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

OUR BUSINESS
OUR PERFORMANCE
GOVERNANCE
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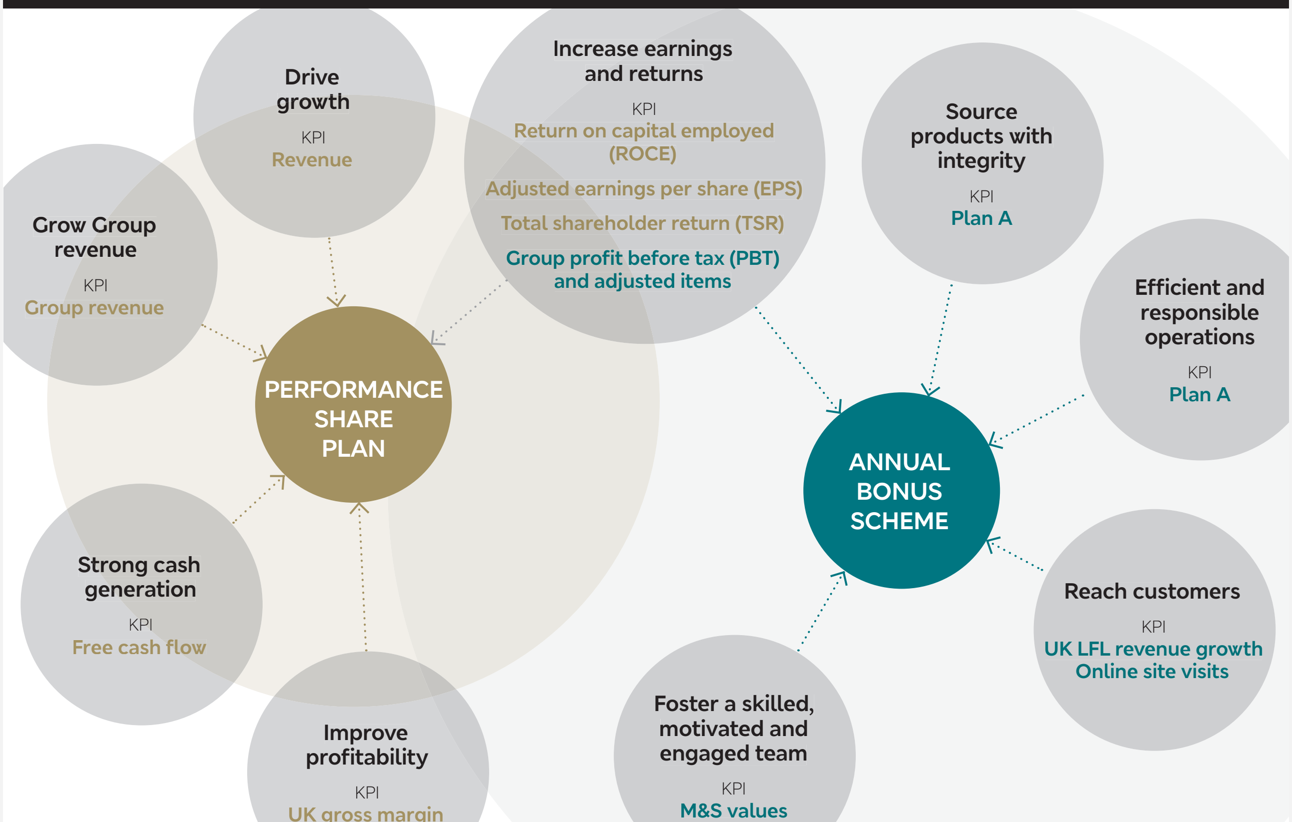
GOVERNANCE

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

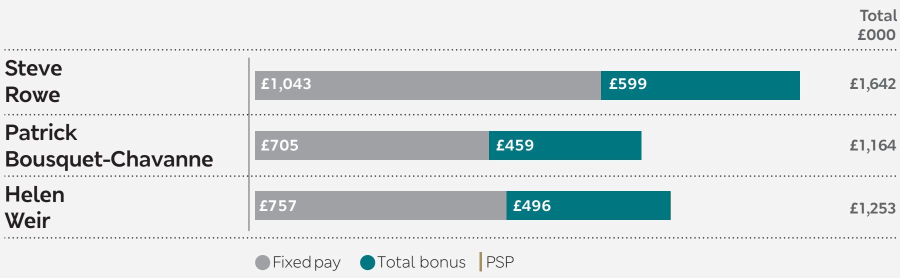
GROUP PBT BEFORE ADJUSTED ITEMS	GROUP REVENUE	RETURN ON CAPITAL EMPLOYED	ADJUSTED EARNINGS PER SHARE	FREE CASH FLOW (PRE SHAREHOLDER RETURNS)
£613.8m	£10.6bn	13.7%	30.4p	£585.4m
Group PBT was above the target set for bonus payments to begin. For executive directors, 19.5% of bonus opportunity was payable 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.

