GOVERNANCE

CHAIRMAN'S GOVERNANCE OVERVIEW

The importance of considering a **company's responsibilities to a broad stakeholder group** has long been core to the M&S culture, values and decision making processes.

ROBERT SWANNELL CHAIRMAN

As I highlighted earlier in this report, this has been a year of considerable change for the Company. With the appointment of Steve Rowe as CEO, the Board undertook a comprehensive review of all aspects of the business to ensure clarity around our customers and our brand positioning, our strategy and business model, our people, our store portfolio, our offices and our assets.

This review, and the Board debate throughout the year, resulted in a number of significant decisions for the business. The Board was acutely aware that these would affect a broad range of our stakeholders. While we sought to ensure that our decisions were taken in a way that was fair and consistent with our values, we recognised the importance of balancing these with the need to support the long-term future of the business. The Board recognised that the consequences of its decisions would lead to significant adjustments to the business and to our financial position this year, but we believe that these were essential to re-establish the foundations of the business to deliver sustainable performance and build an organisation that is fit and relevant for the longer term. The Board and Audit Committee's debate and associated judgements are covered on pages 40-41 and 48-51 of this report.

BOARD ACTIVITIES AND CONSIDERATION OF ALL STAKEHOLDERS

The tenets of Lord Sieff's words about the importance of considering a company's responsibilities to a broad stakeholder group, which I quoted earlier in the report and which pre-date by decades the s.172 directors' duties of the Companies Act 2006, have long been core to the M&S culture, values and decision-making.

These were particularly evident in our deliberations around the introduction of an M&S living wage and the ambition to deliver fairer pay for our store colleagues in a way that was true and relevant to M&S. This led us to go beyond the National Living Wage and establish ourselves as one of the best employers in the market. We had significant debate around the closure of the long-standing defined benefit pension scheme, but recognised that this was critical to ensure a fairer reward framework for all our colleagues.

We spent a lot of time considering the consequences of the closures within our international businesses to ensure we could establish a structure and format which would be stronger and more relevant for our customers and markets, and a more profitable business with foundations for growth. We also reviewed the configuration of our UK store estate to ensure we could establish a footprint to meet future customer needs. We debated the necessary changes and restructuring within our offices to support our future plans. In each such discussion, the Board carefully considered the impact of its decision on our teams, our customers, the communities in which we trade, our shareholders, our supply base and our Plan A aspirations.

EMPLOYEE AND RETAIL SHAREHOLDER VOICE

We are pleased to have established regular Board sessions for employee insight. The feedback provided during our dedicated Board sessions by the chairs of both the Business Involvement Group ('BIG'), which represents the interests of all our 85,000 colleagues across the business, and of our Defined Benefit Pension Scheme, was invaluable in ensuring the Board was able to fully consider the views of these vital stakeholders through the period of change. We were grateful for their candid and open feedback, which enabled the Board to appreciate fully the potential impact on those affected.

We also trialled our first Private Shareholder Panel. The objective was to give our private shareholders additional access and information, as is provided to our major institutional shareholders. The candour and insights provided by these panel discussions were helpful in ensuring we were listening to this important stakeholder group. The success of these trial panels led to the formal launch of our Private Shareholder Panel, which will form an active part of our stakeholder engagement programme. Details on this and our broader stakeholder engagement are provided on pages 44 to 45. This illustrates how we have considered, listened and engaged with all these stakeholders.

RISK AND CONTROLS

The progress made on our risk debate and understanding of risk appetite in previous years helped ensure the Board's decision-making was supported by the right discussions and considerations. The enhanced level of risk debate and greater involvement of the Operating Committee was also critical in ensuring that appropriate monitoring and mitigations were embedded to support the proposals under discussion.

The Board spent time debating the market environment and the potential impact of the vote to leave the European Union. It continues to assess the implications of Brexit for our customers, communities and the business, and the impact of currency movements on the business and our supply base.

We also undertook a thorough review of our cyber environment to ensure that we have appropriate data and information governance processes and controls, ecommerce defences, proactive security and strong incident management processes across the business. While the Audit Committee will continue to monitor business processes and provide assurance over controls, the Board considers data governance and cyber to be so significant that it will review this at least twice a year.

TALENT, DEVELOPMENT AND SUCCESSION

In addition to the strategic debate, the Board and Nomination Committee also focused on ensuring we had the right talent in our business to support our plans. Senior succession discussions have long featured on the Board agenda, but we took this substantially further this year to include a comprehensive review of our people capabilities and specific development needs against the future requirements of our business. The Board reviewed assessments for over 100 of our senior leaders in the business and discussed their leadership qualities, strengths, areas for development, and medium and long-term succession plans to ensure that we have the right skills, career paths and understanding of our talent to support our future business growth.

As highlighted earlier, following the appointment of Steve Rowe as CEO and the announcement of our plans to build a simpler and more relevant M&S, I considered it was the right time to deal with my own succession and for the business to appoint a new Chairman. So, in December 2016, I informed the Board that I intended to retire as Chairman during 2017 after six years in the post.

I am grateful to Vindi Banga, our Senior Independent Director, for leading such a rigorous process for the Nomination Committee to appoint my successor. We are delighted that Archie Norman will succeed me in September 2017. Overviews of the recruitment process undertaken by the Nomination Committee and the induction programme being undertaken by Archie are provided on page 39. This programme is extremely comprehensive and will ensure that he has an extensive insight into our business, our colleagues and stakeholders prior to taking up his appointment as Chairman.

When I joined M&S as Chairman I made it clear that I regarded effective succession planning as a vital responsibility for both me and the Board. I am delighted that with Steve and Archie's appointments this aspect has been successfully achieved in a rigorous way. I know that succession planning and the development of talent at M&S will remain very high priorities of the Board.

BOARD OVERSIGHT AND MONITORING

The Audit Committee played a key role in ensuring that there was appropriate challenge and governance around the accounting treatment of the decisions taken in the year and ensuring robust risk management, controls and assurance processes were in place. The Committee continues to closely monitor the management of our cyber and data governance processes, health and safety and business continuity plans for our UK and international operations. The Committee's activities, considerations and judgements are set out on pages 48 to 50.

Fairness and pay has featured strongly in the Board's debate this year. To support leadership and talent within our business, the Remuneration Committee has reviewed our remuneration framework, measures and targets. This review was particularly topical given the Business, Energy & Industrial Strategy (BEIS) Green Paper on corporate governance reform earlier in the year. The Committee held a number of discussions with shareholders on framework design during the year. It also reviewed and updated the Remuneration Policy to ensure it remains both in line with best practice and relevant to our business. It will be put forward for formal shareholder approval at the AGM in July 2017. The Committee's activities and its considerations on remuneration, along with our Remuneration Policy, are outlined in detail on pages 54 to 78.

In line with the requirements of the Corporate Governance Code, the Board was independently evaluated during the year. We were pleased that, overall, the Board has made significant progress since the last external review in 2015, especially in relation to the quality of Board debate and decision-making, Board papers and process. The findings of the review and the action plans for the year ahead are set out on page 42 of this report.

We have had to take some bold and tough decisions to ensure M&S is set up for the future. The Board made these changes as they are the right and relevant thing to do. From a strong core set of well-established timeless values, we have sought to ensure fairness, integrity and rigour with each decision for all our stakeholders. We recognise that the business has had to deliver a significant scale of change this year, but the feedback from our stakeholders and the early progress we are seeing encourages us to continue to be bold, confident, remain on the front foot, and embrace the challenges ahead.

ROBERT SWANNELL CHAIRMAN

THIS REPORT'S KEY FEATURES

Over the next few pages we look at the Board, its role, performance and oversight. As in previous years, we provide detail on the Board activities and discussions during the year (pages 41 and 42), the actions arising from these and the progress made against them. We also provide insight on: director independence; effectiveness and our Board evaluation; succession planning; and induction and ongoing development.

Governance at M&S is an important element of our Board environment. To support how we do business and how we serve our stakeholders it needs to be relevant, authentic and meaningful. In line with previous years, we have used the key themes of the Code to articulate the Board's activities during the year:

- → **Leadership and effectiveness** – pages 36 to 43 and 46 to 47.
- → **Accountability** – pages 30 to 33 within the Strategic Report and pages 48 to 52 in the Directors' Report.
- → **Our stakeholders: how we listen and engage** – pages 44 to 45.
- → **Remuneration** – pages 54 to 78.

Information on the governance of our Pension Scheme is provided on page 53.

The required governance and regulatory assurances are provided throughout this report reflecting their relevance to the business. We provide insight into how governance supports and protects the M&S business and our stakeholders in a practical way. Where information would previously have been located within the Directors' Report, and has now been incorporated into the Strategic Report, a list of page references is available within the 'Other Disclosures' section on page 79.

Every year we review and benchmark our Governance Framework against best practice. The framework sets out the roles, accountabilities and expectations for our directors and our structures. This format has been adopted widely across the business and can be viewed at **marksandspencer.com/thecompany.**

UK CORPORATE GOVERNANCE CODE

The UK Corporate Governance Code 2016 (the "Code") is the standard against which we measured ourselves in 2016/17. A copy of the Code is available from the Financial Reporting Council's website.

We are pleased to confirm that we complied with all of the provisions set out in the Code for the period under review.

To keep this report interesting and engaging, we continue to focus on the key insights from the business; however, further detail on how we comply with the Code can be found in our Corporate Governance Statement, available at **marksandspencer.com/thecompany**.

GOVERNANCE SUMMARY

Our compliance with key areas of the Code is summarised as follows:

- → **Independence** Over half of our Board comprises independent non-executive directors and the composition of all Board Committees complies with the Code.
- → **Senior Independent Director** Our Senior Independent Director is Vindi Banga.
- → **Accountability and election** Clear separation of duties between Chairman and CEO roles, all the directors are to stand for annual re-election.
- → **Evaluation** An externally facilitated performance evaluation of the Board and its Committees was undertaken during the year.
- → **Attendance** The directors have all attended an acceptable level of Board and Committee meetings.
- → **Experience** The Audit Committee chairman met the specific requirements with regard to recent and relevant financial experience throughout 2016/17.
- → **Auditor tenure** We changed our auditor in 2014/15, following a thorough tender process.
- → **Non-audit policy** This is disclosed on our website, along with the limited non-audit work undertaken during 2016/17.
- → **Auditor appointment** We disclose our external auditor appointment policy on our website.
- → **Internal Audit** Details on the Internal Audit function are provided within this report.
- → **Performance-related pay** A significant part of performance-related pay is delivered through shares. Our reward framework is simple, transparent and designed to support and drive our business strategy.

LEADERSHIP AND EFFECTIVENESS

OUR BOARD

The Board is responsible for the stewardship of the Company, overseeing its conduct and affairs to **create sustainable value** for the benefit of its shareholders.

CHAIRMAN

N R

Robert Swannell
Chairman

Appointed:
Chairman in January 2011, Non-Executive Director in October 2010

Skills, competence and experience:
Robert is a chartered accountant and a Barrister. He has extensive government and regulatory experience and possesses a wealth of knowledge of many different business areas, banking and the City, acquired over a 33-year career in investment banking. He has significant experience as a director and chairman across various sectors, and his leadership in the area of governance promotes robust debate and drives a culture of openness in the boardroom. Robert will retire from the Board on 1 September 2017.

Other roles: Chairman of UK Government Investments, Director of the Investor Forum, Trustee of Teach First, Advisory Board Member of Sutton Trust and Spencer Stuart.

EXECUTIVE DIRECTORS

Steve Rowe
Chief Executive

Appointed:
Chief Executive in April 2016

Skills, competence and experience:
Steve joined M&S in 1989 and progressed through a variety of roles within store management before moving to Head Office in 1993. He has worked in senior roles across various areas of the business, including Director of Home, Director of Retail, and Director of Retail and Ecommerce. He was appointed to the Board as Executive Director, Food in 2012, moving to the role of Executive Director, General Merchandise in July 2015. He was appointed as CEO on 2 April 2016. During his first year in the role he has laid solid foundations for a more relevant, customer-centric M&S, including the repositioning of Clothing & Home and the continued growth of Food. More information about Steve's work during the year can be found in the Chief Executive's Strategic Update starting on page 8.

Helen Weir
Chief Finance Officer

Appointed:
April 2015

Skills, competence and experience:
Helen is a qualified accountant, with over 25 years' experience in the finance and retail sectors. She brings substantial strategic financial experience and a wealth of significant retail and consumer experience to the Board. Helen has strong listed company experience having been Group Finance Director, Executive Director and Non-Executive Director on the Board of a number of major companies. Helen is a Fellow of the Chartered Institute of Management Accountants and was awarded a CBE for services to Finance in 2008.

Other roles: Trustee of Marie Curie, Non-Executive Director of the Rugby Football Union.

Patrick Bousquet-Chavanne
Executive Director, Customer, Marketing & M&S.com

Appointed:
July 2013

Skills, competence and experience:
Patrick brings over 25 years of extensive experience in the consumer goods industry. His valuable strategic insight is supported by his experience in developing and marketing brands globally and broad knowledge of enhancing business performance and customer experience in a multi-channel environment. Patrick played a key role in creating the new Masterbrand marketing strategy across Food and Clothing & Home, and continues to lead the digital transformation of M&S and the global growth of M&S.com. Patrick assumed overall responsibility for Customer Experience, M&S.com and Plan A in May 2016.

Other roles: Non-Executive Director of Brown-Forman Inc.

INCOMING CHAIRMAN

Archie Norman
Chairman Designate

Proposed appointment date:
1 September 2017 Archie brings a breadth of experience with an extensive track record in retail and brands. He was instrumental in transforming a number of major British businesses including Kingfisher, Asda and Energis. Archie is an experienced chairman and board director having served as Chairman of ITV, Lazard, and Hobbycraft and Deputy Chairman of Coles Limited. In 2016 he was appointed by the Department for Business, Energy & Industrial Strategy as its Lead Non-Executive Board member. Further information about Archie's skills, experience and suitability for the role of Chairman can be found under 'Succession & Induction' on page 39.

Other roles: Adviser to the Board of Wesfarmers Limited, Director of Target Pty Limited, Chairman of Lazard and Hobbycraft, Deputy Chairman of Coles Limited, Lead Non-Executive Board Member of BEIS.

KEY TO COMMITTEES

- (A) Audit
- (N) Nomination
- (R) Remuneration
- ● Committee Chair

Full biographical details of each director are available on **marksandspencer.com/thecompany**

FIND OUT MORE

See p43 for Governance and Board structures

See p40-41 for Board activities in 2016/17

See p43 for Board roles and responsibilities

INDEPENDENT NON-EXECUTIVE DIRECTORS

Vindi Banga
Senior Independent Director

Appointed:
Senior Independent Director in March 2015, Non-Executive Director in September 2011

Skills, competence and experience:
Vindi has extensive consumer brand knowledge and global business experience, acquired over 33 years in senior roles within the consumer goods industry. His in-depth knowledge of UK and international trade and industry provides valuable insight into business and enterprise across the globe. He has strong experience as a board member of other listed companies and is the recipient of the Padma Bhushan, one of India's highest civilian honours.

Other roles: Partner at Clayton Dubilier & Rice, Director of Kedaara Capital Investment Managers Ltd, Kedaara Capital I Ltd and Kedaara Holdings Ltd, Non-Executive Director of Thomson Reuters and GSK, Chairman of the Mauser Group and the CBI's Economic Growth Board, member of the Governing Board of the Indian School of Business.

Miranda Curtis
Non-Executive Director

Appointed:
February 2012

Skills, competence and experience:
Miranda's substantial experience of the international consumer and technology sectors, and extensive knowledge of global industry, provides a valuable contribution to the Board. During her 20-year career with Liberty, Miranda led the company's investments in digital distribution and content operations across continental Europe and Asia-Pacific, most notably in Japan. Miranda will retire from the Board on 1 February 2018.

Other roles: Non-Executive Director of Liberty Global plc, Lead Non-Executive Director of the Foreign and Commonwealth Office, Trustee of the Institute for Government, Deputy Chair of the Royal Shakespeare Company, Deputy Chair of Garsington Opera, Chair of African girls' education charity, Camfed.

Andy Halford
Non-Executive Director

Appointed:
January 2013

Skills, competence and experience:
A chartered accountant, Andy has a strong finance background and significant recent and relevant financial experience gained from CFO positions in global listed companies. His extensive knowledge of the UK and international consumer market provides the Board with valuable strategic insight. Andy is a member of the Business Forum on Tax and Competitiveness and a Fellow of the Institute of Chartered Accountants in England and Wales.

Other roles: Chief Financial Officer of Standard Chartered plc.

Alison Brittain
Non-Executive Director

Appointed:
January 2014

Skills, competence and experience:
Alison brings extensive financial and commercial experience to the Board, combined with considerable knowledge of running large-scale consumer businesses. She is Chief Executive of hospitality group Whitbread, and was Group Director of Lloyds Banking Group's Retail Division until July 2015. She has held a number of senior positions in the financial sector, particularly in retail, and has valuable regulatory insight. Alison has an MBA from Cambridge University's Judge Institute.

Other roles: Chief Executive of Whitbread plc, Trustee of the Prince's Trust Council.

Richard Solomons
Non-Executive Director

Appointed:
April 2015

Skills, competence and experience:
Richard brings strong commercial, financial, consumer, branding and global experience to the Board. His extensive international retail and consumer experience, plus his role as CEO of a global business, provide valuable insight. Richard has held a number of senior roles at IHG and is currently Chief Executive Officer, a role from which he will retire on 1 July 2017. Richard was integral in shaping and implementing IHG's asset-light strategy, which has helped the business grow significantly since it was formed in 2003, as well as supporting the return of $12.8bn to shareholders.

Other roles: Chief Executive Officer of IHG (retiring 1 July 2017), Governor of the Aviation, Travel and Tourism Industry Community of the World Economic Forum, Member of the Industry Real Estate Financing Advisory Council.

Andrew Fisher
Non-Executive Director

Appointed:
December 2015

Skills, competence and experience:
Andrew has substantial experience of the international consumer and technology sectors and has led the successful growth of a number of technology-focused enterprises over the past 19 years. He is Executive Chairman of Shazam Entertainment Limited, having previously served as Chief Executive Officer since 2005. Prior to that, Andrew was European Managing Director of Infospace Inc (now Blucora) and founder and Managing Director of TDLI.com. He was a member of the Advisory Board to the Secretary of State for the Review of the BBC Charter and was awarded an OBE for services to the Digital Economy in 2016.

Other roles: Executive Chairman of Shazam Entertainment Limited, Non-Executive Director of MoneySupermarket.com Group plc.

RETIREMENTS IN 2016/17

Laura Wade-Gery
Executive Director, Multi-channel

Retired:
12 September 2016

Laura stepped down from the Board after five years of service during which she was instrumental in the improvement and modernisation of our ecommerce and multi-channel capabilities.

GROUP SECRETARY

Amanda Mellor
Group Secretary and Head of Corporate Governance

Appointed:
July 2009

OUR BOARD CONTINUED

BOARD COMPOSITION, ROLES AND ATTENDANCE AS AT YEAR END

CHAIRMAN	ATTENDED	MAX POSSIBLE	INDEPENDENT	RESPONSIBILITY IN 2016/17	LINKED TO REMUNERATION
Robert Swannell	9	9		Board governance and performance, shareholder engagement	
EXECUTIVE DIRECTORS					
Chief Executive Steve Rowe	9	9		Strategy and Group performance	✓
Chief Finance Officer Helen Weir	9	9		Group Financial Performance, Property, IT and Clothing & Home distribution	✓
Executive Director Patrick Bousquet-Chavanne	9	9		Customer, Marketing and M&S.com	✓
Executive Director Laura Wade-Gery	N/A	N/A		Laura was on maternity leave from September 2015 and was therefore not expected to attend Board meetings during this time. She retired from the business in September 2016.	
NON-EXECUTIVE DIRECTORS					
Vindi Banga	9	9	✓	Independent non-executive directors assess, challenge and monitor the executive directors' delivery of strategy within the risk and governance structure agreed by the Board. As Board Committee members, they also review the integrity of the Company's financial information, recommend appropriate succession plans and monitor Board diversity.	
Alison Brittain	9	9	✓		
Miranda Curtis	9	9	✓		
Andrew Fisher	9	9	✓		
Andy Halford	9	9	✓		
Richard Solomons[1]	8	9	✓		

This table provides details of scheduled meetings held in the 2016/17 financial year.

1. Richard Solomons was unable to attend the meeting on 20 May due to personal commitments which had been booked prior to the meeting being rescheduled for this date.

See **Board Activities** on p40-41

BOARD MEETINGS

The Board held nine scheduled meetings during the year, and individual attendance is set out above. Sufficient time is provided at the start and end of each meeting for the Chairman to meet privately with the Senior Independent Director and the non-executive directors to discuss any matters arising.

INDEPENDENCE OF DIRECTORS

The Board reviews the independence of its non-executive directors as part of its annual Board Effectiveness Review.

The Chairman is committed to ensuring the Board comprises a majority of independent non-executive directors who objectively challenge management, balanced against the need to ensure continuity on the Board.

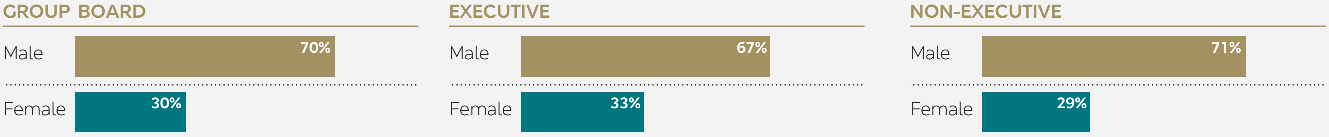
None of the non-executive directors has served more than six full years on the Board.

The Board considers that all of the non-executive directors bring strong independent oversight and continue to demonstrate independence. The Board recognises the recommended term within the UK Corporate Governance Code. It is mindful of the need for suitable succession, and therefore maintains a clear record of the time each non-executive has served the Company and the skill set that each provides.

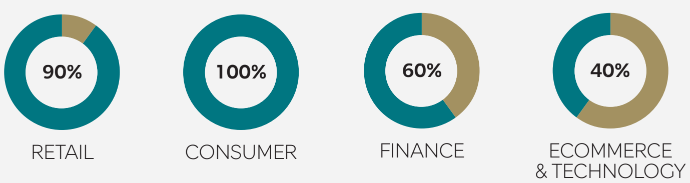
See **details and experience of each director** on p36-37

BOARD DIVERSITY

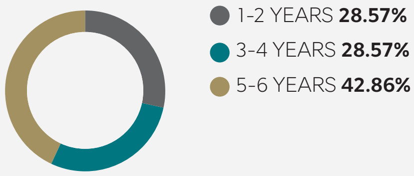
GENDER DIVERSITY 1 April 2017 (as at year end)



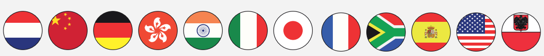
SECTOR EXPERIENCE



NON-EXECUTIVE DIRECTOR TENURE



INTERNATIONAL EXPERIENCE



LEADERSHIP AND EFFECTIVENESS

SUCCESSION & INDUCTION

CHAIRMAN RECRUITMENT

In December 2016 we announced that, after six years in the role, Robert Swannell intended to retire from the business in 2017. Robert committed to continue in his role until his replacement had been identified and had joined the business.

Following this announcement we commenced the process to recruit and appoint a new Chairman. The search was undertaken by the Nomination Committee (the "Committee") and led by myself as the Senior Independent Director. Steve Rowe was fully involved in the entire process.

The Committee had a number of discussions to scope out the key skills, experience, characteristics and requirements for the role. We then invited a selection of recruitment firms to participate in a selection process focusing on a series of key questions in order to identify the appropriate executive recruitment consultants to support our search. We received very thorough and comprehensive responses from each firm and, following further discussions, selected JCA. Aside from assisting with recruitment, JCA has no other connection to the Company.

Given the public profile of M&S the Committee did not consider it necessary to use open advertising for this role. The announcement of Robert's retirement had been made to the market in December and interested parties were able to contact either myself or other Committee members.

A structured timetable was adopted for the process and regular Committee discussions and updates held throughout. From a detailed understanding of our requirements and specification of the role, JCA put together an extensive range of potential candidates for the Committee's consideration. After much debate, this was narrowed down to a strong short list for interview. Shortlisted candidates met with the same members of the Committee to ensure consistency. Steve Rowe also spent significant time with the final candidates.

The Committee members and Steve were unanimous in their final selection of the new Chairman.

On 5 May 2017 we were pleased to announce the appointment of Archie Norman as Non-Executive Chairman with effect from 1 September 2017. Archie was an ideal match to our requirements for a strong retail background and significant board experience. He is one of the UK's most respected business leaders, with a proven track record in retail and business. He has been on the board of public companies on and off since 1986, when he became finance director of Kingfisher at the age of 32. He went on to gain experience as both a CEO and chairman of a number of well known listed companies including Asda and, more recently, ITV. The Committee believes he is well placed to support Steve and the team as they deliver the plan that is already underway.

VINDI BANGA SENIOR INDEPENDENT DIRECTOR

CHAIRMAN INDUCTION PROCESS

STAGE 1 Understand the M&S business → **STAGE 2** Understand the M&S environment → **STAGE 3** Meet the M&S teams → **STAGE 4** Visit the M&S operations

Stage 1. Company structure and strategy: including Group structure, history, strategy, vision, key people, succession plans; Board procedures including governance framework and Code of Ethics and Behaviours; Board Committees, calendar, minutes, Board effectiveness reviews and action plans; finances and performance, operating plans, current KPIs and targets, operational overview of all business areas key relationships including suppliers and major contracts; Group Risk Profile and our approach to risk.

Stage 2. Industry and competitive environment: including customer trends; consumer and regulatory environment including governance and all relevant consumer and industry bodies, CSR environment and sustainability. **Sentiment and reputation:** including brand positioning and media profile; marketing campaigns; brand values; analyst and investor opinion, review of investor surveys, share register and voting history; key stakeholder relations including employees, customers, suppliers, service providers, opinion leaders; an overview of our remuneration policy and pensions.

Stage 3. Archie's programme will be supported by one-on-one meetings with management from Clothing & Home, Food, M&S.com, International, Retail, Finance, Property, Plan A, Marketing, Customer Insight Unit, Human Resources, Communications and Investor Relations, Internal Audit & Risk, Pensions, the Company Archive and the Governance Group.

