

Corporate Governance Statement

A clear vision of purpose and strategy, aligned with an inclusive culture

2018 highlights

- Recruitment and induction of new Chair
- Successful integration of acquisition with positive profit impact
- Created framework for greater employee and stakeholder engagement
- Strengthened controls to increase resilience

2019 priorities

- Setting strategic direction and vision over the next 3 – 5 years for long-term sustainable success
- Focus on contribution to wider society and development of an inclusive and positive corporate culture
- Embedding policies that support our core values and are aligned with strategic priorities
- Maintaining resilience while pursuing opportunity

“Our aim is to create strong foundations for sustainable future success, delivering value for our employees, shareholders and wider society.”

Dear Shareholder

I am pleased to introduce our Corporate Governance Statement, which explains how Marshalls' governance framework supports the principles of integrity, strong ethical values and professionalism integral to our business. The Board recognises that we are accountable to shareholders for good corporate governance, and this report, together with the Reports of the Audit, Nomination and Remuneration Committees, seeks to demonstrate our commitment to high standards of governance that are recognised and understood by all.

Leadership, governance and purpose

Good governance depends on good and effective leadership and a healthy corporate culture, supported by robust systems and processes and a good understanding of risk and risk appetite.

We aim to stay abreast of developments in good governance and practice, and have well-developed plans to ensure that we will meet the standards of the UK Corporate Governance Code dated July 2018 by the end of 2019. This includes making sure our purpose, vision and values are clearly articulated, and that we have in place effective channels of engagement with our workforce, shareholders and stakeholders. The Board is involved in setting measurable objectives to promote a healthy corporate culture that is aligned with strategy and delivers on our commitment to “The Marshalls Way” and the principles of sustainability and trust that are the hallmark of our business. The reports of our Board Committees show how our policies and processes have been applied and developed during the year in a way that remains consistent with our values and strategy, focusing on engagement, operational improvement, and reward and incentive structures, ensuring progress can be measured and monitored appropriately and promoting a business that is resilient, responsible and alive to opportunity.

Board evaluation

During 2018, the Board conducted an evaluation of its performance led by the Chair and Company Secretary. This took into account the 2018 Code principles as well as the 2016 Code in its review of composition, effectiveness, skills and diversity. The Nomination Committee Report comments on the priorities for 2018 following the 2017 evaluation and the extent to which they were achieved. The Board continues to have a good balance of skills and experience, and works very effectively incorporating robust challenge with a high degree of mutual respect and trust. The Board's gender balance has improved. The outcomes of the 2018 evaluation were discussed and an action plan has been identified for the coming year. The Board expects to use an external facilitator for its 2019 evaluation.

Diversity

Marshalls' policy is that no employee or job applicant will be treated less favourably on the grounds of race, colour, nationality, ethnic or national origin, gender (including gender reassignment), pregnancy, marital or civil partner status, sexual orientation, religious belief, age or disability, or on any other grounds which cannot be justified on job related terms. We do not discriminate on grounds of age, gender or background, and we are committed to equality within our business and in our dealings with other organisations. These policy principles are supported by our Code of Conduct.

The Board is committed to achieving diversity in the widest sense. We ensure that briefs to external recruitment agencies and search consultants are aimed at improving diversity ratios and balance both at Board and senior management level and more widely within the business, while also reflecting the changing strategic needs of the Group. We will continue to support positively opportunities for talented individuals regardless of gender, ethnicity, age or social background.

As a Board, we are fully engaged with the initiatives within the business in this area, although we recognise that there is more work to do to achieve true gender balance and greater diversity. The Remuneration Report contains details of our gender ratios and gender pay gap data, and this, together with the Nomination Committee Report, explains in more detail how we implement our policy and how we aim to achieve improvements.

The UK Corporate Governance Code

This Corporate Governance Statement has been prepared in accordance with the principles of the UK Corporate Governance Code dated April 2016 (the "2016 Code"), but also recognises the recommendations in the new UK Corporate Governance Code dated July 2018 which applies to the financial year 2019. The Board has carried out a review of how the 2016 Code principles have been applied, and considers that the Company has complied with the relevant provisions of the 2016 Code throughout the year in all material respects. The Company has also made good progress towards implementing the provisions of the 2018 Code and is supportive of the changes that will result from the application of that new Code.