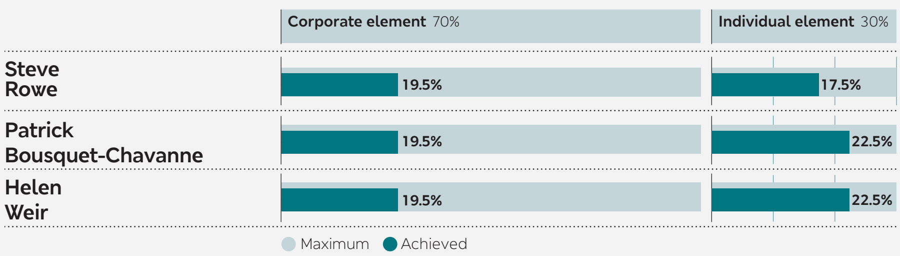


See **Single figure remuneration** on p66
See **Annual Bonus Scheme** below and p68
See **PSP** on p71

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

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

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.

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.

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

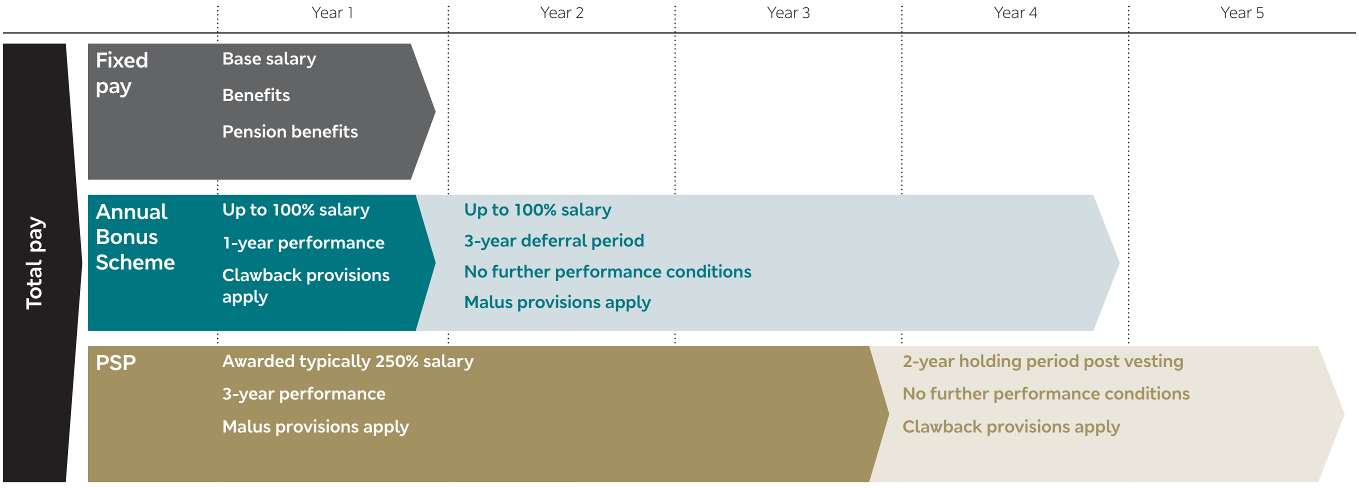
Fees	→ Fees will be compared against major retailers and similarly-sized listed companies which may be ranked outside of the FTSE 25-75 detailed in the previous policy.

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.

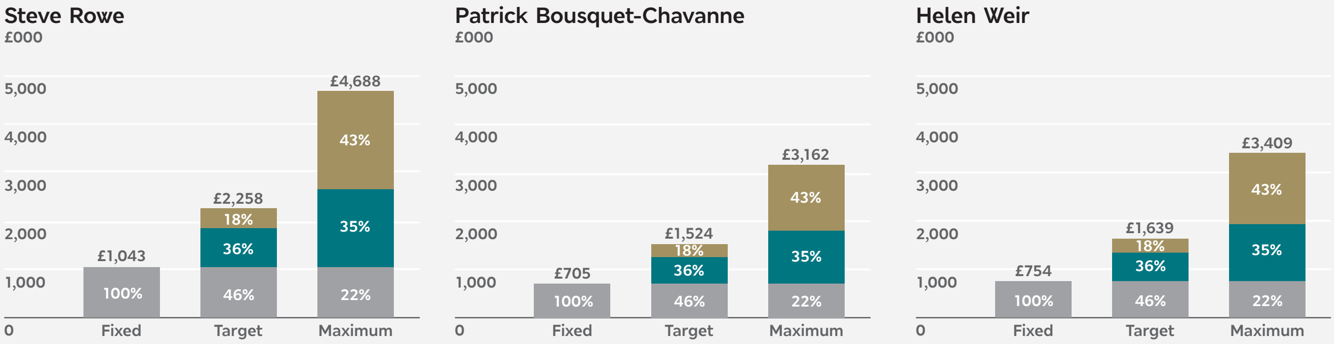


APPLICATION OF THE REMUNERATION POLICY

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.