Stage 4. He will visit a number of our stores with the Retail team as well as our distribution centre with the Logistics team. He will also meet with key investors and suppliers.

SENIOR SUCCESSION

The Operating Committee recently undertook a full talent and succession review of the top 120 senior roles within the business, plus the succession planning in place for these roles. As part of this, a benchmarking review was undertaken by Korn Ferry* for all relevant individuals.

This supported our talent agenda by providing:

- A thorough benchmarking exercise of our talent versus the external market.
- Additional feedback and insights for all senior individuals which, combined with our perspectives, are leading to robust development plans for all our leaders.
- A catalyst for the broader M&S talent agenda, enabling us to adapt and simplify our talent processes for the wider organisation.

This extensive review was discussed by the Board as part of an ongoing drive to provide greater clarity and achieve a common understanding of talent within the business, and to baseline our talent data at a senior level. While it was recognised that there is still some room for improvement before our talent information is a true reflection of our overall talent health, themes are emerging that enable us to strengthen our capabilities in the near term.

Ongoing and effective talent management is key to achieving our strategic and operational objectives and this is clearly recognised by the Board, as reflected in the Risk Management section on page 33.

There is work outstanding to embed some of the identified core talent processes deeply in all parts of the organisation, as the principles of our new way of reviewing talent represent a cultural shift for M&S. These changes, although not always easy to make, are important if we are to create a sustainable, winning organisation.

* Korn Ferry is a market leading company that assists organisations in attracting, engaging, developing and retaining their people.

LEADERSHIP AND EFFECTIVENESS

BOARD ACTIVITIES

TOPIC	ACTIVITIES/DISCUSSION	ACTIONS ARISING	PROGRESS
Strategy	**Discussed strategic priorities across Food and Clothing & Home.**	→ Agree a new three-year plan focused on recovery and growth in Clothing & Home and growth in Food. → Focus on simplifying organisational structure and processes. → Deliver significantly greater focus on customers and drive improvements in our brand position.	→ Three-year strategic plan agreed. → Detailed implementation plans established and robust processes in place to manage and monitor their delivery. → Key risks and opportunities identified.
	Agreed the strategic plan for the UK store estate.	→ Assess the optimisation of the Clothing & Home network, based on practical and deliverable actions. → Deliver improved sales and profitability through enhancing the quality of our UK estate. → Continue to drive Food store roll-out programme.	→ Agreed expedited plan for reconfiguration of Clothing & Home space to be achieved over the next five years. → Agreed necessary actions and costs associated with delivery of the proposed strategy. → Roll-out of c.250 new Simply Food stores by 2019/20.
	Reviewed the Company's International operations and set strategy for the future.	→ Review performance and ownership structure of all International operations. → Retain our position as an international retailer and reaffirm our clear commitment to continued growth in international markets. → Develop strategy to deliver a sustainable International business built on a portfolio of profitable markets.	→ Decision taken to exit loss-making, wholly-owned retail businesses in specific regions, following completion of a thorough consultation process with colleagues in the affected markets. → Agreed the sale of three stores and head office in Romania to an existing franchise partner. → Agreed restructure of current franchise model to increase competitiveness in our chosen markets.
	Discussed the Group's capital structure and financial strategy, including capital investments, shareholder returns and the dividend policy.	→ Assess the medium-term capital and funding structure in light of the three-year plan. → Review the Company's cash flow position, dividend cover and enhanced shareholder returns policy in the context of the wider market and our agreed capital allocation priorities. → Continue investing in the business for growth, underpinned by strong investment disciplines.	→ Discussed the balance sheet strategy, capital efficiency and leverage position of the Group. → Continued strong cash generation and diligent management of costs. → Maintained a strong balance sheet, investment grade credit rating and a progressive dividend policy broadly twice covered by earnings. → Full year ordinary dividend of 18.7p, plus an additional special dividend of 4.6p paid in July 2016. → Shareholder returns programme put on hold during the year.
	Reviewed our technological capabilities and debated future requirements and areas for development.	→ Challenge and develop our current technological capabilities to enable further business growth. → Deliver solutions that build on the strategic investments in technology already made, with greater focus on user experience, simplification and use of more cost-effective technologies.	→ Conducted a full review of the skills, capabilities, systems and supplier landscapes needed to deliver the strategy over the next few years. → Substantial progress made through initiatives focusing on simplification, cost reduction and the future operating model. → Discussed potential risks and mitigating actions.
	Discussed the logistics strategy in Clothing & Home.	→ Consider the broader future of, and anticipated long-term changes to, logistics and distribution and how these might fit with the M&S business model of the future. → Agree plan for the development of the logistics network and infrastructure over the next three years. → Identify opportunities to maximise the potential of the Company's distribution centres, improving service and productivity.	→ All major building projects now complete. → Proportion of product handled through single tier logistics network increased. → Discussed the key initiatives included in the three-year plan, including operating model, systems upgrades and asset utilisation. → Robust challenge and discussion around the logistics network review, including planning processes and the key risks and assumptions made.
Values	**Discussed continued progress and evolution of Plan A.**	→ 107 total Plan A 2020 commitments. → Review progress made in 2016/17 and set priorities for 2017/18.	→ 64 achieved, 6 not achieved. → 25 on plan, 11 behind plan. → 1 commitment cancelled. → Strategic priorities for 2017/18 identified.
	Identified opportunities to improve our organisational culture and ways of working.	→ Ensure the Company has the optimal organisational structure in place to support our business strategy and drive growth.	→ Undertook a review of processes, activities, structures and costs. → Progress made in implementation of Smarter Working workstream to optimise use of office space.
Shareholder engagement	**Encouraged strong engagement with investors and other stakeholders.**	→ Actively support engagement opportunities.	→ Strengthened links between the business and its retail investors through the launch of our Shareholder Panel. → Largest shareholders invited to annual Governance Event hosted by the Chairman. → Reviewed independent report, from Makinson Cowell, covering major investors' views on our management and performance.
	Ensured shareholder feedback was reviewed and considered in advance of the AGM.	→ Specific issues raised by shareholders to be addressed in the Chairman's AGM statement.	→ Key topics raised by shareholders to be communicated together with an update on the Company's progress in these areas.

See **Board Effectiveness** on p42

TOPIC	ACTIVITIES/DISCUSSION	ACTIONS ARISING	PROGRESS
Governance & risk	**Discussed the evolving regulatory environment and the internal governance processes underpinning programmes and initiatives.**	→ Review the Company's internal policies, procedures and controls in respect of market abuse, market manipulation and insider dealing prior to implementation of the Market Abuse Regulation. → Assess controls over internal financial reporting processes to improve information flows. → Review key projects on completion and evaluate the end-to-end delivery process.	→ Internal systems and processes updated in line with new requirements. → Training on the new Market Abuse Regulation conducted at Board level and for employees across the relevant business units. → Identified and implemented enhancements to controls and processes relating to internal financial reporting. → Undertook comprehensive post-implementation reviews of key projects.
	Reviewed progress against the 2016/17 Board Action Plan.	→ Conduct an externally facilitated Board evaluation. → Obtain and evaluate director feedback on the processes, effectiveness and working of the Board and its committees.	→ Discussed the outcome of the Board evaluation conducted by an external facilitator, Ffion Hague of Independent Board Evaluation. → Agreed 2017/18 Action Plan with clear process for ongoing monitoring over the course of the year.
	Half yearly review of Group Risk Profile, covering core internal and external risks, risks driven by business change and areas of emerging risk.	→ Assess the effectiveness of the Group risk process. → Review completeness and ordering of the Group Risk Profile, including key risk movements, and consider appropriate mitigating activities. → Ongoing robust debate around risk tolerance and risk appetite.	→ Agreed a robust set of Group-level risks and mitigating activities, which are regularly monitored. → Debated key changes in risk severity and the relevant contributing factors, redefining as appropriate. → Discussed the potential business impact of Brexit and the possible actions to mitigate the associated risks.
	Reviewed the Company's progress on data governance and cyber security.	→ Review and assess the strength of the Company's cyber security capabilities and potential risks in light of the perpetually changing nature of potential threats.	→ Undertook a comprehensive, externally facilitated assessment of the Company's cyber security risks. → Key areas of risk identified and future priorities agreed. → Updated programme for driving responsible use of data throughout the business.
Customer	**Reviewed progress of Sparks programme and discussed future development.**	→ Review customer perceptions of Sparks against loyalty schemes offered by peers. → Assess overall performance of the scheme and the extent to which it drives customer behaviour. → Determine the overall vision for the future of the programme, including growth prospects and potential future applications.	→ Work underway to ensure the customer insights gathered through Sparks are used to inform future business decisions that generate growth. → Plans in place to further develop and improve the programme.
	Discussed brand and customer proposition.	→ Evaluate insights from customer research and assess recommendations in respect of our brand positioning. → Continue to refine our customer understanding.	→ Key themes emerging from customer and employee research discussed. → Agreed actions to improve customer experience, with emphasis on our brand purpose of Making Every Moment Special.
Leadership & employees	**Discussed succession, talent development and diversity across management.**	→ Review the Board's composition, diversity and succession plans. → Facilitate the smooth succession of the Chairman. → Deliver effective and sustainable management of talent pipelines to ensure the right talent is in the right place at the right time. → Continue to support and encourage the professional development of Board members and senior management to provide them with the skills they need both today and for the future.	→ Women comprised 30% of our Board as at close of the 2016/17 financial year. → Robust succession process for the Chairman completed. → Undertook a comprehensive review of talent and succession among senior management during the year, with clear development plans produced. → Progress made in adapting and simplifying processes for managing our talent pipelines. → Ongoing development initiatives include the Korn Ferry Leadership Development Review, and Development Centres for high potential talent.
	Discussed employee engagement.	→ Promote stronger engagement between the Board and colleagues across the business. → Evaluate the results of the annual Your Say survey from colleagues across the business and identify areas for improvement.	→ Received a detailed update from the National Business Involvement Group (BIG), the Company's employee representative body, on its activities during the year and discussed its role in providing an independent colleague voice. → Discussed colleague sentiment across the business, including key areas of concern and the employee perspective of M&S's future opportunities and risks. → Regular engagement with our people across the business.
	Discussed employee reward and pensions.	→ Implement the agreed arrangements for pay and pensions across the business following the full review initiated during the previous financial year and conclusion of the consultation period.	→ Decision taken to cease future accrual in the Company's defined benefit pension scheme, following a period of consultation with National BIG on behalf of employees. → Determined the Company's future approach to pay with emphasis on fairness, consistency and sustainability, following a period of consultation with National BIG.

LEADERSHIP AND EFFECTIVENESS

BOARD EFFECTIVENESS

This is a period of crucial and profound change for the business and it is heartening to see how committed the Board is to effecting change.

ROBERT SWANNELL, CHAIRMAN

BOARD EVALUATION

The assessment of the Board was conducted according to the guidance in the UK Corporate Governance Code (the "Code") and was facilitated by Ffion Hague of Independent Board Evaluation. Neither Ffion Hague or Independent Board Evaluation has any other connection with the Company.

STAGE 1

A comprehensive brief was given to Independent Board Evaluation by the Chairman and Group Secretary in December 2016. The assessment team observed the main Board and committee meetings in December, January and February. Access to Board papers was provided electronically prior to the meetings via a secure portal.

In January and February, detailed interviews were conducted with each Board member. All participants were interviewed according to a clear agenda, tailored for M&S. The team also met with the Group Secretary, HR Director, Director of Group Finance, Head of Internal Audit & Risk, Director of Retail, audit partners from Deloitte, PwC (remuneration consultant) and Makinson Cowell (independent investor relations consultants).

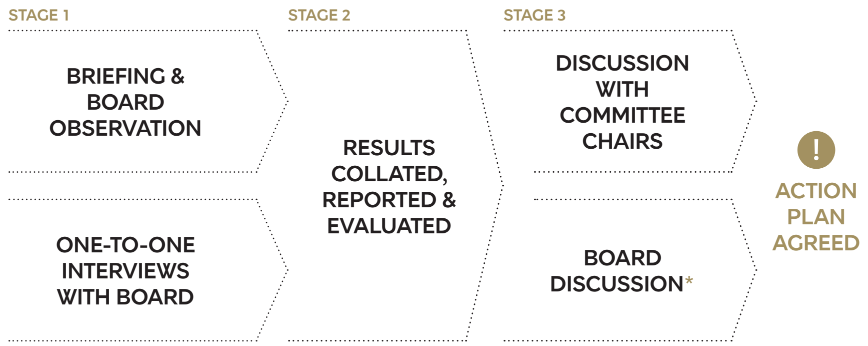
STAGE 2

The report was compiled by the assessment team based on information and views supplied by those interviewed. All recommendations were based on best practice as described in the Code and other corporate governance guidelines.

STAGE 3

Draft conclusions were discussed with the Chairman and subsequently with the whole Board at its meeting in March, with Ffion Hague present. The conclusion of that discussion was recorded in the minutes of the meeting. Following the Board meeting, Ffion Hague gave feedback on the Chairman to the Senior Independent Director (Vindi Banga), and to the committee chairmen on the performance of each committee. In addition, the Chairman received a separate report with feedback on individual directors.

STAGES OF THE BOARD EVALUATION



Note: The above activities were undertaken by Ffion Hague of Independent Board Evaluation.
*Ffion Hague also attended the Board discussion.

BOARD REVIEW INSIGHTS 2016/17

The broad message from the directors was that Board dynamics and the flow of information to the Board has improved significantly. The Board rated itself as satisfactory in its performance on issues of Board focus, risk management, Board culture, the relationship with senior management, meeting schedules and the Board support function. Areas for further progress included consistency of papers and management information, succession planning and people development. As a result, these areas feature in the Board Action Plan for the year ahead. When the review was undertaken, Steve Rowe had been the CEO for a period of nine months. The business had been through significant change in that period and it was clear from the review that the openness in communication was a very positive development. The directors felt that the Board agenda covered the most important topics. However, they felt a review of the management information provided to the Board would improve the pace of the decision-making process. The culture of the Board is seen as positive and supportive. Board members described it as well-balanced, respectful, open, challenging and committed. However, it agreed that a greater diversity of culture, gender and experience might enhance the Board's composition.

COMMITTEES

Board committees were also reviewed and were considered highly regarded in terms of effectiveness and decision making. Senior managers felt significantly challenged by the Audit Committee and commented that the Audit Committee Chairman is very engaged on the key issues.

The Remuneration Committee was seen as effective and considered. Greater visibility around remuneration is welcomed.

CHAIRMAN

The Chairman is much appreciated by staff, who feel he truly embodies the Company's brand through his employee recognition work and his many store visits.

BOARD ACTION PLAN

THE BOARD ACTION PLAN FOR 2017/18 WILL ALSO INCLUDE:

- Continue tracking of KPIs and management information and their alignment with long-term strategy.
- Continue tracking of post-decision reviews of major capital investment and strategic changes.
- Continue to drive the people agenda by creating specific KPIs for people and diversity.
- Increase the level of informal contact between the Board and senior individuals and the Board and the broader business beyond Head Office.
- Review the Board education programme to ensure the induction of new Board members is tailored to their individual skills and experience.

LEADERSHIP AND EFFECTIVENESS

RESPONSIBILITIES, OVERSIGHT & INDEPENDENCE

ROLE OF THE BOARD AND ITS COMMITTEES

The Board is responsible for the stewardship of the Company, overseeing its conduct and affairs to create sustainable value for the benefit of its stakeholders. In performing this task, the Board recognises that to promote success over the long term it must fulfil its wider duty to care for the interests of employees, customers and the communities in which the Company operates, and whose support is required to create sustainable value.

The Board discharges some of its responsibilities directly and others through its Board committees and through management. The terms of reference of the Board and its committees are included in our Governance Framework.

The Board agrees, and has collective responsibility for, the strategy of the Company. For M&S, strategy means the development of specific actions aimed at promoting the long-term sustainable growth of the Company by meeting the needs of our target customer groups, across all our product categories and channels. The articulation of our strategy will include agreement on how our physical and intellectual property and the skills of our people should be used, developed and enhanced to create competitive advantage for the Company.

The Board delegates the execution of the Company's strategy and the day-to-day management and operation of the Company's business to the Operating Committee. The Board is responsible for overseeing, guiding and holding to account management in carrying out these responsibilities.

The Board is responsible for ensuring that appropriate values, ethics and behaviours for the conduct of the Company are agreed and that appropriate procedures and training are in place to ensure that these are observed throughout the Company.

The Board has discussed and agreed the key values of Inspiration, Innovation, Integrity and In Touch and these underpin the required values, ethics and behaviours.

Clear terms of reference outline the full schedule of matters reserved for the Board's decision and that of its key committees.

The Board is responsible for:

- Ensuring leadership through effective oversight and review. Supported by its principal committees – Audit, Remuneration, and Nomination – the Board sets the strategic direction and aims to deliver sustainable shareholder value over the longer term.
- Overseeing the implementation of appropriate risk assessment systems and processes to identify, manage and mitigate the principal risks of the Company's business. Much of this work is delegated to the Audit Committee.
- Effective succession planning at Board level and for assessing the processes in place to ensure that there is appropriate succession planning among senior management. Much of this work is delegated to the Nomination Committee.

In addition to the other matters referred to in its Governance Framework, the Board is responsible for specific matters relating to strategy, finance, risk management, internal control and audit, legal, reputation and public company management. These, along with the individual roles of the Board members, are covered by the Schedule of Matters Reserved to the Board in the Marks and Spencer Group plc governance framework, and can be found at **marksandspencer.com/thecompany**.

MONITORING AND OVERSIGHT

Protecting the business from operational, financial and reputational risk is an essential part of the Board's role. Both the directors and senior management focus on not just the short but also the longer term and continue to be more actively involved in risk management and internal controls, an important part of stewardship and key to ensuring the long-term viability of the business.

The Group Risk Profile and risk appetite are owned by the Board. Their compilation is facilitated by Group Risk, using business area risk registers and one-on-one interviews with Board members and business unit directors. Oversight and independence are provided in the process through the Audit Committee, which ensures that the risks the Board include in the Group Risk Profile continue to reflect the business's strategic objectives. An Internal Audit plan is then mapped to the Group Risk Profile, demonstrating where assurance is provided over mitigating activities.

BOARD COLLABORATION

The Group Board and committee structure is provided below and the reports from the chairs of the principal committees can be found on the pages 46, 48 and 54. Following the appointment of Steve Rowe as CEO, the business's operational processes were reviewed and a new framework implemented, with the Operating Committee responsible for monitoring, managing and providing executive input to support strategic and operational decisions to create strong executive alignment on business priorities and actions. Membership of this committee can be found on page 11 or on our corporate website.

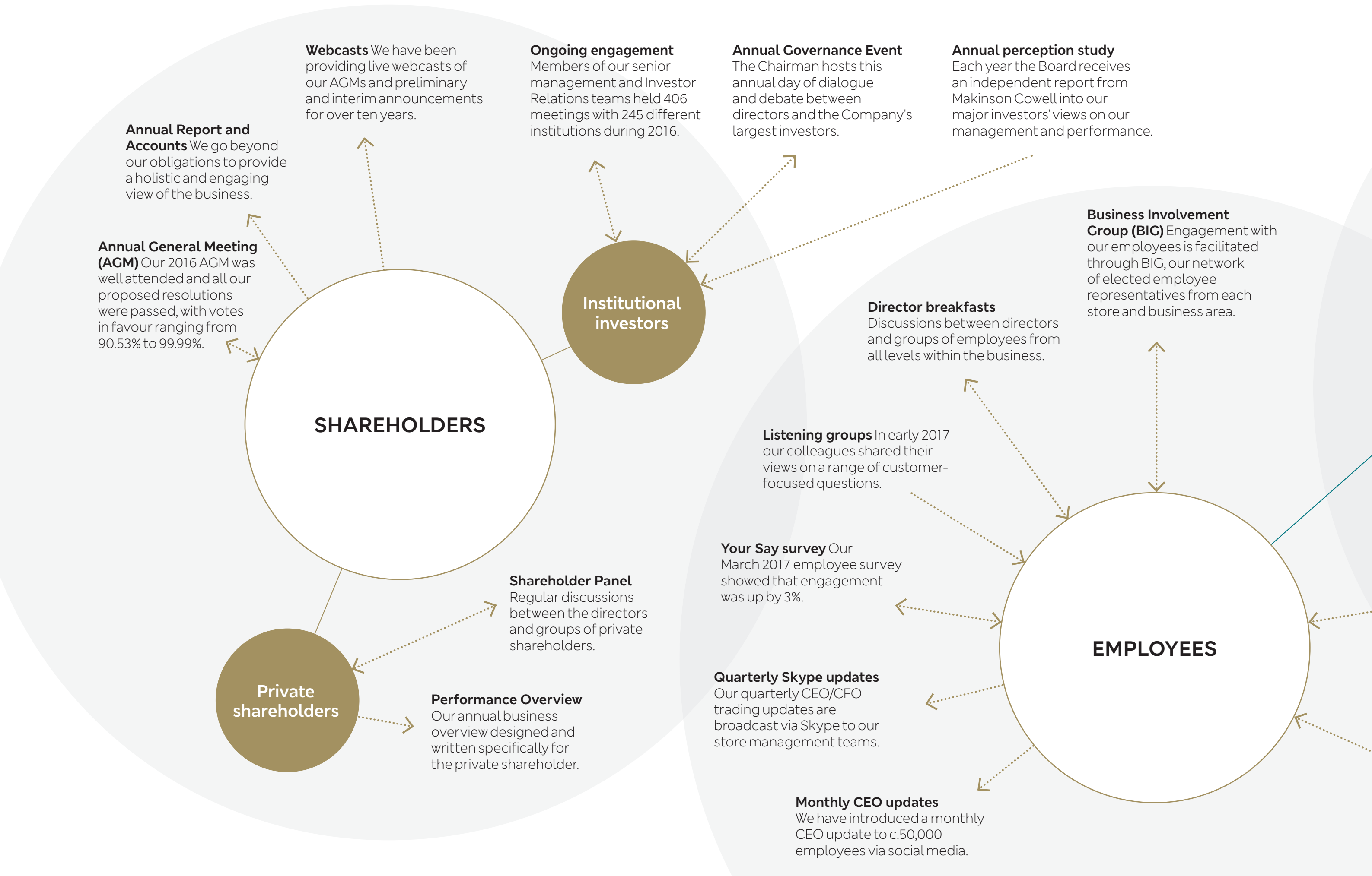
Although the executive directors sit as part of the Operating Committee to debate and understand opinion from key leaders from the business areas, they are ultimately responsible for all for decisions on strategy and all non-property investments through the Investment Committee, and capital expenditure for the Group's UK and International property portfolio in line with the Group's strategic goals and business priorities through the Property Committee.

The supporting committees provide oversight and regular updates to the Operating Committee and annual assurance updates to either the Audit Committee or Group Board. All committees have clear terms of reference and approval thresholds set and approved by the Group Board.

GOVERNANCE

OUR STAKEHOLDERS: HOW WE LISTEN & ENGAGE

Our rich network of **stakeholder relationships** upholds the values on which M&S was founded. These remain vital to building a sustainable business.



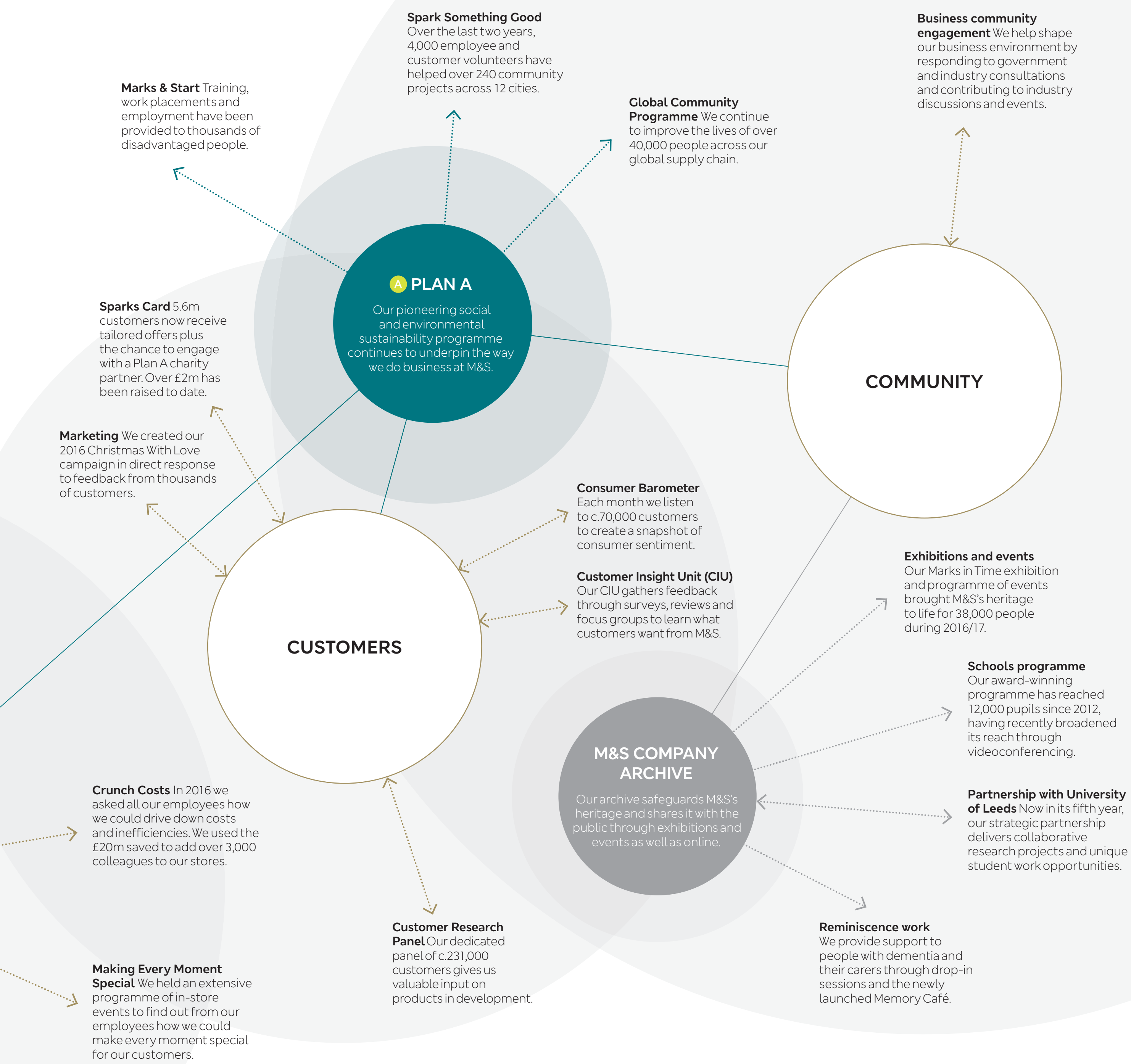
> "The main purpose of building up a great business should not be merely to make money. A company has its responsibilities, not only to shareholders but also to the staff, the customers and the whole community in which it trades. Unless it gives satisfaction, and even happiness to all concerned, it will fail in its aims in the long term."
>
> **LORD SIEFF** DEPUTY CHAIRMAN OF M&S, 1964

SHAREHOLDERS

We are always looking for ways to develop our engagement with shareholders. This year we introduced our regular **Shareholder Panel**, where a small group of private shareholders is invited to participate in face-to-face discussions with members of the Board and senior management. For our large institutional investors and investor advisory firms, we continue to hold our **Annual Governance Event**. Our 2016 event was hosted by the Chairman and attended by the Senior Independent Director, the committee chairmen, Group Secretary, and a senior representative from our Plan A team.

