



Corporate Governance Statement

BOARD OBJECTIVES 2016

- Extend the strategy debate, establish strategy review day, review capital structure and articulate long term vision;
- Develop understanding of succession planning below Board level, “people” related processes and objectives;
- Establish more structure around Board and senior management succession planning and appraisals, and strengthen the role of the Nomination Committee, taking account of diversity;
- On risk management, incorporating best practice, develop risk reporting and Board involvement, with particular focus on safety culture and cyber-risk; and
- Improve visibility of risk assessment for projects at evaluation stage.

WHAT WE ACHIEVED

- Set 2020 Strategy (articulated in presentations to investors and employees), held separate strategy review day for Board and Executive Committee in September 2016, future strategy review days now programmed annually;
- Established regular reviews of capital structure; greater focus on assessing risk and developing mitigation strategies, particularly in relation to cyber security;
- Health and safety reporting developed, with Board training and participation in site safety inspections;
- Strengthened process around succession planning at Board and senior management level: successful handover from retiring to new Senior Independent Director/Remuneration Committee Chair, one-to-one appraisals completed; and
- Promoted and supported increased focus on “people” initiatives, including the establishing of consistent Group-wide employment procedures and policies, investment in training and development and improved access to pension savings.

KEY THEMES FOR 2017

- Leading the development of corporate culture, values and vision across the business;
- Work to further develop business resilience, flexibility and agility;
- Pursue 2020 Strategy through, for example, organic growth and improved profitability resulting from innovation in products and processes, considering acquisitions and investment where appropriate and value adding; and
- Ensure succession planning (Board and senior management) is designed to align with corporate culture and good practice and recognises our commitment to diversity.

Chairman's Introduction

Dear Shareholder

This Corporate Governance Statement, together with the Reports of the Audit, Nomination and Remuneration Committees on pages 42 to 69, explains how Marshalls' governance framework works and how we apply the principles of business integrity, high ethical values and professionalism in all our activities. As a Board, we recognise that we are accountable to shareholders for good corporate governance, and we seek to promote consistently high standards of governance throughout the Group that are recognised and understood by all.

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. Your Board has continued throughout the year to engage with shareholders and other stakeholders, to maintain constructive dialogue and challenge and to focus on strategy and value. As a Board, we also keep abreast of developments in good governance and practice, such as the recommendations of the Hampton-Alexander review on gender diversity, the Parker review on ethnic diversity and the FRC's observations on corporate culture published in July 2016. This year, the Board and the Executive Committee have spent time on evaluating Marshalls' culture and values, recognising that a healthy corporate culture will both protect and generate value. The Board has a leading role in fostering and influencing the positive culture and values of the Group by ensuring a consistency of approach and message from the top. The work of our Board Committees, explained in this report, demonstrates our commitment to openness and accountability, acknowledging the value of diversity and good succession planning, how we align reward with our values and strategy and how as an organisation we seek to embed our values across the business, recognising that there is further work to do.

During 2016, the Board conducted its first externally led Board evaluation. This concluded that the Board composition was appropriate for the business, with a good balance of skills and experience, ensuring a well-balanced and effective Board with a clear and inclusive strategy and a high degree of respect and trust at individual and collective level. The summary of our 2016 objectives, how we performed against them, and the objectives we have set for 2017 following the 2016 evaluation process, appears on the first page of this report. These priorities are closely linked to the strategic objectives of the business.

The Group's 2015 Annual Report and Accounts were reviewed by the FRC's Conduct Committee and matters arising have been reflected in this year's Annual Report and Accounts. The 2016 Annual Report takes account of the FRC review and seeks to maintain the clarity and transparency of previous reports while presenting our business performance as effectively as possible.

This Corporate Governance Statement, which is part of the Directors' Report, has been prepared in accordance with the principles of the UK Corporate Governance Code published in September 2014 (the "Code"), which the Board fully supports. The Board annually carries out a review of how the Code principles are applied within the structure, together with the processes and procedures adopted by the Company. The Board considers that the Company has complied with the relevant provisions of the Code throughout the year in all material respects. I can also confirm that 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.

Andrew Allner
Chairman

Role of the Board

The Board currently comprises an Independent Non-Executive Chairman, 3 Non-Executive Directors and 2 Executive Directors who are equally responsible for the proper stewardship and leadership of the Company.

Among the written Schedule of Matters Reserved for the Board, which is reviewed annually, are:

- approving and monitoring progress of strategy, business plans and budgets;
- approving any changes to capital, constitution or corporate structure;
- approving the annual and half-yearly accounts, and the approval and monitoring of the internal financial control system, risk management, health and safety and anti-bribery policies and procedures;
- Board appointments and succession planning, and setting Terms of Reference for Board Committees;
- approving transactions of significant value or major strategic importance; and
- remuneration matters, including major changes to pension schemes, the introduction of share and incentive schemes, and the general framework of remuneration.