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 (Min £593m – Max £685m)	Performance	Achievement		
Director				% salary	£000
Steve Rowe	27.9% of max bonus; £613.8m	✓	58.3% of max bonus	74.0%	£599
Patrick Bousquet-Chavanne	27.9% of max bonus; £613.8m	✓	75.0% of max bonus	84.0%	£459
Helen Weir	27.9% of max bonus; £613.8m	✓	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

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

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.

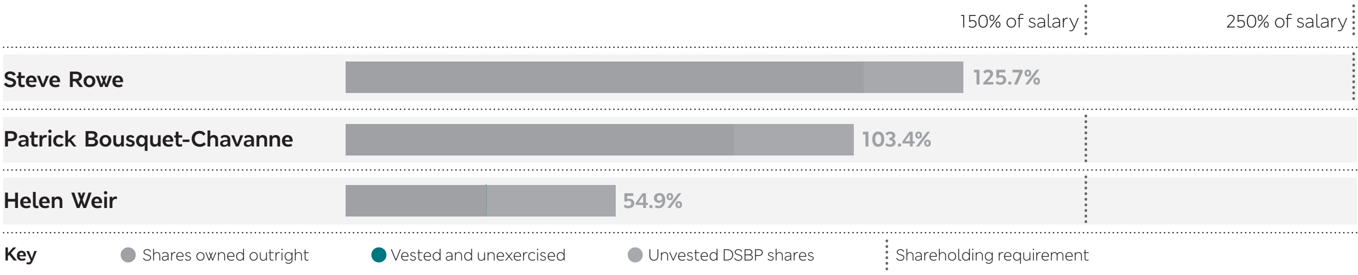
		Unvested		
		With performance conditions	Without performance conditions	
	Shares owned outright	Performance Share Plan	Deferred Share Bonus Plan	Vested but unexercised shares
Steve Rowe	253,408	1,116,809	91,932	0
Patrick Bousquet-Chavanne	123,098	930,790	71,661	0
Laura Wade-Gery (at 12 September 2016)	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

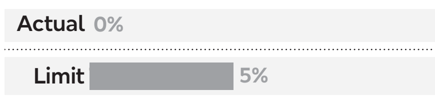


FIGURE 27: EXECUTIVE DIRECTORS' INTERESTS IN THE COMPANY'S SHARE SCHEMES (audited)

	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

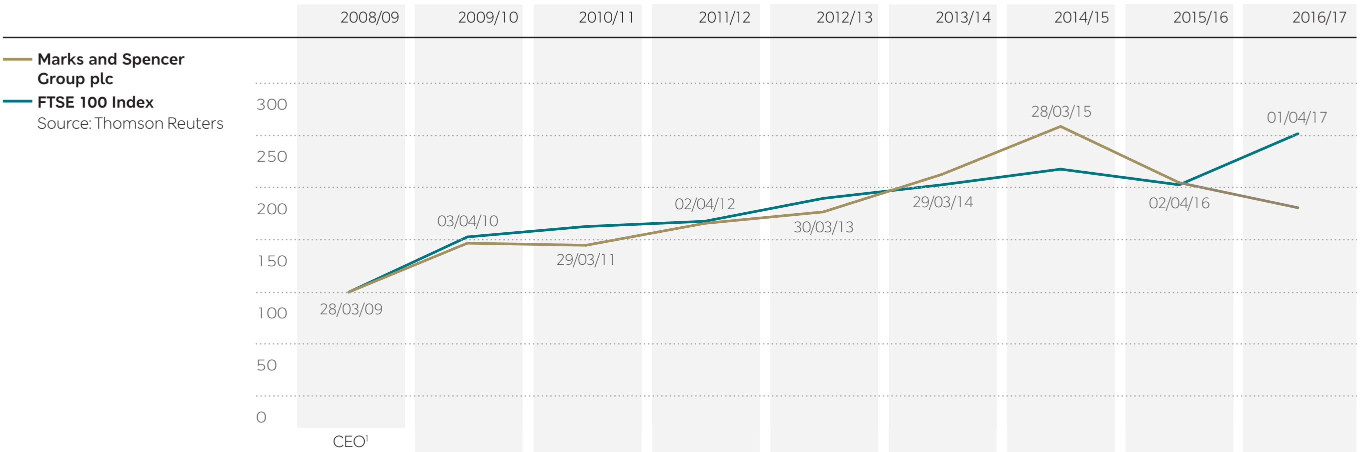
	Maximum receivable at 1 April 2017 (all discretionary schemes)	Maximum receivable in:		
		2017/18	2018/19	2019/20
Steve Rowe	1,208,741	(300,343)	320,382	588,016
Patrick Bousquet-Chavanne	1,002,451	(300,343)	276,158	425,950
Helen Weir	768,309	0	276,527	491,782

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.



		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.