



Marshalls

Creating Better Spaces

Corporate Governance Statement

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 on pages 50 to 86, seeks to demonstrate our commitment to high standards of governance that are recognised and understood by all.

During 2019:

- we have increased employee and stakeholder engagement in decision making through more regular and transparent consultation, interaction and reporting;
- our customer experience initiative has put customers at the core of our business with measurable improvements; and
- we have continued to invest in our people and our products, with a strong commitment to ethical and sustainable business through The Marshalls Way and our Code of Conduct.

In 2020 we will:

- invest responsibly to serve the interests of our stakeholders in the widest sense;
- further improve the sustainability of our products and services by reducing our net contribution to emissions; and
- continue our focus on people and culture through better communications, increased work on safety (particularly in newly acquired businesses) and strong succession and development programmes with a clear diversity agenda.

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. Our Strategic Report explains how we seek to fulfil our purpose, how this is supported by our policies and procedures and our approach to key risks.

The reports of our Board Committees give further detail on how our policies and processes have been applied and developed during the year in particular areas and how this relates to our values and strategy. We have focused on engagement and

operational improvement, aligning and developing our recruitment, 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

An evaluation of the performance of the Board and its Committees was conducted in 2019 by external evaluator Independent Audit, using a combination of its “Thinking Board” online questionnaire and tailored additional support to ensure that issues identified in the Board’s 2018 evaluation were appropriately followed up during the year.

Board evaluation – 2019 process

- Independent Audit was appointed in July 2019 to conduct an external review of Board and Committee effectiveness. Independent Audit is an independent third party professional organisation with no other connection to the Company. The review was conducted using its online assessment service, Thinking Board;
- Questionnaire was adapted to reflect Board priorities and areas that had previously been identified for focus;
- Questionnaire was circulated to all Board members in September 2019;
- Responses were received and analysed in October 2019;
- Independent Audit attended the October 2019 Board meeting to present the findings and discuss conclusions; and
- Board reviewed progress against enhancement actions from 2018 evaluation and agreed actions and priorities for 2020 (December 2019 / January 2020).

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, and we are committed to equality within our business and in our dealings with other organisations. These policy principles are embodied in our Code of Conduct and are supported by policies and procedures designed to attract and retain talent from the widest range of applicants. 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. More recently, our Employee Voice engagement initiative is intended to ensure employees are able to contribute to the development of opportunities and the embedding of our positive values across the business.

As a Board, we recognise that this is a process that will take time to become embedded. Having set the direction, the Board is fully engaged with the initiatives to deliver an ambitious “people” programme as part of our 5 year Strategy. While there is much work to do to achieve true gender and diversity balance, there is a clear commitment to this programme, with a strong management team performing to measurable objectives that we expect to develop further in 2020. The Remuneration Report contains details of our gender ratios and gender pay gap data and the Nomination Committee Report explains in more detail how we implement our policy in relation to recruitment and succession planning and how we aim to achieve improvements.

Sustainability, ethics and climate change

Marshalls has shown leadership in its well-documented and clear commitment to high standards of ethical and sustainable business over many years. It was the first company in its sector to publish the carbon footprint of its UK-manufactured products, and the first UK manufacturer to become a signatory to the UN Global Compact. It published its first Modern Slavery Statement in 2017 and works with Government and reputable NGOs to ensure that the principles in this statement are applied throughout its supply chain and its customer base. New products are developed with a view to reducing carbon footprint through lower non-sustainable energy use in production processes, increasing the proportion of recycled materials, and responding to environmental needs: for example, better water management, or improving the protection of urban populations. The Board regards environmental sustainability as a key element of its purpose as well as being a core value, and this remains at the forefront of its strategic plans. Further information is set out in the Sustainability Report.

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.

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Role of the Board

The Board currently comprises an Independent Non-Executive Chair, 4 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.

The Board delegates specific responsibilities to the Audit, Remuneration and Nomination Committees. The Audit Committee Report on pages 52 to 54 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 2019. The Remuneration Report also provides gender pay and balance information. Ad hoc Board Committees are established for particular purposes: for example, during 2019 Board Committees were established to approve preliminary and half-year 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 (comprised of 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.

Leadership and purpose

The Board has reviewed its purpose against the UK Code principles during 2019. Delivering long-term sustainable success is a key focus of the strategic plan, and in setting strategy the Board has ensured that the needs of shareholders, stakeholders and wider society have all been fully reflected in the priority areas. The Company continues to make progress in defining the desired culture and identifying the action plans designed to promote and embed this. The Board has been involved with the work on culture as well as re-evaluating purpose and values, and has engaged with the Group HR Director in relation to a number of initiatives introduced during 2019 designed to promote the culture and values of the business as well as ensuring they are aligned with strategy.

There are clear and measurable KPIs to monitor objectives and the Board receives regular updates from Executive Directors in relation to these. The Risk Register is reviewed at least twice yearly. The Board receives periodic reports from the internal auditor on a range of matters identified each year that are approved by the Board.

The Board engagement with shareholders and employees has been reinforced in 2019 through (i) a regular series of scheduled meetings with major shareholders, and (ii) the introduction of Employee Voice forums attended by employees from all levels of the business and the designated NED. The Board has been involved in both setting objectives and measuring response through Board reporting and individual Executive presentations.

The Board has received detailed briefings on recruitment and reward strategy, personal development and succession planning, and alignment of these with the strategic objectives of the Group, also linked closely to culture and fairness principles. A structured and regular reporting format has been introduced in relation to HR strategy which enables the Board to monitor workforce policies and practices throughout the year.

Conflicts and concerns

The Board maintains a conflicts register that identifies situations in which conflicts may arise, and 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.

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 system operated by external specialists, through which concerns may be reported anonymously if preferred. The Board 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.

Board composition, succession and evaluation

There is a transparent and formal process for appointments led by the Nomination Committee 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. The policies and process are commented on further in the Nomination Committee Report.

We believe our Board has a good combination of skills, experience and knowledge. The Board reviews each year its own composition and assesses whether the current skills, experience and knowledge are aligned with the Group's strategy and expected future leadership needs. The Board acknowledges the benefit of refreshment and has a clear succession plan designed to ensure that Board members' terms expire or they retire over clearly defined periods, normally not exceeding 9 years. There is an annual effectiveness review which was conducted in 2019 by Independent Audit (as referenced in the Chair's introduction).

All Directors stand for re-election at every Annual General Meeting, and all current Directors except for Tim Pile will stand for re-election or election at the 2020 Annual General Meeting. 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.

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. 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. The Board has reviewed the overall effectiveness of risk

management and internal controls, covering all material controls. The Strategic Report comments in detail 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 longer term. The Board's risk review covers emerging risks and 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 Board reviewed the Group's risk management system and the system of internal control at risk review meetings in May and November 2019; the Risk Register was reviewed by the Audit Committee in December 2019 and the Non-Executive Directors carried out a risk review in October 2019 the outcome of which was incorporated into the Risk Register.

The Audit Committee Report 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 misstatement or loss.

Remuneration

The current Remuneration Policy was last approved by shareholders in 2017, and a revised Policy will be submitted for approval at the Annual General Meeting in May 2020. The Directors' Remuneration Report contains the 2020 Policy, which has been prepared taking into account the UK Code and the views expressed during a detailed consultation process with the Company's top 20 shareholders and with external voting agencies. The Remuneration Report also gives details of how the current Policy has been applied, how the Remuneration Committee has carried out its responsibilities during the year and the remuneration practices and outcomes.

Vanda Murray OBE

Chair

12 March 2020