The Board has delegated specific responsibilities to the Audit, Remuneration and Nomination Committees. The Audit Committee Report provides details of how the Board applies the Code in relation to financial reporting, risk management and internal controls. The Nomination Committee Report reports on the work done, particularly in relation to Board and senior management succession planning, diversity and Board development. The Remuneration Report incorporates the Remuneration Policy to be tabled at the 2017 Annual General Meeting, and gives details of Directors' remuneration for 2017. Other Board Committees are established periodically for particular purposes. For example, during the year, Board Committees were established to approve the 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 all decisions are made by the most appropriate people in a timely manner. Management teams report to members of the Executive Committee; this currently consists of 8 senior managers (of whom 7 are male, and 1 is female), including the 2 Executive Directors. The Board receives regular updates from the Executive Committee in relation to business issues and developments. These policies and procedures collectively enable the Board to make informed decisions on a range of key issues including strategy and risk management.

Roles of the Chairman, Chief Executive and Non- Executive Directors

There is a clear division of responsibilities between the Chairman and Chief Executive, each of whom has annually reviewed written Terms of Reference. The Chairman leads the Board and sets its agenda, ensuring that adequate time is available for discussion of all agenda items, in particular strategic issues, making sure all Directors, particularly the Non-Executive Directors, are able to contribute, and maintaining a constructive relationship between the Executive and the Non-Executive Directors. The Chief Executive has responsibility for all operational matters which include the implementation of strategy and policies approved by the Board.

Interaction between Board and Management bodies

The Senior Independent Director, who also has written Terms of Reference, is responsible for providing a sounding board for the Chairman and is an intermediary for other Non-Executive Directors. She is available to shareholders if they have

The Chairman and the Non-Executive Directors were independent on appointment, and the Board considers each of the Non-Executive Directors to be independent in character and judgement in accordance with concerns which are not resolved through the normal channels of contact.

At least once a year the Chairman holds a meeting with the Non-Executive Directors without the Executive Directors being present. The Non-Executive Directors also meet annually without the Chairman being present to appraise the Chairman's performance.

Directors are able to ensure that any concerns they raise about the running of the Company or a proposed action are recorded in the Board minutes. If a Non-Executive Director did have any such concerns on resignation the Chairman would invite that Director to provide a written statement for circulation to the Board.

Conflicts of interest

The Board has adopted procedures for the authorisation of existing situations and for considering (and authorising where appropriate) new situations which may give rise to a conflict of interest. These 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 of sufficient size and has an appropriate balance of skills and experience to meet the needs of the

business. Individual Director evaluations, succession planning and the work of the Nomination Committee are commented on further in the Nomination Committee Report.

On appointment, Board members, in particular the Chairman and the Non-Executive Directors, disclose their other commitments and agree to allocate sufficient time to the Company to discharge their duties effectively and ensure that these other commitments do not affect their contribution. Any conflicts of interest are dealt with in accordance with the Board conflicts procedures.

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, the Company requires all Non-Executive Directors and Executive Directors to stand for re-election at each Annual General Meeting. All Directors will stand for re-election or election at the 2017 Annual General Meeting.

Board induction, development and support

New Directors receive a full, formal and tailored induction on joining the Board. There is an induction pack for new Directors incorporating the Company's constitutional and governance documents, Group policies and other key information, and training is provided on the use of our active "virtual boardroom" board reporting tools. During 2016, Non-Executive Directors were trained to carry out site safety inspections as part of the Group's Visible Felt Leadership health and safety programme. Other tailored training may be arranged to meet individual needs, for example to update knowledge of developments in regulatory compliance. Typically, a new Director will meet the Chairman and other Non-Executive Directors in one-on-one sessions; he or she will have meetings with key management, briefings with external advisers and shareholders, and a programme of site visits will be arranged at which the Director meets site-based staff to gain a full understanding of the business.

Directors are expected to attend external courses and seminars as appropriate to maintain and develop their Board competencies. Training is also built into the annual Board programme, which is designed to cover a range of topics of particular relevance to the business. During 2016, there were Board briefings relating to health and safety, cyber-risk and current issues of corporate governance and the new MAR regulatory regime. The Board also received senior management presentations in relation to business process initiatives, developments in HR processes and group learning, manufacturing operations and the Group's marketing strategy. Non-Executive Directors took the opportunity to meet senior managers to discuss areas of particular interest. Training needs are identified through the Board evaluation process and through the individual one-to-one reviews between the Directors and the Chairman.

Directors have access to the advice and services of the Company Secretary and are entitled to rely on the impartial and independent nature of that advice and those services. The Company Secretary is responsible for ensuring that Board procedures are complied with and, through the Chairman, advises the Board on corporate governance matters. Both the appointment and removal of the Company Secretary are matters for the Board as a whole.

The Board has an approved procedure for all Directors to take independent professional advice at the Company's expense. Board Committees are provided with sufficient resources to undertake their duties, including the option to appoint external advisers when they deem it appropriate.