Board evaluation process

During the year an internal evaluation was conducted.

Stage 1

July – August 2018

The Chair and Company Secretary prepared the evaluation questionnaire based on both 2016 and 2018 Code principles

Stage 2

September 2018

Questionnaire circulated to Board members

Stage 3

September – October 2018

Detailed one-to-one interviews between the Company Secretary and each Board member, using the questionnaire as the framework

Stage 4

December 2018

Consolidated questionnaire results reviewed by the Chair and Company Secretary, and the conclusions tabled to the Board; the Board reviewed themes and progress against 2018 objectives

Stage 5

December 2018 – January 2019

Board actions to improve Board effectiveness agreed, based on the key conclusions of the evaluation process

Stage 6

January 2019

The Senior Independent Director met Non-Executive Directors to conduct a separate evaluation of the Chair's performance

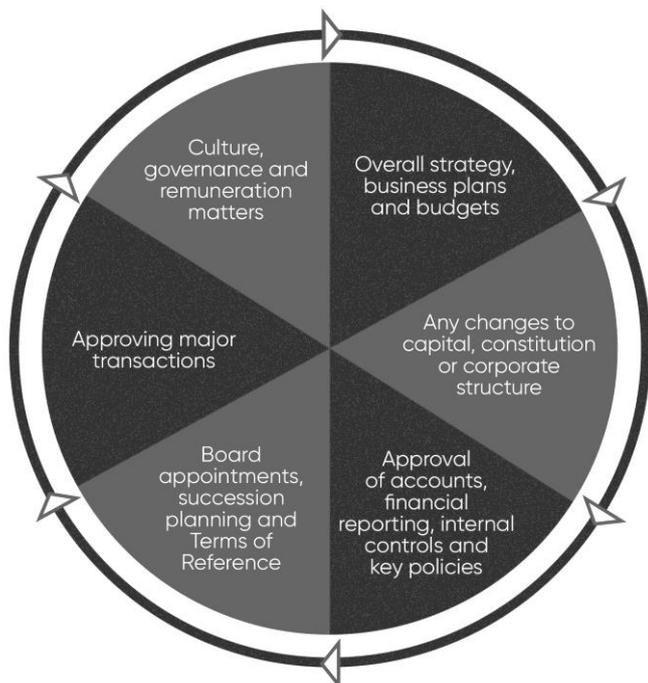
Responsibility

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.

Role of the Board

The Board currently comprises an Independent Non-Executive Chair, 3 Non-Executive Directors and 2 Executive Directors.

There is a written Schedule of Matters Reserved for the Board, reviewed annually, which is available on the website www.marshalls.co.uk. The reserved matters include:



The Board delegates specific responsibilities to the Audit, Remuneration and Nomination Committees. The Audit Committee Report provides details of the Board's application of Code principles in relation to financial reporting, audit, risk management and internal controls. The Nomination Committee Report reports how Board and senior management composition, succession and development are managed to reflect Code principles. The Remuneration Report explains how the Group's Remuneration Policy has been implemented, and shows Directors' remuneration for 2018. The Remuneration Report also provides gender pay and balance information. Ad hoc Board Committees are established for particular purposes: for example, during 2018 Board Committees were established to approve the allotment of shares under the 2015 Sharesave scheme, to approve certain acquisition transactions and to approve preliminary and half yearly results.

Day-to-day management and the implementation of strategies agreed by the Board are delegated to the Executive Directors. The Group's reporting structure below Board level is designed so that decisions are made by the most appropriate people in a timely manner. Management teams report to members of the Executive Committee (9 senior managers, including the 2 Executive Directors). The Executive Directors and other Executive Committee members give regular briefings to the Board in relation to business issues and developments. Clear and measurable KPIs are in place to enable the Board to monitor progress. These policies and procedures enable the Board to make informed decisions on key issues including strategy and risk management.