EMPLOYEES

The Board's engagement with the Company's 85,000 employees is facilitated through our **Business Involvement Group (BIG)**, a network of 3,500 elected employee representatives from across all parts of the business. Local BIG teams regularly feed back to National BIG, whose chairman in turn represents the collective employee voice through regular meetings with the Chairman and CEO, plus attendance at our Board. However, employee engagement extends far beyond BIG: one example from the year was a collaborative exercise where we asked our store colleagues what we all needed to do



differently to **Make Every Moment Special** for our customers. Through 75 regional leadership events and 1,500 events involving all our store employees, we found new ways to help empower our people to put customers at the heart of the business (more about this on page 8). Engagement can also start in the community: Through **Marks & Start** we offered work placements to over 2,900 disadvantaged people in 2016/17. Over 65% of those who completed the programme went on to find work, either with M&S or other employers. For further details about how we engage with our employees, see 'Employee Involvement' on pages 81-82.

CUSTOMERS

Our **Customer Insight Unit** constantly gathers feedback from our customers to understand what they want from M&S. Key insights are shared with the directors and are critical to informing strategy. During the year, customer feedback resulted in a number of store improvements including additional staff on shop floors. We also engage with our customers to create **marketing** campaigns that are relevant to them, such as Christmas With Love in 2016 and the creation of Spend It Well. For more on customer insight and engagement, see 'Market & Customer Insights' on pages 6-7 and 'Engaging Our Customers' on page 25.

COMMUNITY

2017 marks the tenth anniversary of **Plan A**, our social and environmental sustainability programme. Central to Plan A is our goal of creating a positive impact in society and improving people's lives, be they employees, customers, workers in our supply chain, charity partners or local communities around the world. Find out more at **marksandspencer.com/plana**. This year also marks the fifth anniversary of the **M&S Company Archive**, whose educational and social activities have enriched the lives of thousands of local people. Visit the Archive's website at **marksintime.marksandspencer.com**.

LEADERSHIP AND EFFECTIVENESS

NOMINATION COMMITTEE REPORT

We are introducing new initiatives to **broaden and develop the strong talent** that exists within the business.

ROBERT SWANNELL CHAIRMAN

INTRODUCTION

During the year the focus of the Nomination Committee (the "Committee") was on the search for a new Chairman to succeed me and the succession of non-executives and senior individuals within the business. As outlined on page 39, the Chairman search was led by Vindi Banga and I did not participate in the process.

In September, following her maternity leave, Laura Wade-Gery, Executive Director, Multi-channel, left the business. Her responsibilities were allocated to the other executive directors, and the business now operates with a smaller executive Board. Laura was instrumental in modernising our ecommerce and multi-channel capabilities, and we wish her the very best for the future.

The Committee maintains a well-defined specification for each appointment, with a clear understanding of the attributes and values required to help the effective functioning of the whole Board. It considers the combination of skills and experience required to fulfil the Board's purpose. As Chairman of the Committee, I take an active role in overseeing the progress made towards improving diversity and women's representation on both the Operating Committee and among its direct reports.

The business has a framework with clearly identified individuals capable of covering key management roles on an interim or permanent basis. These individuals receive the necessary coaching to ensure they have the required skills to provide any critical support when needed. Development for directors and high performing individuals below Board level is an essential area of focus. Coaching and mentoring is provided to develop and enhance specific skill sets, and the Committee believes the benefits of this approach are critical for developing our own talent for the future.

The Committee continues to take a more active interest in talent management, in particular ensuring that initiatives are in place to develop the talent pipeline and to promote diversity in Board and executive appointments.

EFFECTIVENESS OF THE NOMINATION COMMITTEE

Committee review

The Committee's performance was externally evaluated during the year by Ffion Hague.

The Committee was considered to be effective and remains independent. Areas of focus identified for the year ahead are provided below.

Nomination Committee activity

During the year, the Committee held a significant number of unscheduled meetings to support the search and appointment of the new Chairman. In addition, it continued to support the development of the executive directors and participated in several employee-focused initiatives, giving increased access to the organisation.

Looking ahead

An area of focus for the Committee over the coming year will be the link between diversity, strategy and developing the business. More consideration will be given to the nature, variety and frequency of interaction between the Board and aspiring candidates at all levels.

The Committee will play an active part in the induction process for our new Chairman, Archie Norman, who joins the business in September 2017.

MEMBER ATTENDANCE	MEMBER SINCE	NUMBER OF MEETINGS ATTENDED	MAXIMUM POSSIBLE MEETINGS	% OF MEETINGS ATTENDED
Robert Swannell	4 Oct 2010	5	5	100%
Vindi Banga	3 Sept 2011	5	5	100%
Alison Brittain	1 Jan 2014	5	5	100%
Miranda Curtis[1]	3 Feb 2012	4	5	80%
Andrew Fisher	1 Dec 2015	5	5	100%
Andy Halford	1 Jan 2013	5	5	100%
Richard Solomons	13 Apr 2015	5	5	100%

1. Miranda Curtis was unable to attend the meeting on 14 March 2017 due to external business commitments.

ACTION PLAN 2017/18

- → Continue to review succession plans for the Board and key roles across the business.
- → Continue to review future talent pipeline.
- → Review development initiatives for directors.
- → Greater input when tailoring the induction of new Board members to their individual skills and experience.
- → Continue to identify opportunities for broader business engagement beyond Head Office.

BOARD DIVERSITY POLICY

Since the launch of the Board Diversity Policy in 2012, the Board has made progress in broadening the diversity of the Board and senior management. The policy continues to drive the benefits of a diverse Board and workforce across the business. The ambitions and objectives set out in the policy remain relevant targets against which to measure our progress.

For further information on employee diversity, including gender, ethnicity and age, see p24 of our Plan A Report marksandspencer.com/plana2017.

BOARD DIVERSITY: PROGRESS UPDATE

Maintain a level of at least 30% female directors on the Board over the short to medium term.
As highlighted earlier in the report, one change to the Board was made during the year to 1 April 2017, with the resignation of Laura Wade-Gery. Despite the reduced size of the Board, the percentage of women on the Board remains on target at 30% at the time of publication. The charts on page 38 provide a clearer picture of our Board diversity.

The Board remains committed to maintaining at least a 30% female representation on the Board, while ensuring that diversity in its broadest sense remains a central feature. However, the Nomination Committee will continue to recommend appointments to the Board based on merit, measured against objective criteria and the skills and experience the individual offers.

The Board is also committed to strengthening the pipeline of senior female executives within the business and has taken steps to ensure that there are no barriers to women succeeding at the highest levels within M&S.

Assist the development of a pipeline of high-calibre candidates by encouraging a broad range of senior individuals within the business to take on additional roles to gain valuable board experience.
During the year, the Board continued to focus on strengthening the pipeline of executive talent in the Company. It remains committed to building on existing programmes while introducing new initiatives to broaden and develop the strong talent which exists across the business.

Key initiatives include:

- → A comprehensive talent review presented to the Board annually, mapping successional candidates and opportunities across all senior roles within the business.
- → A thorough approach to talent development through initiatives including the Korn Ferry Leadership Development Review, and Development Centres for high potential talent.
- → The Leadership Development Service has been in place for four years and continues to identify and partner key senior talent across the business, broadening their skill sets and experience to prepare them for future opportunities. This has been supported through greater boardroom exposure, non-executive and Trustee roles outside of M&S, involvement in senior pipeline programmes and participation in mentoring schemes.
- → Access to international business school training.
- → Senior management mentoring and coaching schemes and non-executive director sponsored lunches and breakfasts.

Consider candidates for appointment as non-executive directors from a wider pool, including those with experience outside traditional listed boards.
Although no new appointments were made during the year, the Nomination Committee continued to discuss the successional needs of the Board in respect of its non-executive directors. Lists of potential candidates are compiled with assistance from executive search agencies and comprise candidates from a range of different industries and backgrounds. Those subsequently identified for interview are measured against criteria set at the start of the search process. The Chairman also meets informally with a range of people introduced by third parties or through direct approaches. Although we do not currently openly advertise our non-executive director positions, we appreciate the benefit of this approach and will keep this under review.

Ensure long lists of potential non-executive directors include 50% female candidates.
The Board remains committed to ensuring that high-performing women from within the business and from a variety of backgrounds, who have the requisite skills, are given greater exposure to the nomination committees of FTSE 100 companies. All long lists for potential future non-executive director appointments will include at least 50% female candidates.

Only engage executive search firms who have signed up to the Voluntary Code of Conduct for Executive Search Firms on gender diversity and best practice.
The Board continues to support the ten principles of the Voluntary Code of Conduct for Executive Search Firms on gender diversity and best practice and is committed to only engaging executive search firms who are signatories to this code. During the year, we worked closely with Egon Zehnder and JCA and maintained our focus on the targets and ambitions around female representation on the Board. The Board confirms that neither Egon Zehnder nor JCA has any other connection with the Company.

Report annually against these objectives and other initiatives taking place within the Company which promote gender and other forms of diversity.
The Board has made strong progress against the key policy objectives during the year, as reported above. In addition, the business has continued to promote diversity through a range of key initiatives:

- → The annual Board evaluation process includes an assessment of the Board's diversity including gender, helping to objectively consider its composition and effectiveness.
- → Five employee-led diversity networks that focus on making M&S an inclusive place to work for women and men (Gender Equality Network), minority ethnic groups (BAME at M&S), lesbian, gay, bisexual and transgender people (LGBT+ at M&S), parents (Parents Net), and people with disabilities and health conditions (The Buddy Network). These deliver large-scale awareness-raising events promoting inclusion and equality, as well as mentoring, coaching, roundtable discussions with senior leaders and regular communication across the business.
- → Continued involvement in the government-backed 30% Club, an organisation committed to increasing female representation on UK boards.
- → Continued involvement running Business in the Community (BITC) mentoring circles which help us to promote and develop BAME (Black, Asian and minority ethnic) talent pipelines.
- → Active involvement in key campaigns including LGBT+ Pride celebrations, International Women's Day, Black History Month, National Inclusion Week, and World Disability Day, raising awareness and our profile as an inclusive employer.
- → A number of programmes to help people in our communities, including Marks & Start and Marks & Start Logistics, are successfully helping young people, the homeless, lone parents and those with disabilities to find work in our stores and distribution centres.

Report annually on the outcome of the Board evaluation, the composition and structure of the Board as well as any issues and challenges the Board is facing when considering the diverse make-up of the Company.
We continue to regard the Board evaluation process as an important means of monitoring our progress. Full details of the 2016/17 Board evaluation and the Action Plan are on page 42. We remain committed to getting the right balance of internal versus external hires and work towards understanding and managing the challenges we face, such as:

- → International management experience reflective of the customers and communities we serve.
- → Any challenges women face in reaching regional management positions and above within the business.

ACCOUNTABILITY

AUDIT COMMITTEE REPORT

The Committee has played a key role in ensuring appropriate challenge and governance around accounting treatment, risk management and control and assurance process.

ANDY HALFORD CHAIRMAN OF THE AUDIT COMMITTEE

INTRODUCTION

As Chairman of the Audit Committee (the "Committee"), I am pleased to present the Committee's report for the year ended 1 April 2017.

Through this report I aim to share some of the Committee's discussions from the boardroom, offering insight into its essential role in protecting the interests of our shareholders through ensuring the integrity of the Company's published financial information and the effectiveness of the Internal Audit process. Our report will provide an overview of the significant issues the Committee has assessed during the year and will offer the Committee's view of the Annual Report as a whole, including the methodology behind its assessment of the narrative reporting as an accurate reflection of the financial statements.

The report also shares some of the executive updates that were presented to the Committee by different areas of the business during the year. These updates are essential in telling us how different risks are managed and mitigated throughout the business, and assists the Committee in understanding the progress being made towards the strategic plan. They also provide the Committee members with an opportunity to share their own extensive experience with the presenters, utilising their independent perspective to add value through robust challenge, discussion and debate.

The report will also update you on our assessment of the effectiveness of our statutory auditor, Deloitte, and explain our policy relating to any non-audit work it was engaged to complete and the fees it received for doing so.

EFFECTIVENESS OF THE AUDIT COMMITTEE

The expertise of the Committee members is considered as part of the annual review of the Committee's effectiveness. The Board is satisfied that the Committee possesses relevant sectoral competence and appropriate levels of independence, and that its members offer a depth of financial and commercial experience across various industries. It is further satisfied that Andy Halford possesses recent and relevant financial experience and the requisite competence in accounting.

Audit Committee activities during 2016/17:

- Maintained focus on the audit, assurance and risk processes within the business, as well as oversight of financial and other regulatory requirements.
- Reviewed the Group's systems of internal control and risk management, and any changes in accounting policies and impact on its financial statements.
- Provided oversight of particular business risks, including those relating to ethical sourcing and animal welfare.
- Provided increased oversight of the risks and controls pertaining to cyber security.
- Monitored the financial reporting process, the statutory audit of the Group's financial statements and the independence of the statutory auditor.
- Discussed and reviewed adjusted items that may impact business performance.
- Reviewed the mitigating controls over the Group's principal risks and assessed the level of assurance provided.
- Continued to support assurance mapping across the Group, with particular focus on strategic priorities.
- Continued to monitor and respond to the changing regulatory environment, particularly in respect of implementation of the EU Audit Regulation and Directive.

Members of senior management are invited to attend Committee meetings as and when their specialist technical knowledge is required. The Committee also meets privately, without management present, before each meeting. Additionally, separate private sessions attended by the lead audit partner from Deloitte and the Head of Internal Audit & Risk are held after each meeting. As Committee Chair, I also regularly meet on a one-to-one basis with the Chief Finance Officer, Director of Group Finance, Head of Internal Audit & Risk and other members of senior management. I also meet with the lead audit partner in advance of Committee meetings. Scheduling meetings in this way enables me to better understand any key issues and areas of concern, and allows sufficient time to facilitate meaningful discussion during the subsequent meeting.

MEMBER ATTENDANCE	MEMBER SINCE	NUMBER OF MEETINGS ATTENDED	MAXIMUM POSSIBLE MEETINGS	% OF MEETINGS ATTENDED
Andy Halford	1 Jan 2013	5	5	100%
Alison Brittain	11 Mar 2014	5	5	100%
Miranda Curtis[1]	4 Mar 2015	4	5	80%
Andrew Fisher	3 Feb 2016	5	5	100%

1. Miranda Curtis was unable to attend the meeting on 23 January 2017 due to illness.

Note: Detailed information on the experience, skills and qualifications of all directors is available on pages 36 and 37.

EFFECTIVENESS OF THE AUDIT COMMITTEE CONTINUED

INDEPENDENT REVIEW AND COMMITTEE ACTION PLAN

The Committee's performance was reviewed externally this year by Ffion Hague. Feedback was positive, particularly relating to the open debate encouraged during meetings. It is regarded as thorough and effective, and provides the Board with a high level of assurance that audit matters are dealt with appropriately. Areas in which it was felt improvements could be achieved were discussed by the Committee for inclusion in its 2017/18 action plan.

The Committee made good progress on the 2016/17 action plan by reviewing controls over and assessing the levels of assurance provided in respect of the Group's principal risks, supporting risk assurance mapping across the Group, increasing its oversight of cyber security risks and monitoring regulatory change.

The action plan for 2017/18:

- → Review the effectiveness of Internal Audit in line with the Chartered Institute of Internal Audit requirements and monitor any key findings.
- → Continue to oversee the Company-wide risk and assurance mapping.
- → Continue to monitor oversight of data governance and information security risk ahead of the implementation of the General Data Protection Regulation in May 2018.
- → Oversee the refinement of the internal control environment.

AUDIT COMMITTEE UPDATES

The Committee receives detailed updates from one or more business areas at each meeting. These updates are planned on a rolling 12-month basis. Additional matters identified by Internal Audit as requiring the Committee's attention are included in the agendas of subsequent meetings. An overview of some of the updates presented during 2016/17 is provided below:

MANAGEMENT OF INTERNAL CONTROL FAILURES

The Audit Committee receives updates on internal control matters at each meeting. This regular monitoring of the internal control framework allows timely identification of issues and formal tracking of remediation plans. Instances where the effectiveness of internal controls was considered insufficient were discussed during the year, either by the Audit Committee or the full Board. These have included controls over market updates, third party oversight and IT asset management. As part of the annual review of internal control, the Audit Committee again considered these matters, ensuring that the agreed actions were being implemented to support a programme of maintaining and improving internal control. Following its review, the Committee recommended to the Board that, although the matters identified were important, they had been addressed at the time of its review, with suitable controls now in place.

FIRE, HEALTH AND SAFETY (FHS)

- → Updated on performance across all aspects of trading safely and legally and the progress made in driving compliance standards.
- → Discussed the safety of sales floor equipment, fittings and installations, including progress made and the key actions put in place.
- → Updated on continuing improvements to International governance and compliance processes in respect of FHS, including the reports of the third party facilitated store inspection plan.
- → Noted the reductions in reported accidents in UK-owned stores as a result of work undertaken with our Primary Authority Partner, Birmingham City Council.

ETHICAL SOURCING AND MODERN SLAVERY

- → Updated on the controls in place to ensure an uncompromising approach to maintaining M&S's ethical standards in an increasingly competitive international sourcing environment.
- → Discussed how risks are mitigated through supplier selection, appraisal criteria and regional improvement programmes supported by a strict Internal Audit and monitoring approach.
- → Updated on the approach to supplier inspections and the different processes adopted in Food and Clothing & Home, noting the regular ethical audits undertaken by an accredited third party on all factories used by M&S.
- → Updated on the ways in which the business proactively supports the human rights of colleagues across all business operations, including compliance with the Modern Slavery Act and the steps taken to prevent modern slavery throughout the business and its supply chain.

GOVERNANCE AND COMPLIANCE

- → Updated on the revisions to the auditor engagement policy, implemented following the introduction of the EU Audit Regulation and Directive.
- → Discussed and reviewed the Board's approach in undertaking its assessment of the long-term viability of the business.
- → Updated on the annual circulation of the M&S Code of Ethics and Behaviours, including ongoing monitoring of compliance, and noting plans for a full review of the Code during 2017/18.

BUSINESS CONTINUITY

- → Updated on the continued strengthening of crisis management and business recovery capability across all retail and distribution operations.
- → Discussed national preparedness in the context of the UK's current threat level, crisis simulation exercises undertaken in collaboration with industry peers, and the development of new training tools for Duty Managers aimed at raising levels of preparedness.
- → Updated on preparedness and the crisis management processes in place internationally, region-specific threat assessments and crisis simulations, and procedures relating to business travel to areas deemed to be high risk.
- → Updated on the disaster recovery plans for the distribution centre at Castle Donington, improvements in resilience capability and key milestones achieved.
- → Discussed the priorities for 2017/18, including supply chain resilience in international logistics, International retail and sourcing, as well as global terrorism and cyber security.

FOOD SAFETY AND INTEGRITY

- → Updated on the governance and control processes in respect of food safety, the assessment of operational risks in key areas and the regular reviews of the risk model conducted in response to internal and external issues.
- → Discussed food safety and the processes in place for resolution of complaints.
- → Updated on the internal and external influences on risk mitigation strategy, covering supply base, raw material sourcing, product targeting and regulatory developments.
- → Discussed the food safety and integrity risk profile and the greater focus placed on supply base within the audit programme.

AUDIT COMMITTEE REPORT CONTINUED

SIGNIFICANT ISSUES

The Audit Committee has assessed whether suitable accounting policies have been adopted and whether management has made appropriate judgements and estimates.

Throughout the year, the Finance team has worked closely with Deloitte to ensure that the business is transparent and provides the required level of disclosure regarding significant issues considered by the Committee in relation to the financial statements, as well as how these issues were addressed, while being mindful of matters that may be business-sensitive.

This section outlines the main areas of judgement that have been considered by the Committee to ensure that appropriate rigour has been applied. All accounting policies can be found in note 1 to the financial statements. Where further information is provided in the notes to the financial statements, we have included the note reference.

Each of the areas of judgement to the right has been identified as an area of focus and therefore the Committee has also received detailed reporting from Deloitte.

PRESENTATION OF THE FINANCIAL STATEMENTS

The Committee gave consideration to the presentation of the financial statements and in particular the use of alternative performance measures and the presentation of adjusted items in accordance with the Group accounting policy. This policy states that adjustments are only made to reported profit before tax where income and charges are significant in value and/or nature. The Committee received detailed reports from management outlining the judgements applied in relation to the disclosure of adjusted items. In the current year, management has included in this category: the reduction in M&S Bank income for the impact of the M&S Bank provision for financial product mis-selling; significant charges arising in relation to changes to pay and pensions; net costs associated with the implementation of strategic programmes in relation to UK organisation, UK logistics, UK store estate and the closure of International owned businesses; impairments of the carrying value of UK and International stores (including associated onerous leases); and legal settlements. This was an area of focus for the Committee in the current year due to the number and value of these items (£437.4m charge) and the recent guidelines on the use of alternative performance measures issued by the European Securities and Markets Authority.

In addition, the prior year was a 53-week statutory reporting period so consideration had been given to the balance of 52-week and 53-week metrics for the prior year reported throughout the Annual Report. The 52-week measures have been quoted where relevant to ensure meaningful comparison with this year's 52-week period. Following detailed review and active discussion with management, the Committee has concluded that the presentation of the financial statements is appropriate.

See **note 5** on p103

IMPAIRMENT OF GOODWILL, BRANDS, TANGIBLE AND INTANGIBLE ASSETS

The Committee has considered the assessments made in relation to the impairment of goodwill, brands, tangible and intangible fixed assets, including land and buildings, store assets and software assets. The Committee received detailed

FAIR, BALANCED AND UNDERSTANDABLE

At the request of the Board, the Committee has considered whether, in its opinion, the 2017 Annual Report and Financial Statements are fair, balanced and understandable, and whether they provide the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

The structure of the report continues to focus strongly on the key strategic messages in the Strategic Report. It was therefore important for the Committee to ensure that this emphasis did not dilute the overall transparency in the disclosures made throughout the report, which we know our stakeholders find useful, and that the messages presented by the business are both clear and reflective of the Company as a whole.

A broad outline of the structure of the Annual Report was given to the Committee early in the planning process, along with a similarly broad indication of its content. The Committee received a full draft of the report two weeks prior to the meeting at which it would be requested to provide its final opinion. Feedback was provided by the Committee in advance of that meeting, highlighting the areas it was felt would benefit from further clarity. The draft report was then amended to incorporate this feedback prior to being tabled at the May Audit Committee meeting for final comment and approval.

The Committee was provided with a list of the key messages included in the Annual Report, highlighting which were positive and which were reflective of the challenges from the year. A supporting document was also provided, specifically addressing the following listed points, highlighting where these could be evidenced within the report.

When forming its opinion, the Committee reflected on the information it had received and its discussions throughout the year. In particular, the Committee considered:

IS THE REPORT FAIR?

- → Is the whole story presented and has any sensitive material been omitted that should have been included?
- → Is the reporting on the business performance in the narrative reporting consistent with those used for the financial reporting in the financial statements?
- → Are the key messages in the narrative reflected in the financial reporting?
- → Are the KPIs disclosed at an appropriate level based on the financial reporting?

IS THE REPORT BALANCED?

- → Is there a good level of consistency between the narrative reporting in the front and the financial reporting in the back of the report, and does the messaging presented within each remain consistent when one is read independently of the other?
- → Is the Annual Report properly a document for shareholders?
- → Are the statutory and adjusted measures explained clearly with appropriate prominence?
- → Are the key judgements referred to in the narrative reporting and the significant issues reported in this Audit Committee Report consistent with the disclosures of key estimation uncertainties and critical judgements set out in the financial statements?
- → How do the significant issues identified compare with the risks that Deloitte plans to include in its report?

IS THE REPORT UNDERSTANDABLE?

- → Is there a clear and understandable framework to the report?
- → Are the important messages highlighted appropriately throughout the document?
- → Is the layout clear with good linkage throughout in a manner that reflects the whole story?

CONCLUSION

Following its review, the Committee was of the opinion that the 2017 Annual Report and Financial Statements are representative of the year and present a fair, balanced and understandable overview, providing the necessary information for shareholders to assess the Group's position, performance, business model and strategy.

SIGNIFICANT ISSUES CONTINUED

reports from management outlining the treatment of impairments, valuation methodology, the basis for key assumptions (discount rate and long-term growth rate) and the key drivers of the cash flow forecasts. The Committee has challenged management and is satisfied that these are appropriate. The Committee has also understood the sensitivity analysis used by management in its review of impairments. In addition, the business plans detailing management's expectations of future performance of the businesses are Board approved. The Committee is satisfied that appropriate impairment of tangible and intangible assets has been recognised.

See **notes 5, 14 & 15** on p103-104 & 114-116

INVENTORY VALUATION AND PROVISIONING

Inventory provisions include obsolete stock, net realisable value below cost and stock loss provisions. The Committee has examined management papers outlining the judgements made regarding provisioning for inventory balances and is satisfied that a sufficiently robust process was followed to confirm quantities of inventory and that net realisable value of inventory exceeds its cost at year end.