Indemnities and insurance

The Company maintains directors' and officers' liability insurance cover to cover legal proceedings against its 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.

Board evaluation

The Company carries out a full evaluation of Board performance and that of its 3 principal Committees annually. As indicated in its 2015 report, the Board decided to commission an external evaluation for 2016. Accordingly, external evaluators, Equity Communications, were appointed after a competitive tender process to conduct the 2016 Board evaluation. Equity Communications have no other connection with the Company. The evaluation was carried out using a questionnaire, followed by one-to-one interviews with each of the Directors and the Company Secretary. The questionnaire was designed to stimulate thought and discussion rather than to deliver scores, and included questions about the effectiveness of Executive and Non-Executive Directors, and the performance of the Chairman. The Senior Independent Director separately reviewed the Chairman's performance with other Non-Executive Directors. The results of the evaluation were then reviewed by the Chairman and the Company Secretary and discussed by the Board. The Board also reviewed progress against the priorities identified for 2016 from the 2015 evaluation process.

The Board welcomed the independent assessment provided by Equity Communications, which confirmed that the Board was working very effectively and that there was a good level of challenge and support. The evaluation also demonstrated that the internally-led Board evaluation process in previous years had been successful in improving Board effectiveness. The Board expects to return to an internally-led process in 2017.

Board meetings and attendance

	Board	Audit Committee	Remuneration Committee	Nomination Committee
Andrew Allner (Non-Executive)	7/7	–	4/4	2/2
Janet Ashdown (Non-Executive)	7/7	4/4	4/4	2/2
Jack Clarke	7/7			
Martyn Coffey	7/7			
Alan Coppin (Non-Executive)	3/7	1/4	2/4	1/2
Mark Edwards (Non-Executive)	7/7	4/4	4/4	2/2
Tim Pile (Non-Executive)	7/7	4/4	4/4	2/2

The Board met 7 times in full session during 2016. In addition, the Audit Committee met 4 times, the Remuneration Committee met 4 times and the Nomination Committee met twice during the year. There were also Board Committee meetings in connection with the issue of financial results, and the updating of Group banking details.

The Chief Executive and the Finance Director are usually invited to attend Audit Committee meetings, although the Audit Committee also meets the auditor without any Executive Director being present. The Chief Executive is invited to attend Remuneration Committee meetings where appropriate. The Company Secretary is also Secretary to the Board Committees and attends meetings for this purpose.

Alan Coppin retired from the Board in May 2016 and attended all meetings up to the date of his retirement. In 2017 there are 7 Board, 4 Audit Committee, 4 Remuneration Committee and 1 Nomination Committee meetings scheduled, with an additional day set aside for strategy. Outside this formal Board schedule, Board members are expected to participate in site visits, and are invited to other events such as the Group's two-day annual management conference.

How we assess our performance, prospects and viability

The Group has in place 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, as appropriate, 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.

The Board reviews at each regular Board meeting the monthly financial results, 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 and discusses medium and long-term strategy on a regular basis and meets at least annually with the Executive Committee to review strategy. It also holds separate meetings with individual members of senior management to ensure the Board receives regular updates 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 historic 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 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 acknowledges its responsibility for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives, and for the Group's system of internal control. The Board has during 2016 carried out a review of the effectiveness of the Group's risk management and internal controls systems covering all material controls, including financial, operational and compliance controls. The Strategic Report comments in detail on the nature of 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. In conducting its review, the Board has included a robust assessment of these risks, particularly operational risks that might affect the assessment of the Group's viability. The Board's risk review also incorporates an element of 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 in the business and its prospects. The Audit Committee Report describes the internal control system and how it is 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.

Relations with shareholders

The Board places great emphasis on good communications with 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, and also periodically arrange site visits for investors. Reports of these meetings and any shareholder communications during the year are provided to the Board. During 2016, 103 such meetings were held, at which 72 of the Group's institutional shareholders were represented. This approach ensures the views of major shareholders are understood by all Directors.

The Board also regularly receives copies of analysts' and brokers' briefings. The Chairman is available to meet major shareholders on request to discuss governance and strategy. The Senior Independent Director is also available to meet shareholders separately if requested. When appropriate, the Non-Executive Directors attend meetings or site visits with major shareholders and would be available to meet major shareholders if a meeting were requested.

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-yearly Reports, together with the Marshalls website, are substantial means of communication with all shareholders during the year.

Annual General Meeting

The Notice of Annual General Meeting is dispatched to shareholders, together with explanatory notes or a circular on items of special business, at least 20 working days before the meeting. It is the Company's practice to propose separate resolutions on each substantially separate issue, including a resolution relating to the 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 Chairs of the Audit, Remuneration and Nomination Committees, 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 forms provide 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 results of a vote make it clear that a "vote withheld" is not a vote in law and will not be 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.

Andrew Allner, Chairman
15 March 2017