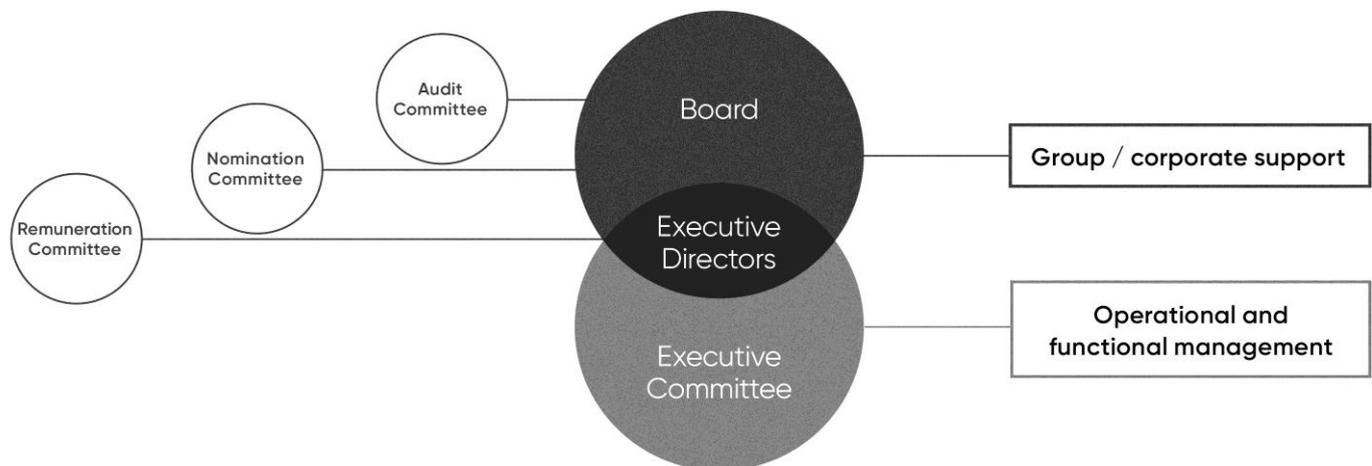
Board meetings and attendance*

Key = Present ● Absent x	Board	Audit Committee	Remuneration Committee	Nomination Committee	Briefing topics 2018
Andrew Allner (Non-Executive)+	●●xXXX	—	●●xxx	xx	Health, safety and environment
Vanda Murray OBE (Non-Executive)+	xxx●●●●	—	xx●●●	xx	Emerging businesses
Janet Ashdown (Non-Executive)+	●●●●●●●	●●●●	●●●●●	xx	Sales and service delivery
Jack Clarke	●●●●●●●	—	—	—	Market trends
Martyn Coffey	●●●●●●●	—	—	—	Cyber security and innovation
Graham Prothero (Non-Executive)	●●●●●●●	●●●●	●●●●●	●●	Acquisition integration updates
Tim Pile (Non-Executive)	●●●●●●●	●●●●	●●●●●	●●	Manufacturing operations HR strategy

* The Chief Executive and the Finance Director normally attend Audit Committee meetings, and the Non-Executive Directors also meet the Auditor in private. The Chief Executive attends Remuneration Committee meetings by invitation. The Company Secretary attends Board Committee meetings as Secretary. Board members also participate in site visits, training sessions and events such as the Group's annual management conference.

+ Andrew Allner attended all scheduled meetings prior to his retirement except for Nomination Committee meetings relating to the appointment of his successor. Janet Ashdown was conflicted and could not attend these Nomination Committee meetings. Vanda Murray attended all scheduled meetings following her appointment.

Interaction between Board and management bodies



Roles and division of responsibilities

There is a clear division of responsibilities between the Chair and the Chief Executive, each of whom has annually reviewed written Terms of Reference.

The Chair leads the Board and is responsible for its overall effectiveness, ensuring adequate time is available for discussion of all agenda items, in particular strategic issues, promoting openness and debate, ensuring all Directors, particularly the Non-Executive Directors, are able to contribute, and facilitating a constructive relationship between the Executive and Non-Executive Directors.

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 Chair and other Non-Executive Directors were independent on appointment, and the Board has determined each of the Non-Executive Directors to be independent in character and judgement in accordance with principle B.1.1 of the 2016 Code and Section 2 Provision 10 of the 2018 Code. At least once a year the Chair meets the Non-Executive Directors without the Executive Directors being present. The Non-Executive Directors also meet annually without the Chair to appraise the Chair's performance.

Any concerns raised by Directors about the running of the Company or a proposed action would be recorded in the Board minutes. If a Non-Executive Director did have any such concerns on resignation the Chair would invite that Director to provide a written statement for circulation to the Board.

