, conducted a full review of the Company's governance structures and processes which was presented to the Board in early 2021. All of the minor improvements recommended in that review have been addressed during the year, including formalising the Schedule of Matters Reserved to the Board and reviewing and updating the Committees' terms of reference.

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The schedule of matters reserved for the Board includes:

- Approval of the Group's long-term objectives and commercial strategy
- Budget and forecast adoption
- Approval of annual and interim accounts
- Acquisitions and disposals
- Capital projects
- Dividend policy
- Share issues
- Appointment and removal of professional advisers.

Details of the roles and responsibilities of the Chair, Joint Chief Executive Officers, Chief Financial Officer and Non-Executive Directors are described on the Company's website, along with the terms of reference of the Committees. The Company's Corporate Governance Statement, setting out how it has applied the principles of the Code is also available on the website: (www.mbhplc.co.uk/corporate-governance).