RETIREMENT BENEFITS

The Committee has reviewed the actuarial assumptions such as discount rate, inflation rate, expected return of scheme assets and mortality which determine the pension cost and the UK defined benefit scheme valuation, and has concluded that they are appropriate. The assumptions have been disclosed in the financial statements.

See **note 11** on p108-111

REVENUE RECOGNITION IN RELATION TO REFUNDS, GIFT CARDS AND LOYALTY SCHEMES

Revenue accruals for sales returns and deferred income in relation to loyalty scheme redemptions and gift card and credit voucher redemptions are estimated based on historical returns and redemptions. The Committee has considered the basis of these accruals, along with analysis of historical returns and redemption rates and has agreed with the judgements reached by management.

SUPPLIER INCOME

This continues to be monitored closely by management and robust controls are in place to ensure appropriate recognition in the correct period. The Committee is satisfied with management's conclusion that there is minimal risk of material misstatement. Enhanced disclosure has been made again in the current year through publication of the accounting policy and disclosing the effects of supplier income on certain balance sheet accounts.

CLOSURE COSTS FOR INTERNATIONAL OPERATIONS (NEW DISCLOSURE)

The Committee has considered the assessments made in relation to the estimation of closure costs and associated provisions for the exit from certain International owned markets. The Committee received detailed reports from management outlining the accounting treatment of the costs, the basis for the key assumptions used in the estimation of the costs (most notably in relation to property exit costs and redundancy) and the assessment of assets to be impaired. The Committee has challenged management and is satisfied that these are appropriate. The Committee is satisfied that appropriate costs and associated provisions have been recognised.

See **notes 1, 5, 15 and 22** on p96, 103, 115 and 124

EXTERNAL AUDITOR

TENURE

Deloitte was appointed by shareholders as the Group's statutory auditor in 2014 following a formal tender process. The lead audit partner, Ian Waller, has held the position for three years. The external audit contract will be put out to tender at least every ten years.

The Committee recommends that Deloitte be reappointed as the Company's statutory auditor for the 2017/18 financial year. We believe the independence and objectivity of the external auditor and the effectiveness of the audit process are safeguarded and remain strong. The Company has complied with the Statutory Audit Services Order for the financial year under review.

EFFECTIVENESS

The effectiveness of our external auditor is assessed in accordance with a process agreed by the Audit Committee, which is divided into ten structured components setting out the key areas of the audit process for the Committee to consider.

This framework also recognises the contribution of management in being fully engaged with, and thereby enhancing the effectiveness of, the external audit process. It enables the Audit Committee to form a view of management's role in an effective audit process by considering whether it believes in a culture of 'right first time', produces high quality papers, ensures robust internal systems and controls are maintained, respects and values the independent audit process and examines any audit adjustments proposed by the external auditor with appropriate rigour.

This framework provides a robust process for monitoring auditor effectiveness and can be measured against the findings of future external auditor effectiveness surveys. The approach to the assessment is tailored to enable senior management to answer detailed questions on the Company-wide audit process, and provide the Audit Committee with sufficient detail to establish an informed view on the overall efficiency, integrity and effectiveness of the external audit.

Questionnaires were tailored to the following target groups:

1. **Chief Finance Officer and Director of Group Finance:** A full questionnaire was completed, covering all areas of the audit process, while taking account of the questionnaires completed by the Directors of Finance for Food and Clothing & Home and Head of Finance, International.
2. **Directors of Finance: Food, Clothing & Home and Head of Finance, International:** Shorter questionnaire, focusing on the audit team, planning, challenge and interaction with the business.
3. **Audit Committee:** A high-level set of questions with specific focus on the planning, execution, value, communication and challenge of the audit and audit partner. The Committee had access to copies of the completed management questionnaires (sections 1 and 2 above) to assist with its own considerations.

WHAT WAS THE OUTCOME?

Feedback from each of the target groups was positive overall, particularly in respect of the technical insight and challenge provided by the audit team; its level of interaction with the business; its strong understanding of M&S's culture and values; and the valuable guidance provided for the Company's strategic initiatives. It was felt that areas identified during the 2015/16 review had improved during the year, specifically the communication between the business and Deloitte during the audit process; however, it was felt that further improvements could still be achieved.

Areas for development identified in this year's review were encouraging a more joined-up approach during the audit and ensuring the timely provision of accurate information by M&S to the auditor. Additionally, it was felt that further work by both M&S and Deloitte would improve the efficiency of the overseas audit process.

AUDIT COMMITTEE REPORT CONTINUED

EXTERNAL AUDITOR CONTINUED

NON-AUDIT FEES

A robust auditor engagement policy is in place and adhered to. It is reviewed annually and was updated during the year to account for the tighter restrictions on work permitted to be undertaken by the statutory auditor introduced by the Financial Reporting Council's (FRC) Revised Ethical Standard 2016. The policy is disclosed on marksandspencer.com/thecompany. The business is committed to maintaining non-audit fees at a low level. The non-audit fees to audit fees ratio for the financial year ended 1 April 2017 was 0.16:1, compared with the previous year's ratio of 0.17:1. During the year, the Company was notified that Deloitte had acquired crisis management specialists Regester Larkin (RL), which the Company has engaged, prior to acquisition, to develop crisis management exercises. The fees for RL were £32k. Since the bulk of the fees were incurred prior to RL's acquisition by Deloitte, it was decided to complete the project as planned and that alternative providers would be reviewed for future engagements. The majority of the £0.3m in non-audit fees paid in total to Deloitte during 2016/17 were incurred for assurance services it provided during the year. These comprised fees in respect of the Half Year review, turnover certificates, the annual Euro Medium Term Note (EMTN) programme renewal, reviews of quarterly trading statements, crisis management reviews and overseas engagements. It is normal practice for such assurance services to be provided by the Company's statutory auditor. No additional recurring or one-off non-audit services were provided during the year.

The Committee is satisfied that the Company was compliant during the year with both the updated UK Corporate Governance Code and the FRC's Ethical and Auditing Standards in respect of the scope and maximum permitted level of fees incurred for non-audit services provided by Deloitte. Where non-audit work is performed by Deloitte, both the Company and Deloitte ensure adherence to robust processes to prevent the objectivity and independence of the auditor from being compromised.

All non-audit work performed by Deloitte was put to the Audit Committee for consideration and approval, regardless of size. Further details on non-audit services provided by Deloitte can be found in note 4 on page 102.

ASSURANCE AND INTERNAL CONTROL ENVIRONMENT

The Board assumes ultimate responsibility for the effective management of risk across the Group, determining its risk appetite as well as ensuring that each business area implements appropriate internal controls. The Group's risk management 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.

See p32-33 of the Strategic Report for more information on our **material risks**

See p30 for further information on our **risk management processes**

The key features of the Group's internal control and risk management systems that ensure the accuracy and reliability of financial reporting include clearly defined lines of accountability and delegation of authority, policies and procedures that cover financial planning and reporting, preparing consolidated accounts, capital expenditure, project governance and information security, and the Group's Code of Ethics and Behaviours.

The Board has delegated responsibility for reviewing the effectiveness of the Group's systems of internal control to the Audit Committee. This covers all material controls including financial, operational and compliance controls and risk management systems. The Committee is supported by a number of sources of internal assurance from within the Group in order to complete these reviews, in particular:

1. **Internal Audit** The Group's primary source of internal assurance remains delivery of the Internal Audit Plan, which is structured to align with the Group's strategic priorities and key risks and is developed by Internal Audit with input from management. Recommendations from Internal Audit are communicated to the relevant business area for implementation of appropriate corrective measures, with results reported to the Committee.

2. **Business presentations** Focusing primarily on the key risks identified in the Group Risk Profile, management continues to provide updates to the Committee on how these are managed in individual business areas. These are complemented by independent reviews conducted by Internal Audit.

3. **Other control agencies** Responsible for maintaining control over critical areas of risk, the processes and controls of these agencies are tested by Internal Audit & Risk during relevant audits. An overview of these agencies and the manner in which they provide assurance to the Committee is indicated in the table below.

The Group was compliant throughout the year with the provisions of the UK Corporate Governance Code relating to internal controls and the FRC's revised Guidance on Audit Committees and Guidance on Risk Management, Internal Control and Related Financial and Business Reporting. No significant failings or weaknesses were identified during the Committee's review in respect of the year ended 1 April 2017 and up to the date of this Annual Report.

Where the Committee identified areas requiring improvement, processes are in place to ensure that the necessary action is taken and that progress is monitored.

Further details of these processes can be found within our detailed Corporate Governance Statement which is available to view in the Corporate Governance section of **marksandspencer.com/thecompany**.

ANDY HALFORD AUDIT COMMITTEE CHAIRMAN

INTERNAL ASSURANCE FRAMEWORK

Source of information		Frequency/nature of reporting	
Committees	→ Fire, Health & Safety Committee → Plan A Committee* → Business Continuity Committee	**Direct reporting lines to the Committee, with annual updates from the relevant executive**	**AUDIT COMMITTEE**
Business areas	Papers produced on the following subjects: → Information Security → Whistleblowing & Fraud → Bribery → Code of Ethics and Behaviours → GSCOP (Grocery Supplier Code of Practice)	**Formal updates presented to the Committee annually**	
Other control agencies	Internal Audit testing (as appropriate) in relation to: → Food Safety & Integrity → Ethical Audits → Trading Safely & Legally	**Updates provided to the Committee as requested or appropriate**	

* Note: also reports directly to the Board.

GOVERNANCE

PENSIONS GOVERNANCE

The Group operates a defined benefit pension scheme, the Marks & Spencer UK Pension Scheme, (the "Scheme") for employees with an appointment date prior to 1 April 2002. The Scheme closed to future accrual from 1 April 2017. Employees are now eligible to join and are auto-enrolled as required by legislation into a defined contribution pension scheme, Your M&S Pension Saving Plan, which is part of a mastertrust arrangement managed by Legal & General.

The results of the triennial actuarial valuation of the Scheme as at 31 March 2015 revealed a surplus of £204m on a technical provisions basis. This represented a healthy improvement from a deficit of £290m as at 31 March 2012 as a result of agreed recovery plan contributions from the Company and outperformance of return-seeking assets over the period. The Scheme has also been hedged against interest rate and inflation risks and has thus been insulated from the effect of falling real interest rates. Scheme funding is closely and frequently monitored and Scheme investment risks are diversified.

The Scheme, the assets of which are held under trust separately from those of the Group, is managed by the Board of the Pension Trust ("Trustee Board"). The Trustee Board comprises four Company-nominated directors, including the Chairman, Graham Oakley, three member-nominated directors and two independent directors. All directors are appointed for a five-year term and may stand for additional terms.

The Trustee Board operates a number of committees including: Management and Governance, Investment, and Audit to which responsibilities are delegated. The Trustee Board is supported by an executive team which manages the governance and operation of the Scheme.

The Trustee Board has a business plan against which progress is measured periodically in a similar approach to the Group Board. There is also an annual Trustee Board Effectiveness Review and both the Trustee Board and the Investment Committee hold annual strategy days which help drive the long-term agenda and the business plan priorities. Each Trustee Board director has an individual training plan, which is based on the Pension Regulator's Trustee Knowledge and Understanding requirements and tailored to address any skill gaps and specific committee roles. A majority of the Trustee Board members hold the Pensions Management Institute Award in Trusteeship.

All advisers and suppliers are appointed through a rigorous tender process, and in respect of investment manager appointments are made with advice from the Scheme's appointed investment adviser. They are monitored via quarterly reports and periodic meetings and there is also a rolling programme of both informal and formal adviser reviews.

In addition to six-monthly reports from EY as covenant adviser, the Trustee Board also receives presentations from the Chief Finance Officer after the Group's Half Year and Year End results.

The Scheme is a signatory to the UN Principles for Responsible Investment and the Financial Reporting Council's UK Stewardship Code. It has partnered with a specialist engagement service, Hermes Equity Ownership Services (EOS), to exercise its global equity voting rights in accordance with a detailed Trustee Board policy, which addresses a range of governance, social and environmental issues. The engagement of EOS enhances the Trustee Board's stewardship and governance oversight of investee companies by engaging with companies on a global basis. The results of these voting and engagement activities are published quarterly on the Scheme's website.

GOVERNANCE

REMUNERATION OVERVIEW

Our remuneration framework is **aligned with the strategic direction** of M&S and the interests of our shareholders, with a clear focus on customer, simplicity and teamwork.

VINDI BANGA CHAIRMAN OF THE REMUNERATION COMMITTEE

On behalf of the Board, I am pleased to present our 2017 Remuneration Report. The Committee has sought to further improve our disclosures once again this year to provide not only the regulatory information we are required to disclose while balancing against commercial sensitivities, but also the context surrounding pay arrangements. Additional context has been provided where we believe this will help to present a complete picture of the structure and scale of the remuneration framework, its alignment with the business strategy and the rest of the workforce, as well as the payments made as a result of business performance for this year.

As highlighted last year, and in line with regulations, we are now seeking shareholder support and approval for our Remuneration Policy at the 2017 AGM. This year's summary 'Remuneration at a Glance' highlights not only the key elements of the payments made to directors this year, but also gives an outline of the proposed amendments to the Remuneration Policy which will govern pay arrangements in the next three years.

As required, this report is split into two further distinct sections, the first covering our updated Remuneration Policy, and the second covering remuneration in action for the 2016/17 and 2017/18 financial years. In accordance with regulations, shareholders will be requested to vote separately on these reports at our AGM in July 2017, with this Remuneration Overview and the Annual Report on Remuneration being subject to an advisory vote.

REMUNERATION FRAMEWORK CONSIDERATIONS

The Board is committed to ensuring that our remuneration framework supports our strategy, and provides a balance between motivating and challenging our senior leaders to deliver our business priorities, as set out by our CEO, and strong performance while also driving the long-term sustainable success of M&S. As a result, a significant part of performance related reward is delivered through shares. This ensures that our leaders have meaningful long-term investment in our business, and that their interests are closely aligned with our shareholders.

The Committee spent a considerable amount of time this year liaising with many of our shareholders and sharing a wide variety of views on remuneration generally, including the framework, structures, measures and targets. It explored a number of options taking into account the various perspectives and views and considering these against the current framework, the current economic and market environment, the business strategy and progress against the goals set out last year.

As we explained in the Annual Report last year, we delayed granting the 2016 Performance Share Plan (PSP) awards until December 2016 to ensure the targets set were appropriately aligned to the strategic review being undertaken by the new team following Steve Rowe's appointment as CEO. As the focus of the business plan announced in November 2016 remains unchanged and the team has had less than one year to start to implement much of this, the Committee considered that the structure of the current remuneration framework continues to support this strategy.

PROPOSED AMENDMENTS TO REMUNERATION POLICY

Taking all of the above into account, the Committee has therefore decided to maintain the principles of the framework first introduced in 2010 and approved by shareholders in 2014, but to make some minor amendments to incentive arrangements to ensure sharper and more relevant alignment between senior remuneration, the strategic direction of the Company, and the interests of our shareholders.

The PSP will continue to be the primary long-term incentive plan for executives. We are maintaining the overall construct of the plan, with the typical award being 250% of salary. However, we will be introducing a two-year holding period post vesting for all long-term incentive awards made from 2017, to ensure greater alignment of our leaders' remuneration with long-term stakeholder interests.

Furthermore, we will be reducing the cash supplement in lieu of pension contributions for new executive director appointments. The new threshold will be reduced from 30% (for the CEO) and 25% (for all other directors) to a maximum of 20% for all future executive directors, including the CEO. Contractual arrangements for current executive directors will remain unchanged at 25%. This removes any policy differential between the CEO and other executive directors.

KEY ELEMENTS OF 2017/18 REMUNERATION ARRANGEMENTS

The Annual Bonus Scheme will continue to be based on corporate financial targets (currently 70%) and individual objectives (currently 30%). The maximum opportunity will remain 200% of salary. The financial measure will continue to be Group PBT before adjusted items (Group PBT). The individual measures on page 69 highlight the importance of collective and customer focused measures to support the one team behaviours which have the customer at the heart of the business, in line with the business strategy.

The PSP will be maintained but will also now include a two-year holding period post vesting as previously outlined. TSR will be introduced as a key measure to both reinforce alignment of executive interests with shareholders, as well as being a relative measure of value creation. TSR will replace cash flow as a measure, and the financial measures of EPS and ROCE will be retained as measures of profitable and efficient business performance.

Each of the three measures will have equal weightage; thus TSR will count for a third; ROCE will count for a third and up from the historical 20%; EPS will count for a third, less than the historical 50%.

As in the past, the Committee will have oversight into the quality of how the outcomes of EPS and ROCE are delivered

IN THIS SECTION

and will exercise discretion as necessary. While the Committee believes that introducing TSR at this stage provides an important measure of the success of the new strategy for the executive team, the Committee also believes that certain strategic and non-financial measures may become more significant to M&S to warrant consideration for PSP measurements in future years.

Given the continued challenging economic and market environment, consumer concerns over Brexit, and ongoing currency and inflationary headwinds, the Committee has set the 2017/18 targets at what it believes would represent stretching business performance. For EPS and ROCE, targets have been increased from those set for the 2016 PSP award, which were rebased against the new financial plan. These increased targets reflect the plans for the business to return to growth in the next three years. TSR performance will be measured against a bespoke group of comparator companies, broadly similar to that adopted by other companies in our sector. In accordance with standard market practice, targets for threshold and maximum vesting will be set at median and upper quartile performance of the Group respectively.

REMUNERATION FOR 2016/17

As referenced earlier in the Annual Report, since his appointment as Chief Executive, Steve Rowe has set out clear and decisive plans to accelerate the pace of change to return the business to growth. A huge amount of work has already begun to implement and deliver this strategy, including the investment in Clothing & Home pricing and the reshaping of both the UK store estate and the International business. While these plans have laid the groundwork to M&S's long-term recovery, the necessary investment has meant that profits delivered this year are lower than last year, although above consensus expectations. However, this was not unexpected and our financial plan for the year reflected this.

The Remuneration Committee is satisfied that incentive payments for the executive directors reflect both the overall financial performance of the business and the hard work undertaken by the team to achieve this in the challenging environment. Total payments are around 35% of the maximum receivable, of both fixed and variable pay together, if all stretch targets had been achieved. This clearly demonstrates the philosophy of the executive directors' pay arrangements in action, including the rigour of target setting; maximum payments will only be payable for exceptional performance.

As can been seen on page 56, there is a clear and demonstrable link between business strategy and payments for 2016/17 performance to the executive directors. The key business priorities are referenced on pages 8-11 of this report. Executive director targets were aligned with these priorities and achievement against the key financial priorities are shown on pages 18-21.

ANNUAL BONUS OUTTURN

As highlighted earlier, the year has been one of considerable change for M&S. When approving payments, the Committee considered the overall performance of the business and of the executive directors against this, as well as against their individual targets. Details of the bonus payments to each of the executive directors are outlined on page 68. Bonus payments ranged from 37% to 42% of maximum opportunity. Bonus payments made to directors reflected the large proportion of collective measures for the year, in support of focusing on teamwork and simplicity within the pay arrangements.

PSP VESTING

The PSP awards granted in 2014 were measured for the three-year period up to 1 April 2017 against EPS, ROCE and Revenue targets. As the threshold targets were not achieved, all awards held by executive directors will lapse.

SALARY REVIEW

The Committee discussed the annual salary review for all executive directors. In line with the budget salary increases for the rest of the organisation, the Committee approved a 2% increase for all executive directors. However, as clearly disclosed in last year's report the executive directors have, for the second year in succession, chosen to not accept this increase. Salaries for the executive directors will therefore remain at those levels set in July 2015, apart from Steve Rowe, whose salary changed on his appointment to CEO in April 2016.

BOARD CHANGES

In September 2016, we announced that Laura Wade-Gery would not be returning to the business following her maternity leave. Laura's remuneration terms, disclosed at the time, were in line with the key provisions for contract termination as per the shareholder approved Remuneration Policy. In addition, details in relation to outstanding remuneration for Marc Bolland following his departure are also provided on page 75.

STAKEHOLDER ENGAGEMENT

We are grateful to shareholders, shareholder representative bodies, regulatory bodies and remuneration advisers for their engagement, feedback, challenge and view on remuneration matters over the past year. The Company has been actively involved on the subject of executive remuneration and stakeholder engagement, and earlier this year responded to the UK Government's Green Paper on Corporate Governance Reform.

Stakeholder engagement, including input from M&S's Business Involvement Groups are key to ensuring we continue to drive the transparency around our decisions relating to executive pay, provide clarity and quality of our performance targets and associated disclosures, and ensure the relevance of our long-term executive pay incentives and their alignment to the performance of the business. We are grateful for this ongoing dialogue. Together with the rest of the Board, I look forward to hearing your views on our remuneration arrangements and will be available to answer any questions you may have at the AGM.

Vindi Banga

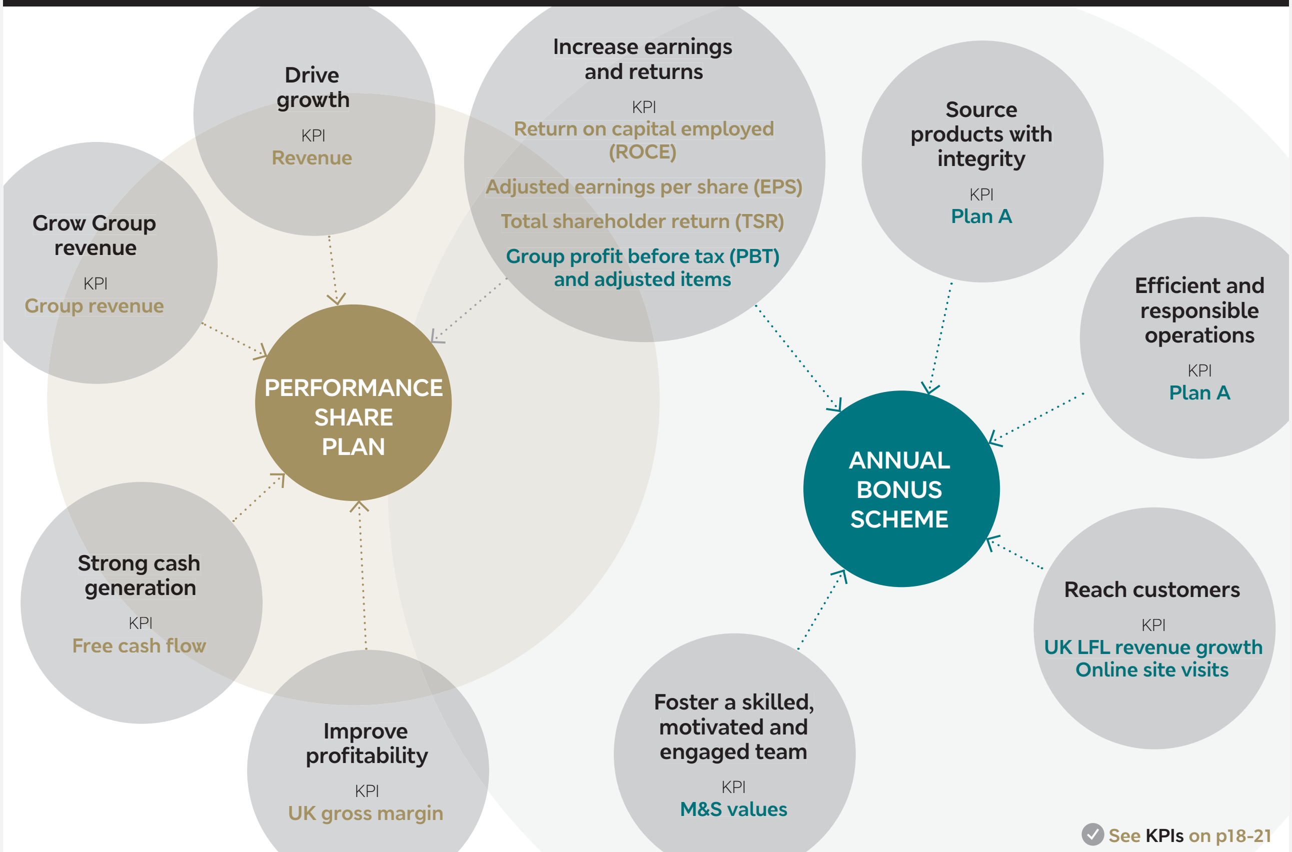
VINDI BANGA
CHAIRMAN OF THE REMUNERATION COMMITTEE

GOVERNANCE

REMUNERATION AT A GLANCE

This overview summarises our Remuneration Policy in action and shows the alignment between our remuneration framework, the Company's performance and payments to directors for 2016/17.

STRATEGIC ALIGNMENT OF REMUNERATION FRAMEWORK WITH KPIs



See KPIs on p18-21

2016/2017 PERFORMANCE

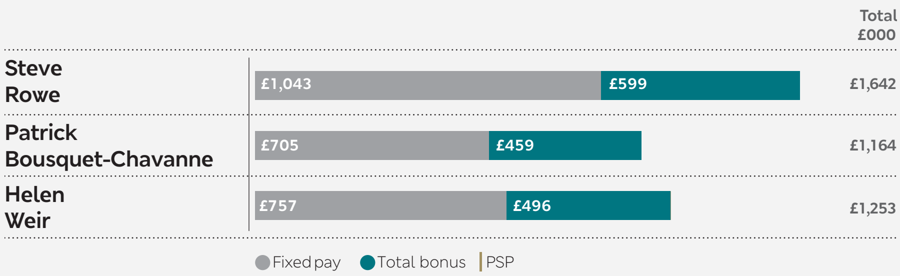
GROUP PBT BEFORE ADJUSTED ITEMS	GROUP REVENUE	RETURN ON CAPITAL EMPLOYED	ADJUSTED EARNINGS PER SHARE	FREE CASH FLOW (PRE SHAREHOLDER RETURNS)
£613.8m	£10.6bn	13.7%	30.4p	£585.4m
Group PBT was above the target set for bonus payments to begin. For executive directors, 19.5% of bonus opportunity was payable as a result of this Group PBT performance.	Performance under all revenue metrics was below the threshold required for payment under the 2014 PSP award, resulting in this element of the award lapsing.	Average 3-year ROCE performance of 14.5% (including 13.7% for 2016/17) was below the threshold required for this element of the 2014 PSP award to vest.	EPS growth was -1.9% over the three years ending in 2016/17 (based on the outturn of 30.4p for this year), which was below the 5% growth required for vesting under the 2014 PSP award.	Free cash flow performance for the year had no direct impact on payments for 2016/17 but will impact PSP payments for the next two financial years, measured on a cumulative 3-year basis. The 2016/17 outturn is more than 1/3 of the annualised target under the respective outstanding awards.