Culture and engagement

There has been good progress in defining our desired culture and identifying the key actions designed to promote and embed "The Marshalls Way", with the Board being involved in setting objectives and reviewing feedback. Janet Ashdown is the Director designated to act as Board representative in relation to our workforce engagement programme. The Group has developed a framework to improve the way in which employee views are communicated to the Board, how employees engage with values and culture, and how we align strategy with our workforce development and reward policies, which the Board expects to review and monitor throughout the year using agreed KPIs. On joining, the Chair met major shareholders to canvas views on governance and performance and will continue to seek opportunities to engage with shareholders. During 2018 the Group also engaged with other stakeholders such as customers and suppliers through its in-depth customer experience review and ethical supply chain initiatives.

Conflicts of interest

The Board has adopted procedures for the identification, authorisation (where appropriate) and monitoring of situations which may give rise to a conflict of interest. Existing situations are recorded in a Conflicts Register, reviewed by the Nomination Committee at least annually. Currently, the only situations authorised are the holding by Directors of directorships or similar offices with companies or organisations not connected with the Company where the Board has not identified any actual conflict of interest. The Board has reviewed the procedures and is satisfied that they are operating effectively.

Board composition, commitment and election of Directors

The Nomination Committee leads the process for Board appointments and makes recommendations to the Board. We believe our Board is well balanced with an appropriate combination of skills, experience and knowledge. The process for appointments, evaluation of the Board and individual Directors, succession planning and diversity is commented on further in the Nomination Committee Report.

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 40 and 41.

The Company's Articles of Association contain powers of removal, appointment, election and re-election of Directors and provide that at least one-third of the Board must retire at each Annual General Meeting and each Director must retire by rotation every 3 years. In practice, all Non-Executive Directors and Executive Directors stand for re-election at every Annual General Meeting, and all current Directors will stand for re-election or election at the 2018 Annual General Meeting. The Directors' biographical details on pages 40 and 41 show their term of appointment and length of service on the Board.

Board induction, development and support

There is a full formal induction programme for new Directors. New Directors receive an induction pack incorporating the Company's constitutional and governance documents, Group policies and other key information. Induction training to familiarise Directors with the "virtual boardroom" resource and other Group systems and programmes is also provided. On joining, there is a programme of site visits at which the new Director meets site-based staff, including the Executive Committee and other senior managers. All Non-Executive Directors are offered training as part of the Group's health and safety programme. Other tailored training may be arranged, for example to update knowledge of developments in regulatory compliance and Director responsibilities. A new Director will meet the Chair and other Non-Executive Directors in one-on-one sessions; they will have meetings with key management, and they are also expected to avail themselves of opportunities to meet external advisers and shareholders to gain a full understanding of the business.

Directors attend external courses and seminars as appropriate to maintain and develop their Board competencies. The Board meeting programme includes a range of topics of relevance to the business, with opportunities for in-depth questioning and discussion. Details of senior management presentations during 2018 are on page 44. Separate meetings between Non-Executive Directors and senior management on matters of particular interest are arranged; for example, Janet Ashdown and the Group HR Director held meetings in relation to employee engagement and Tim Pile provided expertise in relation to Group digital marketing strategy. Training needs are identified through the Board evaluation process and through individual one-to-one reviews between the Directors and the Chair.

Directors have access to the advice and services of the Company Secretary and may rely on their being impartial and independent. The Company Secretary is responsible for ensuring that Board procedures are complied with and, through the Chair, advises the Board on corporate governance matters. The appointment or removal of the Company Secretary are matters for the Board as a whole.

There is an approved procedure for all Directors to take independent professional advice at the Company's expense. Board Committees have sufficient resources to undertake their duties, and may appoint external advisers when they deem it appropriate.

Indemnities and insurance

The Company maintains directors' and officers' liability insurance to cover legal proceedings against Directors and Officers acting in that capacity. The Group has also granted indemnities to its Directors to the extent permitted by law (which are qualifying third party indemnities within the meaning of Section 236 of the Companies Act 2006), and these remained in force during the year in relation to certain losses and liabilities that the Directors may incur to third parties in the course of action as Directors or employees of the Company, any subsidiary or associated company, or as a Director of the pension scheme trustee board. Neither the liability insurance nor the indemnities provide cover in the event of proven fraudulent or dishonest activity.