SINGLE FIGURE REMUNERATION 2016/17

The graph opposite summarises the total payments made to executive directors in respect of the 2016/17 financial year. These figures illustrate those detailed in the single figure table set out later in this report.

Fixed pay comprises salary, benefits and pension benefits. Further information on payments made under the Annual Bonus Scheme is illustrated below, with further details provided on page 68.

Performance Share Plan awards did not meet the threshold performance required for vesting this year and, as such, awards will lapse in full on their vesting date.

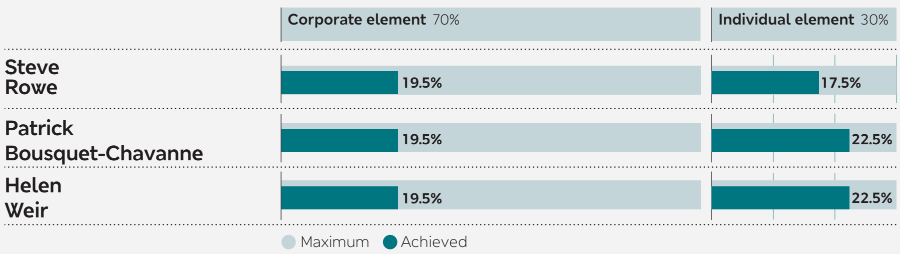


See Single figure remuneration on p66
See Annual Bonus Scheme below and p68
See PSP on p71

ANNUAL BONUS SCHEME 2016/17

Bonus payments made in respect of performance for the year were between 37% and 42% of maximum bonus opportunity. This resulted in payments ranging from c.£459,000 to c.£600,000, with half of all payments being deferred into shares for three years, subject to malus provisions being met.

Further detail on the performance measures and targets and the extent to which they were achieved are shown on page 68 of this report.



See Annual Bonus Scheme on p68

SUMMARY OF POLICY AND PROPOSED AMENDMENTS

Shareholders approved the Remuneration Policy at the AGM in 2014. As such, the Company is required to seek approval for the new policy at the AGM to be held on 11 July 2017. Pages 58 to 65 provide the full details of the proposed policy.

The Committee reviewed the senior remuneration framework during the year to ensure that it remains 'fit for purpose', providing an appropriate framework to fulfil M&S's reward philosophy which is, in turn, designed to support and drive the business strategy. Changes proposed to the policy are minimal as the Committee felt the previously approved framework remains broadly appropriate. For transparency, the table below sets out an overview of the key areas of the policy.

	Base salary	Benefits	Pension benefits	Annual Bonus Scheme	Performance Share Plan	Non-executive directors (including Chairman)
MAIN FEATURES OF CURRENT POLICY	→ Increases awarded are normally in line with those elsewhere in the business. Adjustments in excess of this may be made where the Committee deems it appropriate.	→ Benefits provided at a rate commensurate with the market and currently include a car or cash allowance, a driver, and life assurance plus other benefits provided to all employees, including employee discount.	→ Directors may participate in M&S's defined contribution arrangement on the same terms as other employees, or receive a cash supplement in lieu of pension contributions. Cash alternative maximum is currently 25% of salary for other executive directors (30% for CEO).	→ Maximum opportunity of 200% of salary. → 50% of total bonus deferred into shares for three years. → Measured against Adjusted Group PBT (currently 70% of award) and individual objectives. → Clawback and malus provisions apply.	→ Maximum award of 300% of salary. → Performance measured against financial targets over a three-year period. → Clawback and malus provisions apply.	→ Fees reviewed annually. → Comprise basic fee plus additional fee for extra responsibility of Board or committee chairman or Senior Independent NED. → In addition, the Chairman may be entitled to the use of a car and driver.
POLICY CHANGE	→ Salaries will be compared against appropriately-sized listed companies which may be outside of the FTSE 25-75 detailed in the previous policy.	→ No change.	→ For current executive directors, the maximum cash allowance will be limited to 25% of salary for all (including the CEO). → For future appointments, the cash amount payable will be capped at 20% of salary for all.	→ No change.	→ A two-year holding period post vesting will be introduced. → Performance conditions may include quantifiable non-financial/strategic measures, with financial measures comprising at least 50% of awards.	→ Fees will be compared against appropriately-sized companies which may be outside of the FTSE 25-75 detailed in the previous policy.

GOVERNANCE

REMUNERATION POLICY

This report sets out the Company's policy on remuneration for executive and non-executive directors, to be approved by shareholders at the AGM on 11 July 2017, from which date the policy will apply. The policy remains largely unchanged from that approved by shareholders in 2014; for transparency, where amendments have been made these are highlighted. Once approved, this policy may operate for up to three years.

As previously, the Committee has built in a degree of flexibility to ensure the practical application of the policy over this period. Where such discretion is reserved, the extent to which it may be applied is described.

The Company's policy remains to attract, retain and motivate its leaders and ensure they are focused on delivering business priorities within a framework designed to promote the long-term success of M&S, aligned with shareholder interests.

Further information regarding the implementation of the previous remuneration policy is set out on pages 66 to 77.

KEY CHANGES TO THE POLICY

Base salary	→ Base salaries will be compared against major retailers and appropriately-sized listed companies which may be outside of those ranked FTSE 25-75. Previously, the peer group comprised FTSE 25-75 ranked companies. This change reflects M&S's FTSE ranking.
Pension benefits	→ Maximum cash payments will be limited to 25% for all current executive directors and to 20% for all future executive directors. This reduction better reflects pension arrangements in the wider workforce.
Performance Share Plan	→ To further support shareholder alignment, a two-year holding period post vesting will apply to any awards granted to executive directors after the 2017 AGM. → Performance conditions may now include quantifiable non-financial or strategic measures. Previously, performance conditions were limited to financial measures only. This change will ensure strategic alignment of the PSP.

FIGURE 1: EXECUTIVE DIRECTORS' REMUNERATION POLICY TABLE (TO BE APPROVED ON 11 JULY)

ELEMENT	Base salary	Benefits
PURPOSE AND LINK TO STRATEGY	To attract, retain and motivate high calibre executives needed to deliver our strategy and drive business performance.	To provide market-competitive benefits which drive employee engagement and commitment in our business.
OPERATION	→ Payable in cash. → Reviewed annually by the Committee considering a number of factors, including: – Salary increases awarded to other employees in the wider workforce which are typically reviewed annually on a similar basis; and – Comparable salaries in appropriate comparator groups. → Salaries reflect the experience, responsibility and contribution of the individual and role within the Group. CHANGE FOR 2017 → **Appropriate comparator groups may include major retailers and similarly-sized listed companies which may be ranked outside of the FTSE 25-75.**	→ Directors are eligible to receive benefits in line with our policies which may include: – A car or cash allowance; – A driver; and – Life assurance. → Where appropriate, our Global/Domestic Mobility Policy may apply. This may include, but not be limited to, travel, relocation and tax equalisation allowances. → Directors are offered a number of other benefits in line with all other employees, such as employee discount and salary sacrifice schemes such as Cycle2Work. → Directors may participate in a Save As You Earn Scheme and a Share Incentive Plan and any other all-employee share schemes on the same terms as other employees.
MAXIMUM OPPORTUNITY	→ While there is no set maximum, any increases are normally in line with those in the wider workforce. → Individual adjustments in excess of this may be made outside of this cycle at the discretion of the Committee, where appropriate. Such circumstances can include: – Where the role scope has changed; – Where comparable salaries in the external market have changed; or – To apply salary progression for newly appointed directors.	→ While there is no set maximum, any benefits will be provided at a rate commensurate with the market. → Maximum participation in all-employee share schemes is in line with local statutory limits.
PERFORMANCE CONDITIONS	N/A	N/A

Pension benefits	Annual Bonus Scheme including Deferred Share Bonus Plan (DSBP)	Performance Share Plan (PSP)
To attract and retain high calibre executives through a commitment to responsible, secure retirement funding in line with our Company values.	To drive annual profitability, strategic change and individual performance in line with the business plan. To recognise and reward individual contributions to the way we do business. The deferral into shares provides alignment with shareholders' long-term interests following the successful delivery of short-term targets.	Measured against the key financial drivers of the business plan to deliver sustainable value creation. To encourage long-term shareholding to retain directors, and provide greater alignment with shareholders' interests.
→ Current directors may participate in the Your M&S Pension Saving Plan (a defined contribution arrangement) or an alternative pension saving vehicle that the Company may offer, on the same terms as all other employees or receive a cash supplement in lieu of pension contributions into this scheme.	→ Directors are eligible to participate in this non-contractual, discretionary scheme. → Payments are made subject to the satisfaction of predetermined targets set at the start of the year, as approved by the Committee. → Not less than 50% of any bonus earned is paid in deferred shares under the DSBP, with the remainder payable in cash. → Deferred shares vest after a period of three years subject to continued service, but no further performance conditions. → Clawback and malus rules apply to cash and DSBP awards respectively, see explanatory notes (page 60) for more information. → Good leaver and change of control provisions apply to the deferred shares (see explanatory notes). → The value of any dividends during the deferred period will be payable (see explanatory notes). → The Committee retains the right to exercise discretion, both upwards and downwards, to ensure that the level of award payable is appropriate and fair in the context of the director's individual performance and the Company's overall performance. Where exercised, the rationale for this discretion will be fully disclosed to shareholders in the subsequent Annual Report.	→ The Company's principal long-term incentive scheme, approved by shareholders in 2015. → Directors are eligible to participate in this non-contractual, discretionary plan. → Directors may receive an annual award which vests after three years subject to predetermined performance conditions. → Clawback and malus rules apply to awards (see explanatory notes). → Good leaver and change of control provisions apply (see explanatory notes). → The value of any dividends during the vesting period will be payable. (see explanatory notes) CHANGE FOR 2017 → **Awards granted after 11 July 2017 will be subject to a further two-year holding period after the vesting date. Directors may sell sufficient shares to satisfy the tax liability on exercise but must retain the net number of shares until the end of this two-year period.**
→ A maximum cash payment of 25% of salary for current executive directors. → A maximum employer contribution of 12% of salary where the employee contributes 6% of salary. CHANGE FOR 2017 → **The cash alternative provided to current executive directors will be limited to 25% of salary for all directors. For directors appointed to the Board after 11 July 2017, the cash alternative will be up to a maximum of 20% of salary for all directors.**	→ A maximum annual potential of up to 200% of salary.	→ The maximum value of shares (at grant) which can be made under an award to an individual in respect of a financial year is 300% of salary.
N/A	→ Quantifiable one-year performance measures and targets are set by the Committee around financial and individual objectives linked with the sustainable delivery of the business plan. → Financial performance measures comprise at least 50% of awards and may include, but not be limited to Group PBT after adjusted items. → Typically, no payment for individual objectives can be earned unless a 'threshold' level of Group PBT after adjusted items has been achieved. This threshold level is set by the Committee taking into account the previous year's performance and the business operating plan for the current year. → For threshold performance, up to 40% (currently 30%) of maximum bonus potential may be payable for the achievement of individual objectives.	→ Performance is measured over a three-year period against a balanced scorecard of appropriate measures as determined by the Committee each year. This currently includes EPS and ROCE chosen as those measures which support and drive top-line and bottom-line performance in line with business strategy, as well as Total Shareholder Return (TSR). → The threshold level of vesting is 20% of the maximum. → For performance between threshold and maximum, awards vest on a straight-line basis. CHANGE FOR 2017 → **Awards may be measured against appropriate financial, non-financial and/or strategic measures. Financial measures comprise at least 50% of awards.**

EXECUTIVE DIRECTORS' REMUNERATION POLICY CONTINUED

FIGURE 2: POLICY TABLE

Executive directors may be in receipt of awards under share plans outside of the current remuneration framework detailed on pages 58 and 59; these may have been awarded upon recruitment or prior to their appointment as an executive director. While awards under these plans do not form part of a forward-looking policy, for transparency, details of the plans are set out in the table below:

ELEMENT	PURPOSE AND LINK TO STRATEGY	OPERATION	MAXIMUM OPPORTUNITY	PERFORMANCE CONDITIONS
Restricted Share Plan (RSP)	To enable the recruitment of key directors who are necessary to the delivery of business strategy.	→ Restricted awards may be granted for the recruitment of directors. → Awards vest after a restricted period, which can vary by award but is typically between one and three years. → Malus provisions, good leaver and change of control provisions apply (see pages 60 and 63). → The value of any dividends during the restricted period will be payable (see explanatory notes below).	→ While there is no maximum set in the rules, the Committee considers the scale and structure of awards on an individual basis.	→ The Committee may choose to apply no formal performance conditions save for continued service.
Executive Share Option Scheme (ESOS)	Measured against the key drivers of our business plan to deliver sustainable value creation. To encourage long-term shareholding to retain directors, and provide greater alignment with shareholders' interests.	→ Approved by shareholders and HMRC in 2015, the Committee may choose to award share options to directors if appropriate. → Malus provisions, good leaver and change of control provisions apply (see pages 60 and 63). → Options are normally exercised between the third and tenth anniversaries of grant, subject to the achievement of any performance conditions set by the Committee.	→ Awards are capped at 250% of salary in respect of any financial year of the Company but in recruitment circumstances awards may be granted up to a higher limit of 400% of salary.	→ Awards vest subject to at least three-year predetermined performance conditions.

EXPLANATORY NOTES

The Committee reserves the right to make any remuneration payments notwithstanding that they are not in line with the Policy set out above, where the terms of the payment were agreed at a time when the relevant individual was not a director of the Company and, in the opinion of the Committee, the payment was not in consideration of the individual becoming a director of the Company.

For these purposes, payments include the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are agreed at the time the award is granted.

Awards granted under the PSP, DSBP, and RSP can be made in the form of conditional share awards, forfeitable shares, options or rights with the same economic effect. In addition, awards may be settled in cash. Awards may incorporate the right to receive (in cash and shares) the value of dividends, including any dividend tax credit where applicable, between grant and vesting on the shares that vest. This amount may be calculated on a cumulative basis, assuming the reinvestment of dividends into shares.

In the event of a variation of the Company's share capital or a demerger, special dividend or other event which in the Committee's opinion may affect the price of shares, the Committee may alter the terms of awards and the number of shares subject to them. The terms of awards may be amended in accordance with the relevant plan rules (which were approved by shareholders on 7 July 2015).

Any performance conditions applicable to PSP and ESOS awards may be amended by the Committee if an event occurs which causes it to consider that the performance condition would not achieve its original purpose and the amended performance condition is, in the opinion of the Committee, no less difficult to satisfy but for the event in question.

CLAWBACK AND MALUS

M&S is committed to ensuring its remuneration arrangements motivate participants to strive for exceptional performance while also protecting shareholder value from the Company taking unnecessary risks. As such, clawback and malus provisions apply to the executive directors' incentive arrangements. All share awards granted from 2013 onwards are subject to malus provisions. These provisions allow the Committee, in its absolute discretion, to determine at any time prior to the vesting of an award to reduce the number of shares, cancel an award or impose further conditions on an award in circumstances for which the Committee considers such action to be appropriate. Such circumstances may include, but not be limited to, a material misstatement of the Company's audited results.

In addition, clawback provisions were introduced in 2015 and apply to cash payments made under the Annual Bonus Scheme. Awards made under any of the Company's other executive share schemes (including the Performance Share Plan) in 2015 and onwards will similarly be subject to clawback provisions. These provisions enable the Committee, in its absolute discretion, to reclaim awards paid to individuals for up to three years after the respective vesting or payment date (or up to two years in the case of PSP awards) where specified events occur. The specified events include gross misconduct or where a material misstatement of the Company's financial statements has occurred. Clawback may be effected, among other means, by requiring the transfer of shares, payment of cash or reduction of awards.

EXPLANATORY NOTES CONTINUED

PERFORMANCE CONDITIONS AND TARGET SETTING

The Committee reviews annually the measures, weightings and targets for the incentive arrangements for the executive directors. In doing so, the Committee considers a number of factors which assist in forming a view. These include, but are not limited to, the strategic priorities for M&S over the short- to long-term, shareholder feedback, the risk profile of the business and the macro-economic climate.

The Annual Bonus Scheme is measured against a balance of profitability and the delivery of key strategic areas of importance for the business. The profitability measure used is Group PBT before adjusted items as this is used internally to report and assess business performance by the Board and Operating Committee. Refer to the glossary on pages 133 to 134 for the definition of Group PBT before adjusted items, and to Note 1 of the financial statements for a description of adjusted items.

The PSP is assessed against a balance of measures identified as those most relevant to driving both sustainable top-line and bottom-line business performance, as well as providing value for shareholders. This is reflected in the EPS and ROCE measures which focus on a balance of profitability, cost control and the efficient use of capital investment.

For 2017/18, relative TSR will be introduced to ensure focus on the value delivered to shareholders. This is measured against a bespoke group of retail companies which are believed to provide a balanced portfolio of those most likely to be alternative investment choices for M&S shareholders.

Targets are set against the respective annual and long-term operating plans taking into account analysts' forecasts, M&S's strategic plans, prior year performance, estimated vesting levels and the affordability of pay arrangements. Targets are set to provide a sustainable balance of risk and reward to ensure that, while being motivational for participants, maximum payments are only made for exceptional performance.

REMUNERATION FRAMEWORK FOR THE REST OF THE ORGANISATION

M&S's philosophy is to provide a fair and consistent approach to pay. Remuneration is determined by level and is broadly aligned with those of the executive directors.

Base salaries are reviewed annually and reflect the local labour market.

All UK employees are eligible to participate in the Your M&S Pension Saving Plan on the same terms as the executive directors. In addition, all UK employees are provided with life insurance and employee discount, and may choose to participate in the Company's all-employee share schemes and salary sacrifice arrangements.

All employees are eligible to be considered to participate in an annual bonus scheme which for the majority will be a cash-based payment partially determined by Group PBT performance. For M&S's most senior executives, part of the bonus is deferred into shares for three years.

Around the top 120 of M&S's senior executives may be invited to participate in the PSP, measured against the same performance conditions as executive directors. Award levels granted are determined to be aligned with market practice and reflect an individual's level of seniority as well as their performance and potential within the business.

CONSIDERATION OF WIDER WORKFORCE PAY

The Committee monitors and reviews the effectiveness of the senior remuneration policy and has regard to its impact and compatibility with remuneration policies in the wider workforce.

The Committee is provided throughout the year with information detailing pay in the wider workforce which gives additional context for the Committee to make informed decisions. The HR Director advises the Committee of the approach which will be adopted with the forthcoming UK pay review and the Committee then considers the executive directors' pay in line with these arrangements.

The HR Director consults on all executive director bonus objectives and advises the Committee on how, and the extent to which, these may be cascaded throughout the Company. In approving the budget for the annual bonus, the Committee reviews all bonus costs for the Company against the operating plan. The Committee also reviews and approves any PSP awards made to executive directors and directors below the Board prior to their grant.

The Committee also receives updates on a variety of employee engagement initiatives which form part of our normal employee engagement practices. Employees were not consulted on the development of the policy. The annual 'Your Say' employee survey asks employees about the fairness and reasonableness of employee pay and benefits. Any comments made through this survey or through our network of elected employee representatives via our Business Involvement Groups are considered. The Head of Performance & Reward annually provides these employee representatives with an explanation of the Company's reward principles and director pay arrangements during the year, and is available to answer questions at this time.

CONSIDERATION OF SHAREHOLDER VIEWS

The Committee is committed to an open and transparent dialogue with its shareholders on the issue of executive remuneration. Where appropriate, the Committee will actively engage with shareholders and shareholder representative bodies, seeking views which may be considered when making any decisions about changes to the directors' Remuneration Policy.

The Committee seeks the views of the largest shareholders individually and others through shareholder representative bodies when considering making any significant changes to the Remuneration Policy; this may be done annually or on an ad hoc basis, dependent upon the issue. The Committee annually engages in a process of investor consultation, which is typically in written format, but may be through face-to-face meetings etc., if considered useful. The Committee Chairman is available to answer questions at the AGM and the answers to specific questions are posted on our website.

As part of our socially responsible reporting strategy, an annual shareholder meeting is normally held and the consideration of views on a variety of topics, including executive pay, is taken into account.

RECRUITMENT POLICY

The table below sets out the Company's policy on the recruitment of new executive directors. Similar considerations may also apply where a director is promoted within the Board.

In addition, the Committee in exceptional circumstances has discretion to include any other remuneration component or award which it feels is appropriate, considering the specific circumstances of the individual, subject to the limit on variable remuneration set out below.

The rationale for any such component would be appropriately disclosed. For example, for internal promotional appointments to the Board, the Committee would honour any pre-existing contractual remuneration arrangements; these arrangements may be outside of the policy detailed on pages 58 to 65.

FIGURE 3: RECRUITMENT POLICY

ELEMENT	RECRUITMENT POLICY
Salary	→ The Committee will take into consideration a number of factors, including the current pay for other executive directors, external market forces, skills and current level of pay at the previous employer, in determining the pay on recruitment. → For new appointments to the Board, the Committee may set the rate of pay at the lower end of the rate for other directors and/or other comparable roles within the market with the intention of applying staged increases.
Benefits	→ The Committee will offer a package which is set in line with our policy to appropriately reflect the circumstances of the individual.
Pension benefits	→ Maximum contribution in line with our policy for future executive directors (up to 20% of salary).
Annual Bonus Scheme	→ Eligible to take part in the Annual Bonus Scheme with a maximum bonus of 200% of salary in line with our policy for executive directors.
PSP	→ An award of up to 300% of salary in line with our policy for executive directors.
Buy-out awards	→ Where an individual forfeits outstanding variable pay opportunities or contractual rights at a previous employer as a result of appointment, the Committee may offer compensatory payments or buy-out awards, dependent on the individual circumstances of recruitment, determined on a case-by-case basis. → The Committee in its judgement normally intends that any such payments are made on a like-for-like basis and considers issues such as the plan type, time horizons and valuation of the forfeited awards. The Committee's intention would be to ensure that the expected value awarded will be no greater than the expected value forfeited by the individual. → Where appropriate, the Committee may choose to apply performance conditions to any of these awards.

SERVICE CONTRACTS

It is the Company's policy that all executive directors have rolling service contracts that can be terminated by the Company giving 12 months' notice and the employee giving six months' notice. The directors' service contracts are available for shareholder inspection at the Company's registered office.

TERMINATION POLICY

TERMINATION POLICY

The Company may terminate the contract of any executive director summarily in accordance with the terms of their service agreement, on payment in lieu of notice of a sum equal to salary, benefits and pension as per their contractual notice entitlement (see page 75).

The Company can make a series of phased payments which are paid in monthly instalments, subject to mitigation. This mechanism allows for the amount of any phased payments to be reduced by the income from any alternative position secured by the former director during the phased payments period.

Service agreements may be terminated without notice and without any payments in certain circumstances, such as gross misconduct. The Company may require the individual to work during their notice period, or may choose to place the individual on garden leave. Such a decision would be made to ensure the protection of the Company's and shareholders' interests where the individual has had access to commercially sensitive information.

The table below sets out key provisions for directors leaving the Company under their service contracts and the incentive plan rules.

The Company's policy towards exit payments allows for a variety of circumstances whereby a director may leave the business. In some cases, where deemed suitable, the Committee reserves the right to determine exit payments, where the director leaves by mutual agreement. In all circumstances, the Committee does not intend to 'reward failure' and will make decisions based on the individual circumstances. The Committee's objective is that any such agreements are determined on an individual basis and are in the best interests of the Company and shareholders at that time, and reflect the director's contractual and other legal rights.

CORPORATE EVENTS

In the event of a change of control or winding-up of the Company, unvested share awards will normally vest on the date that the Board notifies participants of such an event. The number of shares which may vest under awards in these circumstances will be subject to any relevant performance conditions and, in the case of PSP awards, unless the Committee determines otherwise, time pro-rating.

In the event of a demerger, special dividend or other event which, in the opinion of the Committee affects the price of shares, the Committee may allow some or all of an award to vest.

FIGURE 4: KEY PROVISIONS UPON CONTRACT TERMINATION

ELEMENT	TERMINATION POLICY
Salary, benefits and pension benefits	→ Payment will be made up to the termination date in line with relevant contractual notice periods.
Annual Bonus Scheme	→ There is no contractual entitlement to payments under the Annual Bonus Scheme. Should a director be under notice or not in active service at either the relevant year end or on the date of payment, there will be no entitlement to any bonus payment, either in cash or shares. The Committee may use its discretion as described below to make a bonus award, which is normally pro-rated for time worked during the relevant financial year and based on performance assessed at the end of the bonus period.
Long-term incentive awards	→ Where a director ceases to be an officer or employee of the Group before the end of the relevant vesting period, the treatment of outstanding awards is determined in accordance with the plan rules. → In some circumstances, where a director leaves due to retirement, injury, ill-health, death or the sale of the director's employing company or business out of the Group, or any other reason at the discretion of the Committee and in accordance with the plan rules, DSBP awards normally vest in full on cessation; PSP and ESOS awards which have been held for at least 12 months normally vest when the level of performance has been assessed and agreed at the end of the three-year performance period. The Committee may determine these awards vest upon cessation as permitted in the plan rules. In either circumstance, any relevant performance conditions would still apply to the PSP and ESOS awards and, unless the Committee determines otherwise, would be time pro-rated and subject to the two-year holding period post vesting.
Repatriation	→ Where a director has been recruited either to the Company or the Board from overseas, the Company may pay for repatriation.
Legal expenses and outplacement	→ The Company may reimburse for reasonable legal fees in the event a director leaves by mutual consent. It may also pay for professional outplacement services in these circumstances.

GOVERNANCE CONTINUED

NON-EXECUTIVE DIRECTORS' REMUNERATION POLICY

The table below sets out our policy for the operation of non-executive directors' fees and benefits at the Company.

FIGURE 5: NON-EXECUTIVE DIRECTORS' REMUNERATION POLICY TABLE

ELEMENT	Chairman's fees	Non-executive director basic fee	Additional fees	Benefits
PURPOSE AND LINK TO STRATEGY	To provide a fair fee at a level that attracts and retains a high-calibre Chairman.	To provide a fair basic fee at a rate that attracts and retains high-calibre non-executive directors.	To provide compensation to non-executive directors taking on additional Board responsibilities.	To facilitate the execution of responsibilities and duties required by the role.
OPERATION	→ Total fee comprised of the non-executive director basic fee and the additional fee for undertaking the role. → Paid in equal monthly instalments; may be made in cash and/or shares. → Fees are determined by the Remuneration Committee. → Fees reflect the time commitment, demands and responsibility of the role. → Reviewed annually, taking into account market practice in appropriate comparator groups, e.g. major retailers, appropriately-sized listed companies, etc. CHANGE FOR 2017 → **Appropriate comparator groups may include major retailers and similarly-sized listed companies which may be ranked outside of the FTSE 25-75.**	→ Fees are paid in equal monthly instalments and may be made in cash and/or shares. → Fees are determined by the Chairman and executive directors. → The fee level recognises the scope of the role and time commitment required. → Reviewed annually taking into account market practice in appropriate comparator groups (e.g. major retailers, appropriately-sized listed companies, etc.). → The maximum aggregate non-executive director basic fees, including the Chairman, is £750,000 p.a., as set out in the Company's Articles of Association. CHANGE FOR 2017 → **Appropriate comparator groups may include major retailers and similarly-sized listed companies which may be ranked outside of the FTSE 25-75.**	→ Additional fees are paid for extra responsibilities undertaken by non-executive directors for the role of Board Chairman, a committee chairman or the Senior Independent Director role.	→ In addition to the annual fee, the Chairman may be entitled to the use of a car and driver. → In line with other employees, the Chairman and non-executive directors receive employee product discount. No other benefits are provided. → The Chairman and non-executive directors do not participate in pension or performance-related schemes.

FIGURE 6: RECRUITMENT POLICY

The table below sets out the recruitment policy for non-executive directors.

ELEMENT	RECRUITMENT POLICY
Fees	→ The Committee takes into account a number of factors when determining an appropriate fee level for the Chairman. The CEO and executive directors determine appropriate fee levels for the non-executive directors. This consideration includes the time commitment and responsibility of the individual role and market practice in appropriate comparator groups.
Benefits	→ The Company may offer benefits to the Chairman and non-executive directors as detailed in the non-executive director policy table above.

AGREEMENTS FOR SERVICE

All non-executive directors, including the Chairman, have an agreement for service for an initial three-year term; these are available for shareholder inspection at the Company's registered office. The Chairman has an agreement for service which requires six months' notice by either party. Non-executive directors' service agreements may be terminated by either party giving three months' notice. In line with the UK Corporate Governance Code, all non-executive directors are subject to annual re-election by shareholders at our AGM.

KEY CHANGES TO THE POLICY

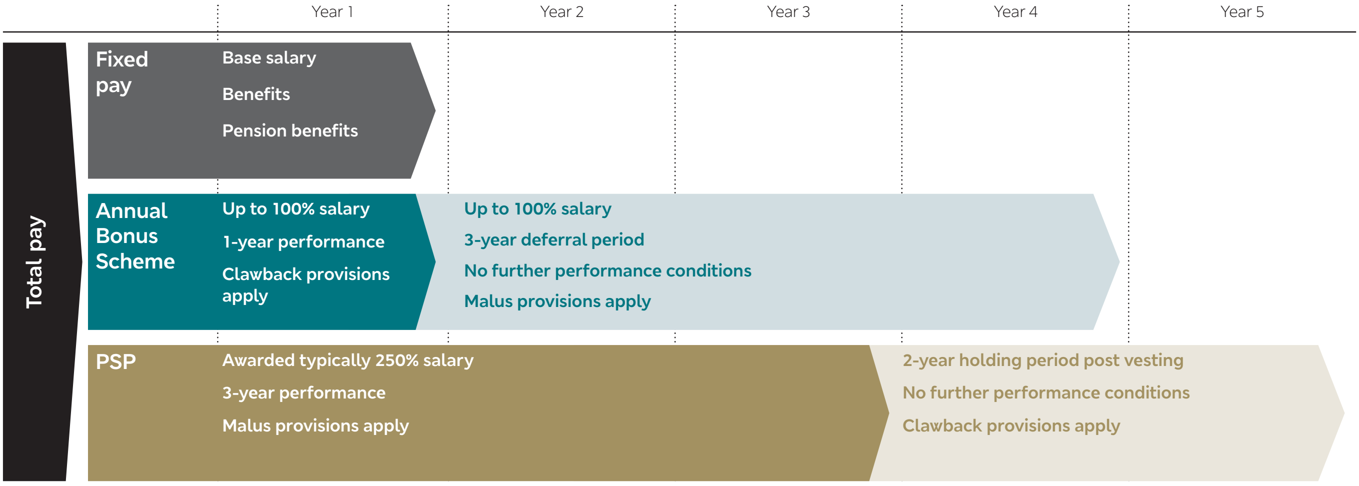
Fees	→ Fees will be compared against major retailers and similarly-sized listed companies which may be ranked outside of the FTSE 25-75 detailed in the previous policy.

EXECUTIVE DIRECTORS' REMUNERATION POLICY

FIGURE 7: SUMMARY OF REMUNERATION POLICY (TO BE APPROVED ON 11 JULY 2017)

See KPIs on p18-21

The diagram below illustrates the balance of pay and time period of each element of the proposed remuneration policy for executive directors which, if approved, will take effect after the 2017 AGM. The Committee believes this mixture of short- and long-term incentives fixed to performance-related pay is appropriate for M&S's strategy and risk profile.

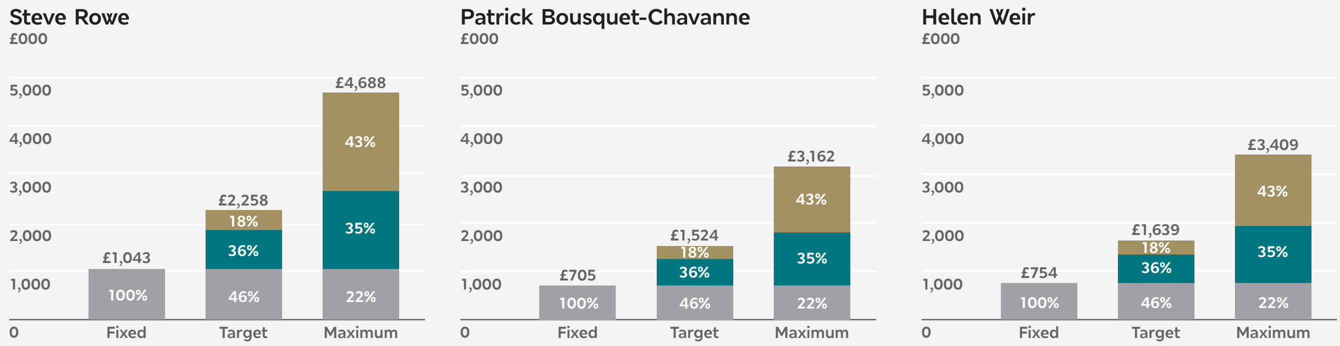


APPLICATION OF THE REMUNERATION POLICY

The charts below provide an illustration of what could be received by each of the executive directors in 2017/18. These charts are illustrative as the actual value which will ultimately be received will depend on business performance in the year 2017/18 (for the cash element of the Annual Bonus Scheme) and in the three-year period to 2019/20 (for the PSP), as well as share price performance to the date of the vesting of the share element of the Annual Bonus Scheme and PSP awards in 2020.

FIGURE 8: REMUNERATION ILLUSTRATIONS

DIRECTORS



KEY

Fixed remuneration

Includes all elements of fixed remuneration:

- Base salary (effective 1 July 2017, as shown in the table on page 67);
- Pension benefits (using the cash supplement policy on pages 58 to 59); and
- Benefits (using the value for 2016/17 included in the single figure table on page 66.

Annual Bonus Scheme (ABS)

Represents the potential value of the annual bonus for 2017/18. Half of any bonus would be deferred into shares for three years and this is included in the value shown. No share price growth is assumed.

PSP

PSP represents the potential value of the PSP to be awarded in 2017, which would vest in 2020 subject to the performance against the targets disclosed on page 71. Awards would then be held for a further two years. No share price growth is assumed.

BASIS OF CALCULATIONS

Fixed Fixed remuneration only. No vesting under the ABS and PSP.

Target Includes the following assumptions for the vesting of the incentive components of the package:

– ABS: 50% of maximum; and

– PSP: 20% of maximum.

Maximum Includes the following assumptions for the vesting of the incentive components of the package:

– ABS: 100% of maximum; and

– PSP: 100% of maximum.

GOVERNANCE

REMUNERATION REPORT

EXECUTIVE DIRECTORS' REMUNERATION

The Remuneration Committee annually reviews the senior remuneration framework and considers whether the existing incentive arrangements remain appropriately challenging in the context of the business strategy, current external guidelines and a range of internal factors including the pay arrangements and policies throughout the rest of the organisation. In its discussions, the Remuneration Committee aims to ensure that not only is the framework strategically aligned to the delivery of business priorities, but also that payments made during the year fairly reflect the performance of the business. As illustrated on page 56, a significant proportion of the performance measures used in the incentive schemes are integrated with M&S's business objectives and key performance indicators detailed on pages 18 to 21.

The diagram below illustrates the extent to which each executive director achieved the maximum opportunity under the Company's incentive schemes as a result of short- and long-term performance to the end of the reported financial year and summarises the main elements of the senior remuneration framework. Further details of payments made during the year are set out in the single figure table below (Figure 10).

FIGURE 9: REMUNERATION STRUCTURE 2016/17

See KPIs on p18-21

Fixed pay	+ Annual bonus	+ PSP	= Total pay for 2016/17
Base salary	200% salary maximum bonus opportunity (with 50% deferral)	250% salary awarded in 2014/15	Total payments range between 35% and 37% of maximum potential
Benefits	Measured against a balance of Group PBT and individual performance.	Measured against EPS, ROCE and Revenue targets. Achievement was below threshold against these measures.	
Pension benefits			
No salary increase	Payments made are between 37% - 42% of maximum bonus opportunity	0% of award vested	

For more information see p68

For more information see p71

FIGURE 10: TOTAL SINGLE FIGURE REMUNERATION (audited)

Director	Year	Salary £000	Benefits £000	Total bonus £000	Total PSP vested £000	Pension benefits £000	Total £000
Steve Rowe	2016/17	809	32	599	0	202	**1,642**
	2015/16	549	34	230	56	137	**1,006**
Patrick Bousquet-Chavanne	2016/17	546	22	459	0	137	**1,164**
	2015/16	541	38	366	40	135	**1,120**
Laura Wade-Gery (to 12 September 2016)	2016/17	35	8	0	0	63	**106**
	2015/16	383	18	207	59	141	**808**
Helen Weir	2016/17	590	19	496	0	148	**1,253**
	2015/16	590	208	620	0	148	**1,566**

Laura Wade-Gery left the Board on 12 September 2016 and, as such, the payments above relate to those made until that date. Further details of Laura's leaving arrangements are detailed on page 75 of this report.

As disclosed in the 2015 report, for Helen Weir, benefits for 2015/16 also included £188,500, the differential value in contractual pension she forfeited to join M&S. This was paid in 12 monthly instalments.

Note that the value of awards vesting in 2015/16 has been restated to reflect the actual value of dividend equivalents and share price at the time of vesting.

The following sections detail additional disclosures regarding each of the components set out in the previous single figure table.

SALARY (audited)

When reviewing salary levels, the Committee takes into account a number of internal and external factors, including Company performance during the year, external market data and the salary review principles applied to the rest of the organisation, to ensure a consistent approach.

As reported in last year's report, all executive directors were awarded a salary increase of 2% for July 2016 but, in support of the proposed new pay arrangements being made elsewhere in the UK organisation, they chose to decline this increase. Further, they also indicated that should an increase be awarded for July 2017, they would be similarly minded to decline that increase.

The Committee noted this intention but for completeness, discussed the executive directors' annual salary review during the year. All executive directors were eligible to be considered for a review and after taking into account several factors including the average increases to be awarded to the wider UK workforce, the Committee approved a 2% pay increase.

All executive directors have again this year declined their respective pay increases. Their next annual review will be effective in July 2018.

The table below details the executive directors' salaries as at 1 April 2017 and salaries which will take effect from 1 July 2017.

FIGURE 11: SALARIES

	Annual salary as of 1 April 2017 £000	Annual salary as of 1 July 2017 £000	Change in salary % increase
Steve Rowe	810	810	0
Patrick Bousquet-Chavanne	546	546	0
Helen Weir	590	590	0

BENEFITS (audited)

Each executive director receives a car or cash allowance and is offered the benefit of a driver. The Company also provides each director with life assurance. Executive directors receive employee product discount and are eligible to participate in salary sacrifice schemes such as Cycle2Work in line with all other employees.

PENSION BENEFITS (audited)

Executive directors currently all receive a 25% cash payment in lieu of participation in an M&S pension scheme.

Steve Rowe is a deferred member of the Marks & Spencer UK Pension Scheme. Details of the pension accrued during the year ended 1 April 2017 are shown below.

FIGURE 12: PENSION BENEFITS

	Normal retirement age	Accrued pension entitlement as at year end £000	Additional value on early retirement £000	Increase in accrued value £000	Increase in accrued value (net of inflation) £000	Transfer value of total accrued pension £000
Steve Rowe	60	148	0	2	0	4,301

The accrued pension entitlement is the deferred pension amount that Steve Rowe would receive at age 60 if he left the Company on 1 April 2017. All transfer values have been calculated on the basis of actuarial advice in accordance with the current Transfer Value Regulations. The transfer value of the accrued entitlement represents the value of the assets that the pension scheme would transfer to another pension provider on transferring the scheme's liability in respect of a director's pension benefits. It does not represent sums payable to a director and therefore cannot be added meaningfully to annual remuneration.

GOVERNANCE CONTINUED

ANNUAL BONUS SCHEME

ANNUAL BONUS SCHEME 2016/17 (audited)

Annual performance for 2016/17 was measured against Group PBT (70% of awards) and individual performance (30% of awards). Group PBT is used in the bonus as the Group considers this to be an important measure of Group performance and is consistent with how the business performance is assessed internally by the Board and Operating Committee.

Individual performance was measured against both collective corporate performance and performance aligned with the individual's specific areas of responsibility. Individual performance measures for the year were aligned with the key strategic business priorities identified at the start of the year. Figure 13 provides an overview of the key achievements against each executive director's accountabilities over the period.

Group PBT outturn for the year was £613.8m which was above the targets set to trigger payments under both the corporate and individual elements of the Scheme.

As shown in Figure 14 below, this meant that executive directors were awarded 27.9% of maximum opportunity under the corporate element of the Scheme and on average c.70% of maximum for individual performance.

The Committee reviewed achievement to ensure that total payments were appropriate in the context of several factors. These included M&S's overall financial performance, the outturn of individual objectives, the level of bonus payable elsewhere in the business, and success towards Plan A targets and M&S values which underpinned the entire Scheme again during the year.

See Plan A Report for more detail

The Committee was satisfied that each director continued to ensure that the delivery of Plan A commitments and the behavioural ways of working supported the delivery of the business priorities. As such, the Committee determined that no adjustments were required against the underpin and that the final payments calculated were appropriate.

The Committee ensures that targets set are the relevant drivers of required annual performance. Consequently, some of the 2016/17 targets are too commercially sensitive to disclose as they are not disclosed elsewhere in the report. M&S remains committed to transparent reporting within the context of operating in a highly competitive market. The Committee will continue to assess the commercial sensitivity of targets with the aim of disclosing wherever possible, while ensuring that any measures set are those most appropriate to grow the business.

Figure 14 below sets out the Group PBT targets comprising 70% of awards and illustrates the extent to which each director achieved their three individual objectives. Total payments shown below directly correspond to the figure included in the single figure table on page 66 .

FIGURE 13: KEY ACHIEVEMENTS OF INDIVIDUAL OBJECTIVES 2016/17

Director	Collective customer (10%)	Collective strategic (10%)	Local financial (10%)
Steve Rowe	Customer satisfaction over the year improved. Net Promoter Score (NPS), which was the measure for this element of bonus, increased four points for Food and for Clothing & Home remained level, although improved amongst frequent customers and in larger stores. This led to a payment against this measure of 7.5%.	Action taken this year to simplify the business included the successful organisation transformation and restructure of Head Office. Role reductions were made and there was no overall impact on engagement scores for this population. Employee engagement within the total business increased to 81%. As a result of this performance, including above target restructure cost savings, maximum payment was made under this measure (10%).	Performance impacted by reduction in promotional and markdown activity leading to below target UK LFL Clothing & Home revenue growth of -3.4%. As a result, no payment was made against this element.
Patrick Bousquet-Chavanne			Continued improvements in online sales conversion and successful marketing campaigns to help drive store footfall. Target payment made as a result of performance against these measures.
Helen Weir			Continued to develop and strengthen a cost control culture. Necessary investment in a number of key business areas led to costs increasing by 3.8%, broadly in line with plan. Target payment was achieved.

FIGURE 14: ANNUAL BONUS SCHEME 2016/17

	CORPORATE GROUP PBT (70%)	INDIVIDUAL (30%)		TOTAL PAYMENT	
	Target/performance	Performance	Achievement		
Director	Min £593m – Max £685m			% salary	£000
Steve Rowe	27.9% of max bonus; £613.8m	Target > Stretch	58.3% of max bonus	74.0%	£599
Patrick Bousquet-Chavanne	27.9% of max bonus; £613.8m	Target > Stretch	75.0% of max bonus	84.0%	£459
Helen Weir	27.9% of max bonus; £613.8m	Target > Stretch	75.0% of max bonus	84.0%	£496

Performance assessment key

Below Threshold | Threshold > Target | Target > Stretch | Above Stretch

ANNUAL BONUS SCHEME CONTINUED

DEFERRED SHARE BONUS PLAN (audited)

Currently 50% of any bonus payment is compulsorily deferred into nil-cost options/conditional shares. These awards vest after three years subject to continued employment as well as malus provisions. The table opposite provides details of share awards made during the year in respect of bonus payments made in 2015/16. The face value of each award reflects half of the value shown for 2015/16 bonus payments in the single figure table.

As reported at the time, Laura Wade-Gery's award vested in full on the date she left the Company.

FIGURE 15: DSBP AWARDS MADE IN 2015/16

	Basis of award	Face value of award[1] £000	End of deferral period
Steve Rowe	50% of bonus	£115	22/06/2019
Patrick Bousquet-Chavanne	50% of bonus	£183	22/06/2019
Laura Wade-Gery	50% of bonus	£104	30/09/2016
Helen Weir	50% of bonus	£310	22/06/2019

1. The face value of awards is calculated as the number of nil-cost options/conditional shares awarded multiplied by the average mid-market share price on the five dealing days prior to the date of grant. For this year, the share price was calculated as £3.558, being the average share price between 15 June 2016 and 21 June 2016.

ANNUAL BONUS SCHEME FOR 2017/18

During the year, the Committee reviewed the 2017/18 Scheme, considering the drive to continue the new strategic way forward for M&S to grow the business. It determined that the structure of the 2016/17 Scheme remained appropriate and only minor amendments were necessary to ensure alignment with the delivery of the business priorities. The 2017/18 Scheme is designed to continue to focus on putting the customer at the heart of the business and driving the profitable growth of M&S while supporting the one team strategy, as has been described to stakeholders.

Performance will again be partially measured against collective corporate performance as well as performance in the individual's specific business area. As in previous years, individual performance will continue to be measured independently of Group PBT performance. However, to maintain the important principle that below a defined level of financial performance no bonus will be earned, no individual element can be earned unless a 'threshold' level of Group PBT has been achieved.

As shown below, 70% of awards will once again be measured against Group PBT under the corporate element. The remaining 30% of the bonus will be measured against individual objectives and will be a mixture of collective objectives and measures bespoke to each director. The individual element of the Scheme will comprise three equally weighted objectives identified as those key priorities required to support the delivery of the strategy. These will focus on LFL sales growth improvement, delivering financial efficiencies, enhancing our customer experience and satisfaction and building on the benefits of the customer loyalty Sparks programme and our Plan A initiatives.

The bonus performance targets for 2017/18 are deemed by the Board to be too commercially sensitive to disclose at this time but, where possible, will be disclosed in next year's report.

The Committee will continue to judge overall performance against our ecological, ethical and behavioural achievements to ensure consistency with M&S's values and behaviours. Success towards Plan A targets and the M&S values, which all employees including executive directors are required to uphold, will underpin the entire Scheme. The Committee, in its absolute discretion, may use its judgement to adjust overall final payments accordingly. Where any adjustments are made, these will be fully disclosed in next year's report.

FIGURE 16: ANNUAL BONUS SCHEME TARGETS 2017/18

	CORPORATE TARGETS	INDIVIDUAL OBJECTIVES			
	GROUP PBT	Customer	Financial	Strategic	
Director	% bonus	% bonus	% bonus	% bonus	Measure
Steve Rowe	70%	10%	10%	10%	Customer satisfaction Total UK LFL sales Strength of leadership succession
Patrick Bousquet-Chavanne	70%	10%	10%	10%	Customer satisfaction Sparks Plan A
Helen Weir	70%	10%	10%	10%	Customer satisfaction UK store estate Cost efficiencies

OUR BUSINESS
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PERFORMANCE SHARE PLAN (PSP)

The Committee believes that long-term share awards reward executives for the delivery of long-term business goals and so makes annual awards under the PSP to incentivise executive directors and M&S's most senior managers.

PSP AWARDS MADE IN 2016/17 (audited)

As was disclosed last year, PSP awards made for 2016/17 were granted in December 2016 shortly after the announcement of the Interim results. This was to ensure that the measures and targets were aligned to the long-term strategic business plan developed by Steve Rowe and his leadership team. As we communicated to shareholders during this period of review, the strategy to create a simpler, more sustainable business, with the customer at its heart, and operating as one team will require several actions.

These actions will lead to reduced profits in the short term but will deliver a stronger, more sustainable business in the longer term. These include an investment in pricing in the Clothing & Home business to ensure market competitiveness, reshaping the UK store estate and restructuring the International business. The revised financial plan also took account of the significant currency impact which has arisen since the EU Referendum, which will adversely impact profits. In approving targets, the Committee also considered the consensus forecasts for the three financial years over which the Plan would operate.

As shown in Figure 17 below, performance for these awards is measured against EPS, ROCE and cumulative free cash flow. Each performance condition is measured independently over the three-year period.

The balance of measures has been designed to drive the profitable, efficient growth of M&S while also focusing on providing returns to shareholders.

The Committee believes that the targets set for the 2016/17 PSP award are very stretching in the current environment and achievement of these levels of performance in 2018/19 would drive substantial value for shareholders. The changes made are felt necessary to provide sufficient realignment with the new strategic financial plan to ensure the PSP supports and drives the desired business performance. Consistent with previous years, for achievement of threshold performance, 20% of the relevant portion of the award will vest increasing to 100% on a straight-line basis between the achievement of threshold and maximum performance.

FIGURE 17: PERFORMANCE CONDITIONS FOR PSP AWARDS MADE IN 2016/17

	Adjusted EPS in 2018/19[1]	Average ROCE (2016/17 – 2018/19) (%)[1]	Cumulative free cash flow (2016/17 – 2018/19)[1,2]
2016/17 Award	50% of award	20% of award	30% of award
Threshold performance	28.9p	13.0%	£1,350m
Maximum performance	35.8p	16.0%	£1,650m

1. Each measure is defined in the glossary on pages 133 and 134.
2. Pre dividends and shareholder returns.

Figure 18 below summarises the award made to each of the executive directors in December 2016. The maximum award permitted under the Plan is 300% of salary although the Committee typically makes awards of 250% of salary to executive directors. For 2016/17, awards of 225% of salary were awarded to all executive directors. In approving this award level, the Committee noted that award levels for executives have typically been 250% of salary. Upon discussion, the Committee decided that, in recognition of the rebased financial plan and associated PSP performance measures, lower awards were appropriate for this particular grant only.

In line with the Remuneration Policy, awards to executive directors will vest on 5 December 2019, three years after the date of grant, to the extent that the performance conditions are met.

FIGURE 18: PSP AWARDS MADE IN 2016/17

	Basis of award	Face value of award £000	End of performance period
Steve Rowe	225% of salary	£1,823	05/12/2019
Patrick Bousquet-Chavanne	225% of salary	£1,229	05/12/2019
Helen Weir	225% of salary	£1,328	05/12/2019

When calculating the face value of awards to be granted, the number of nil-cost options/conditional shares awarded is multiplied by the average mid-market share price on the five dealing days prior to the date of grant. For this year, the share price was calculated as £3.28, being the average share price between 28 November 2016 and 2 December 2016.

PERFORMANCE SHARE PLAN (PSP) CONTINUED

FIGURE 19: PSP AWARDS VESTING IN 2016/17 (audited)

For directors in receipt of PSP awards granted in 2014, the awards will vest in June 2017 based on three-year performance over the period to 1 April 2017. Performance has been assessed and it has been determined that the award will lapse in full.

Details of performance against the specific targets set are shown in the table below. The total vesting values shown in Figure 20 directly correspond to the figure included in the single figure table on page 66.

			2016/17 Revenue (£)			
	Annualised adjusted EPS growth (%)	Average ROCE (%)	UK[1]	Multi-channel[2]	International[3]	
2014/15 Award	50% of award	20% of award	10% of award	10% of award	10% of award	**Total vesting**
Threshold performance	5.0%	15.0%	£8,900m	£1,100m	£1,400m	
Maximum performance	12.0%	16.5%	£9,600m	£1,300m	£1,800m	
Actual performance achieved	-1.9%	14.5%	£8,530m	£957m	£1,134m	
Percentage of maximum achieved	0	0	0	0	0	**0.0%**

1. Excluding multi-channel.
2. Net of VAT/gross of returns.
3. Excluding multi-channel/including Republic of Ireland.

FIGURE 20: VESTING VALUE OF AWARDS VESTING IN 2016/17

	On grant		At the end of performance period		
	Number of shares granted	% of salary granted	Number of shares vesting	Number of shares lapsing	**Total vesting value**
Steve Rowe	300,343	250%	0	300,343	**£0**
Patrick Bousquet-Chavanne	300,343	250%	0	300,343	**£0**
Laura Wade-Gery	315,789	250%	0	315,789	**£0**
Helen Weir	-	-	-	-	**£0**

PSP AWARDS TO BE MADE IN 2017/18

During the year, the Committee reviewed the long-term incentive framework at M&S, assessing the extent to which it remained appropriate.