How we assess our performance, prospects and viability

The Group has a comprehensive financial review process, including detailed annual budgets, business plans and regular forecasting. There are a range of performance indicators which are tracked by management on a daily, weekly and monthly basis, and addressed through a programme of operational meetings and action plans. All Directors receive regular and timely information to enable them to perform their duties, including information on the Group's operational and financial performance, customer service, health and safety performance and forward trends.

At each regular Board meeting the monthly financial results are reviewed, taking account of performance indicators and the detailed annual business plan and budget. The Board also considers forward trends and performance against other key indicators, including areas where performance departs from forecasts, and contingency plans. The Board reviews medium and long-term strategy on a regular basis and meets at least annually with the Executive Committee to review strategy. Individual members of senior management meet and present to the Board regularly on current business and strategic issues.

In this way, the Board assesses the prospects of the Group using all the information at its disposal, and considering historical performance, forecast performance for the current year and longer-term forecasts over the 3-year business planning cycle as appropriate. In approving these accounts the Board has considered these matters in detail in order to be able to give the Viability Statement. The Board has adopted the going concern basis in preparing these Financial Statements and has a reasonable expectation that the Group is able to continue in operation and meet its liabilities as they fall due for at least the next 12 months.

Risk management and internal control

The Board has responsibility for determining the nature and extent of the principal risks the Company is willing to take to achieve its strategic objectives, and for the Group's internal control framework. 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. The Strategic Report comments in detail (pages 23 to 27) on the principal risks facing the Group, in particular those that would threaten our business model, future performance, solvency or liquidity and the measures in place to mitigate them. The Board has conducted a rigorous assessment of these risks, particularly operational risks that might affect the Group's viability. The Board's risk review also incorporates some 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. The Audit Committee Report on pages 50 to 52 describes the 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 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 mis-statement or loss.

Shareholder relations

The Board places great emphasis on communication and engagement with the Company's shareholders. The Chief Executive and the Finance Director meet regularly with major shareholders to discuss the Group's performance, strategic issues and shareholder investment objectives, arrange site visits for investors, and provide regular and comprehensive feedback to the Board. The Board also receives copies of analysts' and brokers' briefings. During 2018, there were 80 investor meetings, with 752 of the Group's institutional shareholders having met or engaged with Executive and / or Non-Executive Directors in the past 12 months.

The Chair met a number of major shareholders following her appointment, and expects to establish a programme of regular meetings with shareholders to gain understanding of their views on governance and performance. The Senior Independent Director is also available to meet shareholders separately if requested. Chairs of Committees would expect to meet shareholders to consult on significant matters related to their areas of responsibility, for example in relation to preparation of the Group's 2020 Remuneration Policy.

There is a regular reporting and announcement schedule to ensure that matters of importance affecting the Group are communicated to investors, and the Annual and Half Year Reports, together with the Marshalls website, are substantial means of communication with all shareholders during the year. There has been no significant voting against recommended resolutions at recent AGMs, and the Board would wherever practicable seek to ensure that shareholder views on any unusual or potentially controversial proposals were canvassed and incorporated prior to a vote; however, the Board expects to respond to any significant vote against a recommended resolution, should this arise, in accordance with the 2018 Code principles.

Annual General Meeting

The Notice of Annual General Meeting is despatched to shareholders, with explanatory notes or a circular on items of special business, at least 20 working days before the meeting. The Company's practice is to propose separate resolutions on each substantially separate issue, including a resolution on the Annual Report and Accounts, and to put all resolutions to an electronic poll at the Annual General Meeting. All Directors normally attend the meeting, including the Audit, Remuneration and Nomination Committee Chairs, who are available to answer questions. The Board welcomes questions from shareholders, who have an opportunity to raise issues informally or formally before or at the Annual General Meeting.

For each resolution the proxy appointment form provides shareholders with the option to direct their proxy vote either for or against the resolution or to withhold their vote. The proxy form and any announcement of the voting results make it clear that a "vote withheld" is not a vote in law and is not counted in the calculation of the proportion of the votes for and against the resolution.

All valid proxy appointments are properly recorded and counted. Information on the number of shares represented by proxy, the proxy votes for and against each resolution, and the number of shares in respect of which the vote was withheld for each resolution, together with the voting result, are given at the meeting and made available on the Company's website.

Vanda Murray OBE

Chair

14 March 2019