As part of these discussions, the Committee deliberated on a number of possible structures including those outlined in the Investment Association's Executive Remuneration Working Group report. After extensive consideration, it was decided that the current structural arrangements remain those most appropriate to support the delivery of the necessary development and performance in M&S. That said, the Committee determined that during this period, the business must continue to ensure a focus on returns to shareholders. As such, relative Total Shareholder Return (TSR) will for this year form one-third of PSP awards, although the Committee believes that, in future years, other strategic or non-financial measures may be more appropriate and will consider this for future grants.

Relative TSR will be measured against a bespoke group of 15 companies taken from the FTSE 350 General and Food & Drug Retailers indices and are believed to be appropriately aligned to M&S's business operations to reflect the value of shareholder investment in M&S over the performance period (see Figure 22 for details of these companies).

The remainder of the award will be measured equally against EPS and ROCE. The balance of measures has been designed to ensure an appropriate focus on all three performance metrics.

As noted on the previous page, recognising last year's rebased financial plan and associated PSP performance targets, the Remuneration Committee reduced the 2016/2017 awards to 225% of salary from the typical level of 250%. However, the Committee is mindful of the need to strongly incentivise the CEO and management team to deliver the agreed strategy. In light of this, and given that EPS targets are returning to a growth trajectory, the Committee has determined that awards in 2017 should revert to the previous normal level of 250% of salary.

Performance will be measured as shown in Figure 21 below, with 20% of awards vesting for threshold performance and 100% for maximum. In line with the new policy, awards will vest three years after the date of grant, and must then be held for a further two years.

FIGURE 21: PERFORMANCE CONDITIONS FOR PSP AWARDS TO BE MADE IN 2017/18

	Adjusted EPS in 2019/20	Average ROCE (2017/18 – 2019/20) (%)	Relative TSR
2017/18 Award	1/3 of award	1/3 of award	1/3 of award
Threshold performance	31.7p	13.0%	Median
Maximum performance	38.7p	17.0%	Upper quartile

FIGURE 22: TSR COMPARATOR GROUP 2017/18 AWARD

J Sainsbury	B&M European	Kingfisher
Wm Morrisons	Debenhams	N Brown Group
Tesco	Dixons Carphone	Next
Ocado Group	Dunelm Group	Sports Direct International
ASOS	JD Sports Fashion	WHSmith

REMUNERATION REPORT CONTINUED

EXECUTIVE DIRECTORS' REMUNERATION

FIGURE 23: DIRECTORS' SHAREHOLDINGS (audited)

The table below sets out the total number of shares held at 1 April 2017 or date of retirement from the Board by each executive director serving on the Board during the year. Shares owned outright include those held by connected persons.

There have been no changes in the current directors' interests in shares or options granted by the Company and its subsidiaries between the end of the financial year and 23 May 2017. No director had an interest in any of the Company's subsidiaries at the statutory end of the year.

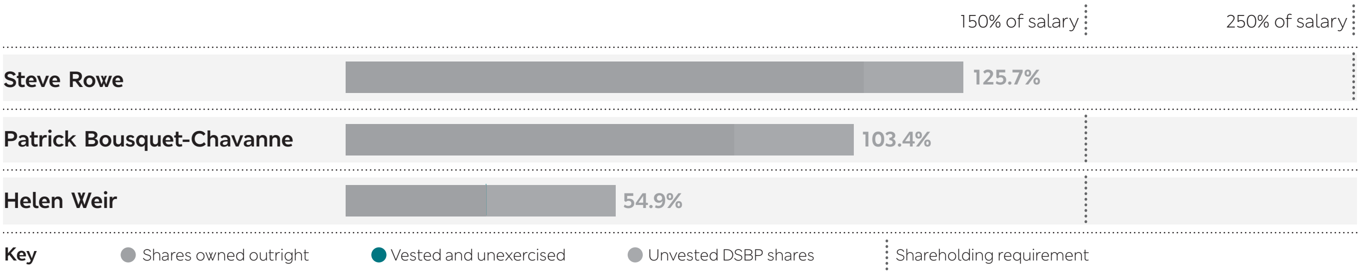
		Unvested		
		With performance conditions	Without performance conditions	
	Shares owned outright	Performance Share Plan	Deferred Share Bonus Plan	Vested but unexercised shares
Steve Rowe	253,408	1,116,809	91,932	0
Patrick Bousquet-Chavanne	123,098	930,790	71,661	0
Laura Wade-Gery (at 12 September 2016)	172,955	340,460	49,096	125,836
Helen Weir	50,000	681,252	87,057	0

FIGURE 24: SHAREHOLDING REQUIREMENTS (audited)

All executive directors are required to hold shares equivalent in value to a minimum percentage of their salary within a five-year period from their appointment date. For the CEO, this requirement is 250% of salary and for other executive directors the requirement is 150% of salary. Similar guidelines of 100% of salary also apply to directors below board level.

The chart below shows the extent to which each executive director has met their target shareholding as at 1 April 2017. For Steve Rowe, his 250% shareholding requirement is measured from the date he was appointed CEO.

For the purposes of the requirements, the net number of unvested share awards not subject to performance conditions is included and is reflected in the chart below. The Committee is satisfied that the current level of shareholding requirement provides an appropriate level of investment in M&S for each director. The Committee will continue to keep this issue under review and will amend accordingly if necessary.



EMPLOYEE SHARE SCHEMES

ALL-EMPLOYEE SHARE SCHEMES (audited)

Executive directors may participate in both ShareSave, the Company's Save As You Earn Scheme, and ShareBuy, the Company's Share Incentive Plan, on the same basis as all other eligible employees. Further details of the schemes are set out in note 13 to the financial statements on pages 112 and 113.

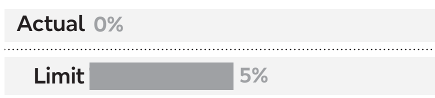
DILUTION OF SHARE CAPITAL BY EMPLOYEE SHARE PLANS

Awards granted under the Company's Save As You Earn Scheme and the Executive Share Option Scheme are met by the issue of new shares when the options are exercised.

All other share plans are currently met by market purchase shares. The Company monitors the number of shares issued under these schemes and their impact on dilution limits. The Company's usage of shares compared to the dilution limits set by The Investment Association in respect of all share plans (10% in any rolling ten-year period) and executive share plans (5% in any rolling ten-year period) as at 1 April 2017 was as follows:

FIGURE 25: ALL SHARE PLANS

FIGURE 26: EXECUTIVE SHARE PLANS



EXECUTIVE DIRECTORS' REMUNERATION CONTINUED

FIGURE 27: EXECUTIVE DIRECTORS' INTERESTS IN THE COMPANY'S SHARE SCHEMES (audited)

	Maximum receivable at 3 April 2016	Awarded during the year	Exercised during the year	Lapsed during the year	Maximum receivable at 1 April 2017 (or date of retirement)
Steve Rowe					
Performance Share Plan	861,512	555,640	14,416	285,927	1,116,809
Deferred Share Bonus Plan	110,013	32,376	50,457	0	91,932
SAYE	2,222	3,461	0	0	5,683
Total	**973,747**	**591,477**	**64,873**	**285,927**	**1,214,424**
Patrick Bousquet-Chavanne					
Performance Share Plan	772,669	374,542	10,388	206,033	930,790
Deferred Share Bonus Plan	46,448	51,408	26,195	0	71,661
SAYE	2,222	0	0	0	2,222
Total	**821,339**	**425,950**	**36,583**	**206,033**	**1,004,673**
Laura Wade-Gery					
Performance Share Plan	917,582	0	0	542,412	375,170
Deferred Share Bonus Plan	111,064	29,158	0	0	140,222
Total	**1,028,646**	**29,158**	**0**	**542,412**	**515,392**
Helen Weir					
Performance Share Plan	276,527	404,725	0	0	681,252
Deferred Share Bonus Plan	0	87,057	0	0	87,057
SAYE	2,083	3,461	0	2,083	3,461
Total	**278,610**	**495,243**	**0**	**2,083**	**771,770**

The aggregate gains of directors arising in the year from the exercise of awards granted under the PSP and DSBP totalled £303,435. The market price of the shares at the end of the financial year was 337.0p; the highest and lowest share price during the financial year were 446.1p and 285.2p respectively.

Laura Wade-Gery retired from the Board on 12 September 2016 and left the Company on 30 September 2016. Details of her leaving arrangements are set out on page 75. Her outstanding Performance Share Plan awards were pro-rated for time held on leaving. For transparency, these lapses are shown in the 'lapsed during the year' column.

Figure 28 shows the time horizons for each of the executive director's outstanding discretionary share awards (i.e. those granted under the Performance Share Plan, the Deferred Share Bonus Plan and, if it had been applicable, the Restricted Share Plan). As detailed earlier in this report, the 2014 PSP awards included within the totals shown in Figure 27 will lapse in full on their respective vesting dates. This has been reflected below in the 2017/18 column to provide an accurate and transparent overview of directors' interests in discretionary share awards.

FIGURE 28: VESTING SCHEDULE OF EXECUTIVE DIRECTORS' OUTSTANDING DISCRETIONARY SHARE AWARDS

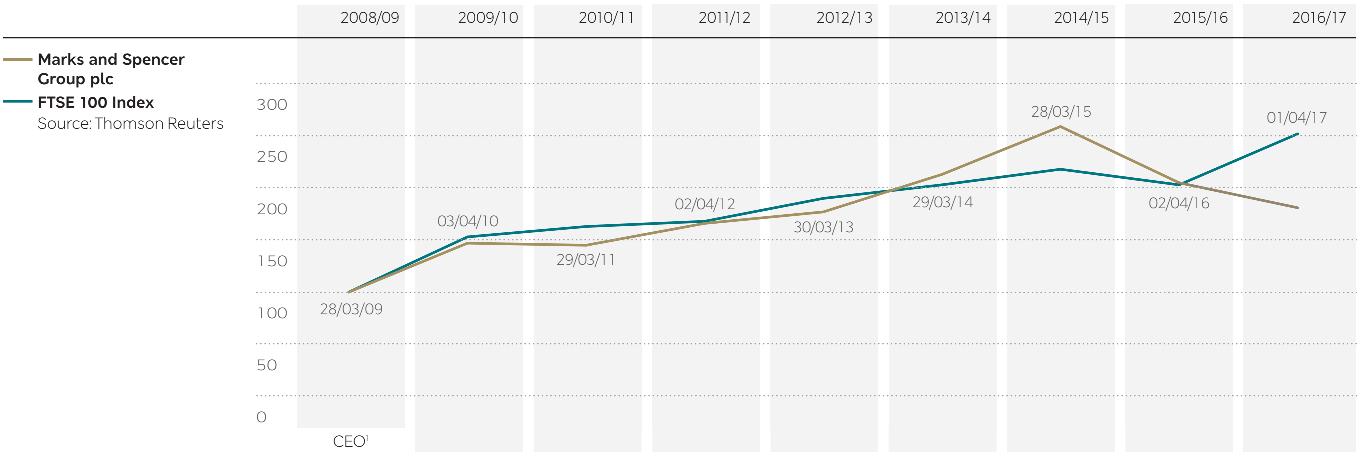
	Maximum receivable at 1 April 2017 (all discretionary schemes)	Maximum receivable in:		
		2017/18	2018/19	2019/20
Steve Rowe	1,208,741	(300,343)	320,382	588,016
Patrick Bousquet-Chavanne	1,002,451	(300,343)	276,158	425,950
Helen Weir	768,309	0	276,527	491,782

REMUNERATION REPORT CONTINUED

EXECUTIVE DIRECTORS' REMUNERATION CONTINUED

FIGURE 29: PERFORMANCE AND CEO REMUNERATION COMPARISON

This graph illustrates the Company's performance against the FTSE 100 over the past eight years. The FTSE 100 has been chosen as the appropriate comparator as M&S is a constituent of this index. The calculation of TSR is in accordance with the relevant remuneration regulations. The table below the TSR chart sets out the remuneration data for directors undertaking the role of CEO during each of the last eight financial years.



		2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
CEO single figure of remuneration (£000)	Steve Rowe	–	–	–	–	–	–	–	1,642
	Marc Bolland	–	5,998	3,324	2,142	1,568	2,095	2,015	–
	Stuart Rose	4,294	269	–	–	–	–	–	–
Annual bonus payment (% of maximum)	Steve Rowe	–	–	–	–	–	–	–	36.98%
	Marc Bolland	–	45.80%	34.00%	42.50%	0.00%	30.55%	31.90%	–
	Stuart Rose	97.00%	57.40%	–	–	–	–	–	–
PSP vesting (% of maximum)	Steve Rowe	–	–	–	–	–	–	–	0.00%
	Marc Bolland	–	–	31.96%	0.00%	7.60%	4.70%	4.80%	–
	Stuart Rose	0.00%	0.00%	–	–	–	–	–	–

1. Marc Bolland was appointed CEO on 1 May 2010. His single figure for 2010/11 includes recruitment awards made to him at that time to compensate him for incentive awards forfeited on cessation from his previous employer. Stuart Rose undertook the role of CEO from 31 May 2004 to 30 April 2010.

FIGURE 30: PERCENTAGE CHANGE IN CEO'S REMUNERATION

The table opposite sets out the change in the CEO's remuneration (i.e. salary, taxable benefits and annual bonus) compared with the change in our UK-based employees. This group has been chosen as the majority of our workforce is UK-based. The CEO comparison is Steve Rowe (for 2016/17) to Marc Bolland (for 2015/16). The percentage changes for UK employees is a consequence of organisational transformation, including reduction in senior management roles and the business investment in store staffing levels.

	% change 2015/16 – 2016/17		
	Base salary	Benefits	Annual bonus
CEO	-16.9	-1.4	-3.5
UK employees (average per FTE)	-1.1	-12.0	8.7

FIGURE 31: RELATIVE IMPORTANCE OF SPEND ON PAY

The table opposite illustrates the Company's expenditure on pay in comparison to profits before tax and distributions to shareholders by way of dividend payments and share buyback.

Total employee pay is the total pay for all Group employees. Group profit before tax and adjusted items has been used as a comparison as this is the key financial metric which the Board considers when assessing Company performance.

	2015/16 £m	**2016/17 £m**	% change
Total employee pay	1,486.7	**1,552.6**	4.4
Total returns to shareholders[1]	451.7	**377.5**	-16.4
Profit before tax and adjusted items	684.1	**613.8**	-10.3

1. Total returns to shareholders for 2015/16 includes distribution to shareholders via share buyback. For 2016/17, this figure is inclusive of special dividend.

EXECUTIVE DIRECTORS' REMUNERATION CONTINUED

FIGURE 32: SERVICE AGREEMENTS

In line with our policy, directors have rolling contracts which may be terminated by the Company giving 12 months' notice or the director giving six months' notice.

	Date of appointment	Notice period/unexpired term
Steve Rowe	02/04/2016	12 months/6 months
Patrick Bousquet-Chavanne	10/07/2013	12 months/6 months
Helen Weir	01/04/2015	12 months/6 months

EXECUTIVE CHANGES TO THE BOARD DURING 2016/17

DIRECTORS APPOINTED TO THE BOARD

There were no directors appointed to the Board during the year.

PAYMENTS FOR THE LOSS OF OFFICE (audited)

Laura Wade-Gery stepped down from the Board on 12 September 2016 and left M&S on 30 September 2016. Remuneration terms on leaving were in line with the approved Remuneration Policy. As was reported at the time, Laura received monthly payments of eight months' salary and benefits, which were subject to mitigation. Her unvested nil-cost options granted under the Deferred Share Bonus Plan vested in full on termination. Unvested nil-cost options awarded under the PSP were time pro-rated and will vest, subject to performance conditions on a wait and see basis at the normal vesting date.

As reported earlier in this report, PSP awards made in 2014 will lapse in full in June 2017. Laura has one further unvested PSP award, granted in 2015. This will vest next year, to the extent that performance conditions have been made and will be reported as appropriate in next year's report.

PAYMENTS TO PAST DIRECTORS (audited)

Marc Bolland retired from the Board on 2 April 2016. In line with his contractual arrangements, Marc received salary, benefits and pension benefits until the end of his notice period on 7 January 2017. Per the approved Remuneration Policy, any unvested nil-cost options awarded to Marc Bolland under the Deferred Share Bonus Plan vested in full on leaving and may be exercised in accordance with the Plan rules. He had two outstanding PSP awards on leaving, granted in June 2014 and July 2015 which were pro-rated for time held. As reported on page 71 of this report, the 2014 award will lapse in full in June 2017 as performance conditions have not been met. Performance for the 2015 award and any subsequent shares which will vest will be disclosed in next year's report.

FIGURE 33: EXTERNAL APPOINTMENTS

The Company recognises that executive directors may be invited to become non-executive directors of other companies and that these appointments can broaden their knowledge and experience to the benefit of the Company. The policy is for the individual director to retain any fee.

The table opposite sets out the details for these fees earned for the period 3 April 2016 to 1 April 2017.

Fees for Laura Wade-Gery's appointment at British Land Company are reported until 12 September 2016, the date she left the M&S Board.

Fees for Helen Weir's appointment at SABMiller are to 7 October 2016, the date at which the company was acquired by Anheuser-Busch InBev.

Director	Company	Fee 000
Patrick Bousquet-Chavanne	Brown-Forman	$283
Laura Wade-Gery (to 12 September 2016)	British Land Company	£30
	SABMiller	£61
Helen Weir	Rugby Football Union	£31

REMUNERATION REPORT CONTINUED

NON-EXECUTIVE DIRECTORS' REMUNERATION

FIGURE 34: NON-EXECUTIVE DIRECTORS' TOTAL SINGLE FIGURE REMUNERATION (audited)

Non-executive directors receive fees reflecting the time commitment, demands and responsibilities of the role. The table opposite details the fees paid to the non-executive directors for 2016/17 and 2015/16.

In recognition and support of the proposed new pay arrangements which were made in the UK organisation during the year, the Chairman and the non-executive directors declined to accept any increase in their fees.

Director	Year	Basic fees £000	Additional fees £000	Benefits £000	Total £000
Robert Swannell	2016/17	70	380	21	471
	2015/16	70	380	20	470
Vindi Banga	2016/17	70	30	0	100
	2015/16	70	30	0	100
Alison Brittain	2016/17	70	0	0	70
	2015/16	70	0	0	70
Miranda Curtis	2016/17	70	0	0	70
	2015/16	70	0	0	70
Andrew Fisher	2016/17	70	0	0	70
	2015/16	23	0	0	23
Andy Halford	2016/17	70	15	0	85
	2015/16	70	15	0	85
Richard Solomons	2016/17	70	0	0	70
	2015/16	68	0	0	68

FIGURE 35: NON-EXECUTIVE DIRECTORS' SHAREHOLDINGS (audited)

The non-executive directors are not permitted to participate in any of the Company's incentive arrangements. All non-executive directors are required to build and maintain a shareholding of at least 2,000 shares in the Company within two months of their appointment to the Board.

The table opposite details the shareholding of the non-executive directors who served on the Board during the year as at 1 April 2017 (or upon their date of retiring from the Board), including those held by connected persons.

There have been no changes in the current non-executive directors' interests in shares in the Company and its subsidiaries between the end of the financial year and 23 May 2017.

Director	Number of shares held
Robert Swannell	169,298
Vindi Banga	93,700
Alison Brittain	5,096
Miranda Curtis	5,500
Andrew Fisher	3,536
Andy Halford	21,000
Richard Solomons	5,000

FIGURE 36: NON-EXECUTIVE DIRECTORS' AGREEMENTS FOR SERVICE

Non-executive directors have an agreement for service for an initial three-year term which can be terminated by either party giving three months' notice (six months' for the Chairman).

The table opposite sets out these terms for all current members of the Board.

Director	Date of appointment	Notice period/unexpired term
Robert Swannell	23/08/2010	6 months/3 months
Vindi Banga	01/09/2011	3 months/3 months
Alison Brittain	01/01/2014	3 months/3 months
Miranda Curtis	01/02/2012	3 months/3 months
Andrew Fisher	01/12/2015	3 months/3 months
Andy Halford	01/01/2013	3 months/3 months
Richard Solomons	13/04/2015	3 months/3 months

NON-EXECUTIVE DIRECTORS CHANGES TO THE BOARD DURING 2016/17

DIRECTORS APPOINTED TO THE BOARD

There were no changes to the Board during the year.

DIRECTORS RETIRING FROM THE BOARD

No directors retired from the Board during the year.

CHANGES TO THE BOARD DURING 2017/18

Robert Swannell will retire from the Board on 1 September 2017. There will be no payments for loss of office payable to Robert.

Miranda Curtis will retire from the Board on 1 February 2018. There will be no payments for loss of office payable to Miranda.

Archie Norman will join the Board as Chairman on 1 September 2017, upon Robert Swannell's retirement from the business. In line with the policy set out on page 64, Archie will receive the standard non-executive director fee plus an additional fee as the Board Chairman. Archie's total annual fee will be £600,000.

REMUNERATION COMMITTEE

REMUNERATION COMMITTEE REMIT

The role of the Remuneration Committee is to make recommendations regarding the senior remuneration strategy and framework to the Board to ensure the executive directors and senior management are appropriately rewarded for their contribution to the Company's performance, taking into account the financial and commercial position of the Company.

KEY RESPONSIBILITIES

- Setting a strategy that ensures the most talented leaders are recruited, retained and motivated to deliver results.
- Reviewing the effectiveness of the senior remuneration framework with regard to its impact.
- Considering the appropriateness of the senior remuneration framework when reviewed against arrangements throughout the rest of the organisation.
- Determining the terms of employment and remuneration for executive directors and senior managers, including recruitment and termination arrangements.
- Approving the design, targets and payments for all annual incentive schemes that include executive directors and senior managers.
- Agreeing the design, targets and annual awards made for all share incentive plans requiring shareholder approval.
- Assessing the appropriateness and subsequent achievement of performance targets relating to any share incentive plan.

In line with its remit, the Committee considered a number of key matters during the year.

REMUNERATION COMMITTEE AGENDA FOR 2016/17

REGULAR ITEMS

Pay arrangements

- Annual review of all executive directors' and senior managers' base salaries and benefits in line with Company policies and approval of any salary increase.
- Review of, and agreement to, remuneration packages for new senior managers.

Annual Bonus Scheme (ABS)

- Review of achievement of ABS Group PBT against targets.
- Review of achievement of executive directors' individual objectives for 2016/17.
- Review of the structural design, measures and approach to targets for the 2017/18 ABS.

Performance Share Plan (PSP)

- Review and approval of all awards made under the PSP, taking into account the total value of all awards made under this plan.
- Half year and year end review of all plan performance against targets.
- Approval of the vesting level of the 2014/15 PSP awards.
- Approval of the measures and targets for the 2016/17 and 2017/18 PSP awards.
- Consideration of the approach to be taken for the 2017/18 PSP awards.
- Clear articulation of the Committee's reasoning and consideration for vesting and payment levels to executive directors.
- Consideration and debate of the senior remuneration framework in the context of external guidance and views on long-term incentives for the future.

Governance and external market

- Approval of the Directors' Remuneration Report for 2016/17 and review of the AGM voting outcome for the 2015/16 Report.
- Review of Committee performance in 2016/17.
- Review of Committee Terms of Reference.
- Significant consideration of institutional investors' current guidelines on executive compensation.
- Consideration of external market developments and best practice in remuneration.
- Assessment of the external environment surrounding the Company's current remuneration arrangements.
- Consideration of remuneration arrangements for the wider workforce.

Note: The full Terms of Reference for the Committee can be found on the Company's website at marksandspencer.com/thecompany.

REMUNERATION COMMITTEE ACTION PLAN 2017/18

- Ensure the continued strategic alignment of the directors' incentive arrangements.
- Debate and agree the appropriateness of the senior remuneration framework in the context of the rest of the organisation and external governance.
- Ensure a formal annual review of the wider workforce reward framework.
- Review the effectiveness and transparency of remuneration reporting.

FIGURE 37: REMUNERATION COMMITTEE MEETINGS

The following independent non-executive directors were members of the Committee during 2016/17:

MEMBER	MEMBER SINCE	MAXIMUM POSSIBLE MEETINGS	NUMBER OF MEETINGS ATTENDED	% OF MEETINGS ATTENDED
Vindi Banga (Chairman)	1 September 2011	8	8	100
Robert Swannell	1 March 2015	8	8	100
Miranda Curtis	1 February 2012	8	8	100
Richard Solomons	21 July 2015	8	8	100

REMUNERATION REPORT CONTINUED

REMUNERATION COMMITTEE CONTINUED

COMMITTEE ADVISERS

In carrying out its responsibilities, the Committee is independently advised by external advisers. The Committee was advised by PwC during the year. PwC is a founding member of the Remuneration Consultants Group and voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK. The code of conduct can be found at **remunerationconsultantsgroup.com.**

The Committee has not explicitly considered the independence of the advice it receives, although it regularly reflects on the quality and objectivity of this advice. The Committee is satisfied that any conflicts are appropriately managed.

PwC was appointed by the Committee as its independent advisers in 2014 following a rigorous and competitive tender process. PwC provides independent commentary on matters under consideration by the Committee and updates on legislative requirements, best practice and market practice. PwC's fees are typically charged on an hourly basis with costs for work agreed in advance. During the year, PwC charged £116,200 for Remuneration Committee matters. This is based on an agreed fee for business as usual support with additional work charged at hourly rates. PwC has provided tax, consultancy and risk consulting services to the Group in the financial year.

The Committee also seeks internal support from the CEO, Group Secretary, HR Director and Head of Performance & Reward as necessary. All may attend the Committee meetings by invitation but are not present for any discussions that relate directly to their own remuneration.

The Committee also reviews external survey and bespoke benchmarking data including that published by New Bridge Street (the trading name of Aon Hewitt Limited), KPMG, PwC and Willis Towers Watson.

REMUNERATION COMMITTEE STAKEHOLDER ENGAGEMENT

The Committee is committed to ensuring that executive pay remains competitive, appropriate and fair in the context of the external market, Company performance and the pay arrangements of the wider workforce. In collaboration with the Head of Performance & Reward, the Committee gives employees, through employee representatives, the opportunity to raise questions or concerns regarding the remuneration of the executive directors. During the year, employee representatives were given the opportunity to discuss in detail the directors' pay arrangements. Details of the directors' pay arrangements were discussed in the context of the reward framework for the rest of the organisation and external factors; no concerns were raised.

SHAREHOLDER CONSULTATION

The Committee is committed to a continuous, open and transparent dialogue with shareholders on the issue of executive remuneration. The Committee was represented at the Company's annual Governance Event, held in June 2016, at which major institutional investors and representative bodies were provided with the opportunity to review and debate remuneration with the Committee Chairman, Vindi Banga.

SHAREHOLDER SUPPORT FOR THE 2015/16 DIRECTORS' REMUNERATION REPORT

At the Annual General Meeting on 12 July 2016, 98.02% of shareholders voted in favour of approving the Directors' Remuneration Report for 2015/16. The Committee believes this illustrates the strong level of shareholder support for the senior remuneration framework.

The table below shows full details of the voting outcomes for the 2015/16 Directors' Remuneration Report.

FIGURE 38: VOTING OUTCOMES FOR 2015/16 REMUNERATION REPORT

	Votes for	% Votes for	Votes against	% Votes against	Votes withheld
Remuneration Report	986,080,026	98.02	19,885,063	1.98	1,979,099

FIGURE 39: VOTING OUTCOMES FOR REMUNERATION POLICY (for 2013/14 when the policy was approved)

	Votes for	% Votes for	Votes against	% Votes against	Votes withheld
Remuneration Policy	1,012,469,256	98.27	17,840,854	1.73	9,040,797

APPROVED BY THE BOARD

VINDI BANGA CHAIRMAN OF THE REMUNERATION COMMITTEE

London, 23 May 2017

This Remuneration Policy and these remuneration reports have been prepared in accordance with the relevant provision of the Companies Act 2006 and on the basis prescribed in the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 ('the Regulations'). Where required, data has been audited by Deloitte and this is indicated appropriately.

OTHER DISCLOSURES

DIRECTORS' REPORT

Marks and Spencer Group plc (the "Company") is the holding company of the Marks & Spencer Group of companies (the "Group"). With our rich heritage, M&S is one of the most recognisable brands in the UK retail sector and is regularly voted as one of its most trusted. Our business is driven by a desire to inspire and innovate, to act with integrity and to stay in touch with our customers, shareholders and employees alike. These are our corporate values and they underpin everything we do. They are what make the M&S difference across the 55 territories in which we operate.

The Directors' Report (which is also the Management Report for the purpose of Disclosure and Transparency Rule (DTR) 4.1.8R) for the year ended 1 April 2017, comprises pages 34 to 83 and pages 135 to 136 of this report, together with the sections of the Annual Report incorporated by reference. As permitted by legislation, some of the matters required to be included in the Directors' Report have instead been included in the Strategic Report on pages 2 to 33, as the Board considers them to be of strategic importance. Specifically, these are:

- → **Future business developments (throughout the Strategic Report).**
- → **Research and development on p12-17.**
- → **Risk management on p30-33.**
- → **Details of branches operated by the Company on p23-24.**

Information relating to financial instruments can be found on pages 118 to 123.

For information on our approach to social, environmental and ethical matters, please refer to our Plan A Report, available online at **marksandspencer.com/plana2017**.

Other information to be disclosed in the Directors' Report is given in this section.

Both the Strategic Report and the Directors' Report have been drawn up and presented in accordance with and in reliance upon applicable English company law, and the liabilities of the directors in connection with those reports shall be subject to the limitations and restrictions provided by such law.

INFORMATION TO BE DISCLOSED UNDER LR 9.8.4R

Listing Rule	Detail	Page reference
9.8.4R (1) (2) (5-14) (A) (B)	Not applicable	N/A
9.8.4R (4)	Long-term incentive schemes	56-65 and 69-71

BOARD OF DIRECTORS

The membership of the Board and biographical details of the directors are given on pages 36 and 37 and are incorporated into this report by reference. Changes to the directors during the year and up to the date of this report are set out below. Details of directors' beneficial and non-beneficial interests in the shares of the Company are shown on pages 73 and 76. Options granted to directors under the Save As You Earn (SAYE) and Executive Share Option Schemes are shown on page 73. Further information regarding employee share option schemes is given in note 13 to the financial statements.

Name	Role	Effective date of appointment/ retirement
Laura Wade-Gery	Executive Director, Multi-channel	Retired 12 September 2016
Robert Swannell	Chairman	Retiring 1 September 2017
Miranda Curtis	Non-Executive Director	Retiring 1 February 2018
Proposed Appointment		
Archie Norman	Chairman	Effective 1 September 2017

The appointment and replacement of directors is governed by the Company's Articles of Association (the "Articles"), the UK Corporate Governance Code (the "Code"), the Companies Act 2006 and related legislation. The Articles may be amended by a special resolution of the shareholders. Subject to the Articles, the Companies Act 2006 and any directions given by special resolution, the business of the Company will be managed by the Board who may exercise all the powers of the Company. The Company may, by ordinary resolution, declare dividends not exceeding the amount recommended by the Board. Subject to the Companies Act 2006, the Board may pay interim dividends and also any fixed rate dividend, whenever the financial position of the Company, in the opinion of the Board, justifies its payment.

The directors may from time to time appoint one or more directors. The Board may appoint any person to be a director (so long as the total number of directors does not exceed the limit prescribed in the Articles). Under the Articles, any such director shall hold office only until the next AGM and shall then be eligible for election. The current Articles also require that at each AGM at least one-third of the current directors should retire as directors by rotation; all those directors who have been in office at the time of the two previous AGMs and who did not retire at either of them must retire. In addition, a director may at any AGM retire from office and stand for re-election. However, in line with the Code and the Company's current practice, the proposed new Articles will require all directors to stand for annual election (see resolution 24). All current directors will stand for re-election at the 2017 AGM.

DIRECTORS' CONFLICTS OF INTEREST

The Company has procedures in place for managing conflicts of interest. Should a director become aware that they, or any of their connected parties, have an interest in an existing or proposed transaction with Marks & Spencer, they should notify the Board in writing or at the next Board meeting. Internal controls are in place to ensure that any related party transactions involving directors, or their connected parties, are conducted on an arm's length basis. Directors have a continuing duty to update any changes to these conflicts.

DIRECTORS' INDEMNITIES

The Company maintains directors' and officers' liability insurance which gives appropriate cover for legal action brought against its directors. The Company has also granted indemnities to each of its directors and the Group Secretary to the extent permitted by law. Qualifying third party indemnity provisions (as defined by Section 234 of the Companies Act 2006) were in force during the year ended 1 April 2017 and remain in force in relation to certain losses and liabilities which the directors (or Group Secretary) may incur to third parties in the course of acting as directors or Group Secretary or employees of the Company or of any associated company.

OTHER DISCLOSURES CONTINUED

Qualifying pension scheme indemnity provisions (as defined by Section 235 of the Companies Act 2006) were in force during the course of the financial year ended 1 April 2017 for the benefit of the Trustees of the Marks & Spencer Pension Scheme, both in the UK and the Republic of Ireland.

PROFIT AND DIVIDENDS

The profit for the financial year, after taxation, amounts to £115.7m (last year £404.4m). The directors have declared dividends as follows:

Ordinary shares	£m
Special dividend of 4.6p per share Paid 15 July 2016	£75m
Paid interim dividend of 6.8p per share (last year 6.8p per share)	£110.3m
Proposed final dividend of 11.9p per share (last year 11.9p per share)	£193.3m
Total dividend of 18.7p per share for 2016/17 (last year 18.7p per share)	£303.6m

Subject to shareholder approval at this year's AGM, the final ordinary dividend will be paid on 14 July 2017 to shareholders whose names were on the Register of Members at the close of business on 2 June 2017.

SHARE CAPITAL

The Company's issued ordinary share capital as at 1 April 2017 comprised a single class of ordinary share. Each share carries the right to one vote at general meetings of the Company.

During the period, 1,763,039 ordinary shares in the Company were issued under the terms of the United Kingdom Employees' Save As You Earn Share Option Scheme at prices between 258p and 432p.

Details of movements in the Company's issued share capital can be found on page 125 in note 24 to the financial statements.

RESTRICTIONS ON TRANSFER OF SECURITIES

There are no specific restrictions on the transfer of securities in the Company, which is governed by its Articles of Association and prevailing legislation. The Company is not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities or that may result in restrictions on voting rights.

VARIATION OF RIGHTS

Subject to applicable statutes, rights attached to any class of share may be varied with the written consent of the holders of at least three-quarters in nominal value of the issued shares of that class, or by a special resolution passed at a separate general meeting of the shareholders.

RIGHTS AND OBLIGATIONS ATTACHING TO SHARES

Subject to the provisions of the Companies Act 2006, any resolution passed by the Company under the Companies Act 2006 and other shareholders' rights, shares may be issued with such rights and restrictions as the Company may by ordinary resolution decide, or (if there is no such resolution or so far as it does not make specific provision) as the Board (as defined in the Articles) may decide. Subject to the Articles, the Companies Act 2006 and other shareholders' rights, unissued shares are at the disposal of the Board.

POWERS FOR THE COMPANY ISSUING OR BUYING BACK ITS OWN SHARES

The Company was authorised by shareholders at the 2016 AGM to purchase in the market up to 10% of the Company's issued share capital, as permitted under the Company's Articles. No shares were bought back under this authority during the year ended 1 April 2017.

This standard authority is renewable annually; the directors will seek to renew this authority at the 2017 AGM. It is the Company's present intention to cancel any shares it buys back, rather than hold them in treasury.

The directors were granted authority at the 2016 AGM to allot relevant securities up to a nominal amount of £135,313,863. This authority will apply until the conclusion of the 2017 AGM. At this year's AGM, shareholders will be asked to grant an authority to allot relevant securities (i) up to a nominal amount of £135,394,136 and (ii) comprising equity securities up to a nominal amount of £270,788,271 (after deducting from such limit any relevant securities allotted under (i)), in connection with an offer of a rights issue (the Section 551 amount), such Section 551 amount to apply until the conclusion of the AGM to be held in 2018 or, if earlier, on 1 October 2018.

A special resolution will also be proposed to renew the directors' powers to make non pre-emptive issues for cash in connection with rights issues and otherwise up to a nominal amount of £20,309,120. A special resolution will also be proposed to renew the directors' authority to repurchase the Company's ordinary shares in the market. The authority will be limited to a maximum of 162 million ordinary shares and sets the minimum and maximum prices which will be paid.

DEADLINES FOR EXERCISING VOTING RIGHTS

Votes are exercisable at a general meeting of the Company in respect of which the business being voted upon is being heard. Votes may be exercised in person, by proxy, or, in relation to corporate members, by corporate representatives. The Articles provide a deadline for submission of proxy forms of not less than 48 hours before the time appointed for the holding of the meeting or adjourned meeting. However, when calculating the 48-hour period, the directors can, and have, decided not to take account of any part of a day that is not a working day.

INTERESTS IN VOTING RIGHTS

Information provided to the Company pursuant to the Financial Conduct Authority's (FCA) Disclosure and Transparency Rules (DTRs) is published on a Regulatory Information Service and on the Company's website. As at 1 April 2017, the following information has been received, in accordance with DTR 5, from holders of notifiable interests in the Company's issued share capital.

The information provided below was correct at the date of notification; however, the date received may not have been within the current financial year. It should be noted that these holdings are likely to have changed since the Company was notified. However, notification of any change is not required until the next notifiable threshold is crossed.

Notifiable interests	Ordinary shares	% of capital disclosed	Nature of holding as per disclosure
Blackrock, Inc.	90,664,081	5.58	Indirect Interest (4.85%), Securities lending (0.65%) & CFD (0.06%)
Ameriprise Financial, Inc. and its group	82,524,463	5.079	Indirect Interest (5.054%), Direct (0.025%)
The Wellcome Trust	47,464,282	3.01	Direct Interest

Subsequent to year end, Majedie Asset Management Limited notified the Company in accordance with DTR5 of an indirect holding of 81,569,767 ordinary shares, representing 5.02% of the Company's issued share capital.

SIGNIFICANT AGREEMENTS – CHANGE OF CONTROL

There are a number of agreements to which the Company is party that take effect, alter or terminate upon a change of control of the Company following a takeover bid. Details of the significant agreements of this kind are as follows:

- The £400m Medium Term Notes issued by the Company on 30 November 2009, the £300m Medium Term Notes issued by the Company on 6 December 2011, the £400m Medium Term Notes issued by the Company on 12 December 2012 and the £300m Medium Term Notes issued by the Company on 8 December 2016 to various institutions (MTN) and under the Group's £3bn euro Medium Term Note (EMTN) programme contain an option such that, upon a change of control event, combined with a credit ratings downgrade to below sub-investment level, any holder of an MTN may require the Company to prepay the principal amount of that MTN.
- The $500m US Notes issued by the Company to various institutions on 6 December 2007 under Section 144a of the US Securities Act contain an option such that, upon a change of control event, combined with a credit ratings downgrade to below sub-investment level, any holder of such a US Note may require the Company to prepay the principal amount of that US Note.
- The $300m US Notes issued by the Company to various institutions on 6 December 2007 under Section 144a of the US Securities Act contain an option such that, upon a change of control event, combined with a credit ratings downgrade to below sub-investment level, any holder of such a US Note may require the Company to prepay the principal amount of that US Note.
- The amended and restated £1.1bn Credit Agreement dated 16 March 2016 (originally dated 29 September 2011) between the Company and various banks contains a provision such that, upon a change of control event, unless new terms are agreed within 60 days, the facility under this agreement will be cancelled with all outstanding amounts becoming immediately payable with interest.
- The amended and restated Relationship Agreement dated 6 October 2014 (originally dated 9 November 2004 as amended on 1 March 2005), between HSBC and the Company and relating to M&S Bank, contains certain provisions which address a change of control of the Company. Upon a change of control the existing rights and obligations of the parties in respect of M&S Bank continue and HSBC gains certain limited additional rights in respect of existing customers of the new controller of the Company. Where a third party arrangement is in place for the supply of financial services products to existing customers of the new controller, the Company is required to procure the termination of such arrangement as soon as reasonably practicable (while not being required to do anything that would breach any contract in place in respect of such arrangement).

Where a third party arrangement is so terminated, or does not exist, HSBC gains certain exclusivity rights in respect of the sale of financial services products to the existing customers of the new controller. Where the Company undertakes a re-branding exercise with the new controller following a change of control (which includes using any M&S brand in respect of the new controller's business or vice versa), HSBC gains certain termination rights (exercisable at its election) in respect of the Relationship Agreement.

The Company does not have agreements with any director or employee that would provide compensation for loss of office or employment resulting from a takeover except that provisions of the Company's share schemes and plans may cause options and awards granted to employees under such schemes and plans to vest on a takeover.

EMPLOYEE INVOLVEMENT

We remain committed to employee involvement throughout the business. Employees are kept well informed of the performance and strategy of the Group through personal briefings, regular meetings, emails and broadcasts by the Chief Executive and members of the Board. These take place at key points in the year to all Head Office, distribution centre and store management employees. In addition, store colleagues can also hear business briefings by telephone and there are quarterly CEO/CFO trading updates broadcast by Skype to our store management teams. These communications are supplemented by various employee publications including M&S World magazine, Plan A updates and DVD presentations.

Our Making Every Moment Special employee engagement programme was launched last summer with two hours of training to empower store colleagues to put customers at the heart of the business and to make decisions based on customers' specific needs. The programme engaged with 70,000 employees through 75 regional leadership events and 1,500 store events, taking ideas from colleagues from across the business and has had tremendous results.

More than 3,500 employees from across every store, distribution centre and Head Office location are elected to our Business Involvement Groups (BIG) to represent colleagues in two-way communication and consultation with the Company. These representatives have continued to play a key role in a number of business changes this year. The National BIG Chair meets with the Group Chairman and CEO regularly, as well as providing updates to and attending Board meetings annually. In addition, directors and senior management regularly attend the National BIG meetings. They also visit stores and discuss matters of interest and concern to both employees and the business through meetings with local BIG representatives, listening groups and informal discussions.

The 22nd meeting of the European Works Council (EWC) (established in 1995) will take place in November 2017. The EWC provides an additional forum for informing, consulting and involving employee representatives from the countries in the European Economic Area. The EWC has the opportunity to be addressed by the Chief Executive, International Director and other senior members of the Company on issues that affect the European business.

Share schemes are a long-established and successful part of colleagues' total reward packages, encouraging and supporting employee share ownership. The Company operates both an all employee Save As You Earn Scheme and Share Incentive Plan. Approximately 25,000 employees currently participate in ShareSave, the Company's Save As You Earn Scheme. Full details of all schemes are given on pages 112 and 113.

There are websites for both pension schemes – the defined contribution Scheme (Your M&S Pension Saving Plan) and the defined benefit scheme (the M&S Pension Scheme) – which are fully accessible to employees and former employees who have retained benefits in either scheme. Employees are updated as needed with any pertinent information on their pension savings.

In April 2016, the business launched a campaign which engaged all employees in putting forward their ideas for how M&S could drive down costs and reduce inefficiency. The Crunch Costs campaign received an overwhelming response with colleagues submitting 1,300 ideas from stores and offices. So far, the implemented ideas have generated savings of £20m, which has enabled the business to add over 3,000 colleagues to our stores. By recognising and celebrating employee ideas and contributions, the Company has driven high levels of engagement and motivation from employees. The most recent results of the Your Say employee survey show that the employee engagement score has increased by three percentage points on the previous year, and currently sits at 81%.

OTHER DISCLOSURES CONTINUED

Over 1,500 employees took part in Wellbeing Goals, a new initiative launched to inspire people to take a more holistic look at their overall wellbeing and follow simple steps each week to improve what matters to them, whether from a physical, mental, social or financial perspective. The business has also taken steps to connect the two important agendas of Diversity and Inclusion with Wellbeing in a bold two-week campaign inviting people to Be Yourself at work. This was supported by hosted events and colleague videos on what it means to be yourself at work and how inclusivity at work positively impacts wellbeing.

The Company continued to promote its free service provided by a confidential team of mental wellbeing specialists, LiveWellWorkWell, by distributing wallet cards with details of the service across all stores and business areas. The Company also invested in supporting the Buddy Network, a peer-to-peer support group, to provide colleagues with a way to share experiences and support each other in managing physical or mental health conditions alongside work.

EQUAL OPPORTUNITIES

The Group is committed to an active equal opportunities policy from recruitment and selection, through training and development, performance reviews and promotion to retirement. The Company's policy is to promote an environment free from discrimination, harassment and victimisation, where everyone will receive equal treatment regardless of gender, colour, ethnic or national origin, disability, age, marital or civil partner status, sexual orientation or religion. All decisions relating to employment practices will be objective, free from bias and based solely upon work criteria and individual merit. The Company is responsive to the needs of its employees, customers and the community at large. M&S is an organisation which uses everyone's talents and abilities and where diversity is valued.

M&S was one of the first major companies to remove the default retirement age in 2001 and has continued to see an increase in employees wanting to work past the state retirement age. Our oldest employee is 90 years old and joined the business at age 80.

In April 2017, the Company once again featured in The Times Top 50 Employers for Women, highlighting how equal opportunities are available for all at M&S.

Employee-led diversity networks give a voice to under-represented groups, provide peer-to-peer support and help to influence the Company to become more inclusive. These networks cover gender, ethnicity, disability, parents and sexual orientation/gender identity. Each network has support from a senior sponsor. Throughout the year employees have been involved in celebrating International Women's Day, Pride, Black History Month and the International Day of Persons with Disabilities.

EMPLOYEES WITH DISABILITIES

The Company is clear in its policy that people with disabilities should have full and fair consideration for all vacancies.

M&S has continued to demonstrate its commitment to interviewing those people with disabilities who fulfil the minimum criteria, and endeavouring to retain employees in the workforce if they become disabled during employment. M&S will actively retrain and adjust employees' environments where possible to allow them to maximise their potential and will continue to work with external organisations to provide workplace opportunities through our innovative Marks & Start scheme and by working closely with Jobcentre Plus. The Marks & Start scheme was introduced into the distribution centre at Castle Donington in 2012/13, working with Remploy to support people with disabilities and health conditions into work.

GROCERIES SUPPLY CODE OF PRACTICE

The Groceries (Supply Chain Practices) Market Investigation Order 2009 (the Order) and The Groceries Supply Code of Practice (GSCOP) impose obligations on M&S relating to relationships with its suppliers of groceries. Under the Order and GSCOP, M&S is required to submit an annual compliance report to the Audit Committee for approval and then to the Competition and Markets Authority and Groceries Code Adjudicator.

M&S submitted its report, covering the period from 3 April 2016 to 1 April 2017, to the Audit Committee on 18 May 2017. In accordance with the Order, a summary of that compliance report is set out below:

M&S believes that it has complied in full with GSCOP and the Order during the relevant period. No formal disputes have arisen during the reporting period. Two allegations regarding potential breaches of GSCOP were raised by suppliers during the relevant period. Neither is being pursued and both are considered closed by M&S.

TOTAL GLOBAL M&S GREENHOUSE GAS EMISSIONS 2016/17

The disclosures required by law and additional information relating to the Group's greenhouse gas emissions are included in the table below. For full details of calculations and performance against our 2006/07 voluntary baseline, see the 2017 Plan A Report.

	2016/17 000 tonnes	2013/14 000 tonnes	% change
Direct emissions (scope 1)	185	168	+10
Indirect emissions from energy (scope 2)	293	340	-14
Total statutory emissions (scope 1 and 2)	**478**	**508**	**-6**
Transport, energy T&D, waste and travel emissions (scope 3)	48	59	-19
Total gross/location-based emissions	**526**	**567**	**-7**
Carbon intensity measure (per 1,000 sq ft of salesfloor)	**26**	**30**	**-13**
Green tariffs and bio-methane procured	305	302	+1
Remaining market-based emissions	**221**	**265**	**-17**
Carbon offsets	221	265	-17
Total net operational emissions	**0**	**0**	**Level**

Emissions are from operationally controlled activities in accordance with WRI/WBCSD GHG Reporting Protocols (Revised edition) and 2014 Scope 2 Guidance using 2015 DEFRA/DECC conversion factors. 2013/14 is the mandatory baseline year. As these emissions account for less than 10% of M&S's total carbon footprint, we also engage with suppliers and customers to address the most significant sources.

POLITICAL DONATIONS

The Company did not make any political donations or incur any political expenditure during the year ended 1 April 2017. M&S has a policy of not making donations to political organisations or independent election candidates or incurring political expenditure anywhere in the world as defined in the Political Parties, Elections and Referendums Act 2000.

GOING CONCERN

In adopting the going concern basis for preparing the financial statements, the directors have considered the business activities as set out on pages 2 to 25 as well as the Group's principal risks and uncertainties as set out on pages 32 and 33. Based on the Group's cash flow forecasts and projections, the Board is satisfied that the Group will be able to operate within the level of its facilities for the foreseeable future. For this reason the Board considers it appropriate for the Group to adopt the going concern basis in preparing its financial statements.

See **note 20** to the Financial Statements for more information on our Facilities

LONG-TERM VIABILITY STATEMENT

The directors have assessed the prospects of the Company over a three-year period to 28 March 2020. This has taken into account the business model, strategic aims, risk appetite, and principal risks and uncertainties, along with the Company's current financial position. Based on this assessment, the directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three-year period under review.

See our approach to assessing **long-term viability** on p31

AUDITOR

Resolutions to reappoint Deloitte LLP as auditor of the Company and to authorise the Audit Committee to determine its remuneration will be proposed at the 2017 AGM.

ANNUAL GENERAL MEETING

The AGM of Marks and Spencer Group plc will be held at Wembley Stadium, Wembley, London on 11 July 2017 at 11am. The Notice of Meeting is given, together with explanatory notes, in the Performance Overview booklet which accompanies this report.

DIRECTORS' RESPONSIBILITIES

The Board is of the view that the Annual Report should be truly representative of the year and provide shareholders with the information necessary to assess the Group's position, performance, business model and strategy. This cannot be achieved by merely reviewing the final document at the end of the preparation process. The Board ensured that its requirements were clearly communicated from the outset to each of the departments involved in the production of the Annual Report.

The Board has advised that the narrative reports should contain the key information needed by investors and other users of the report and should avoid being promotional in nature. Furthermore, the narrative reports in the front and the accounting information in the back of the report should be consistent and the teams involved in its production work closely together to achieve this. For an independent opinion, the Board also requested the Audit Committee review the Annual Report and provide feedback. The Committee's opinion on whether the report is fair, balanced and understandable is on page 50.

The directors are also responsible for preparing the Annual Report, the Remuneration Report and Policy and the financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have prepared the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group and the Company for that period. In preparing these financial statements, the directors are required to:

→ Select suitable accounting policies and then apply them consistently.

→ Make judgements and accounting estimates that are reasonable and prudent.

→ State whether applicable IFRSs (as adopted by the EU) have been followed, subject to any material departures disclosed and explained in the financial statements.

→ Prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose, at any time and with reasonable accuracy, the financial position of the Company and the Group and to enable them to ensure that the financial statements and the Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the current directors, whose names and functions are listed on pages 36 and 37 of the Annual Report, confirms that, to the best of their knowledge:

→ The Group financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole.

→ The Management Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

→ The Annual Report, taken as a whole, is fair, balanced and understandable, and provides the necessary information for shareholders to assess the Group's position, performance, business model and strategy.

DISCLOSURE OF INFORMATION TO AUDITORS

Each of the persons who are Directors at the time when this Directors' Report is approved confirms that, so far as he/she is aware, there is no relevant audit information of which the Company's auditors are unaware and that he/she has taken all the steps that he/she ought to have taken as a director to make himself/ herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

The Directors' Report was approved by a duly authorised committee of the Board of Directors on 23 May 2017 and signed on its behalf by

AMANDA MELLOR GROUP SECRETARY
London, 23 May 2017