

GOVERNANCE

# CHAIRMAN'S GOVERNANCE OVERVIEW



Our approach to succession has **enhanced our ability to replace and develop responsibilities** quickly and seamlessly, and improved our ability to react to both planned and unplanned changes.

ROBERT SWANNELL CHAIRMAN

During the year the Board has placed much focus on **operational delivery, succession planning and risk management**. The following pages provide insight into these activities alongside the Board's discussions and governance processes.

An open and balanced review of our business performance has been covered earlier on pages 02 to 29. As highlighted, although we made headway against a number of the priorities we set ourselves at the start of the year, our performance in Clothing & Home and International remains unsatisfactory, despite the significant effort from the teams in these areas of the business. The last two years have seen a significant improvement in our clothing gross margin, delivered through improved design capabilities, smarter buying, a more flexible supply base and growth in our international reach. However, we recognise that we have more work to do to deliver sustained performance in Clothing & Home and International. These will both be key areas of focus for the year ahead.

A key area of Board discussion and challenge this year centered on improving the performance and risk management of our website and the Castle Donington distribution centre. The Board was pleased with the significant improvement in the operations of these over the critical Christmas period. Better process management and controls, and extensive testing by the team leading up to the intensive peak trading period, was a critical factor in this success. This focus on delivering an improved customer experience has underpinned a strong performance from M&S.com and delivered growth in market share.

Our balance sheet remains strong and we are delivering well against our free cashflow targets, even after returning £451.7m to shareholders, via dividend payments and the share buyback.

During the year the Board also discussed its strategic priorities, operational delivery and

the associated key business risks and their management. We have sought to provide insight into the scope of the Board's activities, discussions and resulting actions on pages 36 and 37 of this report.

Much thought has been given to our **risk appetite** resulting in the agreement of a formal set of Group level statements, as discussed on page 48. We have also spent time considering management of our **cyber and business continuity risks**, these will remain key items on the Board agenda.

## SUCCESSION PLANNING AND CULTURE

This year has been particularly intensive for both the Board and the Nomination Committee relating to **succession planning and culture**, assessing the executive, non-executive and senior succession pipeline, and identifying what skills are needed to support our strategy and business for the long-term.

Board and senior management succession has been a regular feature of our Board and Committee discussion over the last five years, with development and continued assessment forming a key agenda item. So, when Marc Bolland raised his potential retirement with the Board, the Nomination Committee was well prepared to ensure a careful and systematic transition. This process along with further detail on the activities of the Nomination and Remuneration Committees are provided on pages 40 to 41 and 50 to 71 respectively.

In reaching its conclusion to appoint Steve Rowe as Chief Executive (CEO), the Committee followed a rigorous assessment, development and selection process, including external benchmarking.

The Board was unanimous in supporting Steve's appointment in the light of his considerable knowledge of the business and its people, his appetite to continue the process of change, his perceptive and effective problem solving, his values and his observed leadership. The Board is grateful to Marc for his planning, enabling the

Nominations Committee to work carefully and systematically on his succession.

Leadership, culture and good governance are essential considerations for our Board as it seeks to build a business that can deliver sustainable performance and an organisation fit for the longer term. Steve has outlined on page 06 to 08 the importance of customer focus, clarity, simplicity, and better ways of working to deliver on improved operational performance.

As the business looks at how it can work more effectively, the Board recognises the role it can play in demonstrating leadership and tone from the top.

Following our Board evaluation last year, we set out to articulate our Board culture with an internal framework to identify how we wanted to work as a Board and how we wished to operate and behave as a team. This has helped us to reflect not just on what we do but the way we do it. Furthermore, it aligns the Board with M&S's internal performance management to ensure that values and behaviours are integral to our corporate DNA.

## THIS REPORT'S KEY FEATURES

Over the next few pages we look at our Board members, the role of the Board, its performance and its oversight. We provide an overview of the process undertaken to ensure CEO succession and provide insight into differing induction programmes.

Following feedback on our 2015 report, we again provide detail on the activities and discussions undertaken during the year by sharing some of the actions arising from those discussions and the progress against them. Given the timing of the change in leadership, certain discussions pertaining to future strategy and Board evaluation were undertaken subsequent to year-end. In the interest of transparency, to align with previous years and provide clarity to the reader, these have also been included in the table on pages 36 and 37.

## GOVERNANCE – KEY FEATURES

**Governance at M&S is an important element of our Board environment. It feeds into how we do business, how we serve our customers and our other stakeholders. It therefore needs to be authentic and meaningful.**

**In line with previous years, we have used the key themes of the UK Corporate Governance Code as the framework for articulating the Board's activities during the year:**

- Leadership and Effectiveness are on pages 32 to 41
- Accountability on pages 27 to 29 within the Strategic Report and pages 42 to 48 in the Directors' Report
- Stakeholder engagement and relations with shareholders on page 49
- Remuneration on pages 50 to 71

Additionally, information on the Governance of our Pension Scheme is provided on page 72.

The required governance and regulatory assurances are provided throughout this Directors' Report in a way that reflects their relevance to the business. As in previous years, we have sought to provide insight as to how governance supports and protects the M&S business and our stakeholders in a practical way.

Where information would previously have been located within the Directors' Report, and has instead been incorporated into the Strategic Report, a list of page references is available within the 'Other Disclosures' section on page 73.

Every year we review and benchmark our governance framework against best practice. The framework sets out the roles, accountabilities and expectations for our directors and our structures. This format has been adopted widely across the business and can be viewed at [marksandspencer.com/thecompany](http://marksandspencer.com/thecompany).

### GOVERNANCE PROFILE

**Independence** Over half of our Board is made up of independent non-executive directors, in line with the UK Corporate Governance Code.

**Senior Independent Director** Our Senior Independent Director is Vindi Banga.

**Accountability and election** We have clear separation of duties between Chairman and CEO roles, and require all the directors to stand for re-election annually.

**Evaluation** An internally facilitated performance evaluation of the Board and its Committees was undertaken during the year. An external evaluation will be undertaken next year.

**Attendance** The directors have all attended an acceptable level of Board and Committee meetings.

**Compliance** The composition of all Board Committees complies with the application recommendations of the Code.

**Experience** Throughout 2015/16, the Audit Committee chairman met the specific requirements with regard to recent and relevant financial experience.

**Tenure** We changed our auditor in 2014/15, following a thorough tender process.

**Non-audit policy** We have a policy for the award of non-audit work performed by our auditor, which is disclosed on our website, and we have disclosed the limited non-audit work undertaken.

**Auditor appointment** We disclose our external auditor appointment policy.

**Internal Audit** Details on the Internal Audit function are provided within this report.

**Performance-related pay** A significant part of our performance-related pay is delivered through shares.

**Reward** Our reward framework is simple and transparent and is designed to support and drive our business strategy.

We also provide insight relating to director:

- **Independence** Maintaining the right balance of independence on the Board;
- **Effectiveness** The review this year was internally facilitated. We update on the output and the action plan for the year ahead on page 39; and
- **Ongoing development** Business training, engagement and mentoring.

## UK CORPORATE GOVERNANCE CODE

**The UK Corporate Governance Code 2014 (the 'Code') is the standard against which we were required to measure ourselves in 2015/16**

A copy of the Code is available from the Financial Reporting Council's website.

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

A summary of our governance profile, outlining our compliance with key areas of the Code, has been set out above.

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

## BOARD OVERSIGHT AND MONITORING

We have highlighted our risks and risk management process on pages 27 to 29. While the Board is responsible for these, the Audit Committee has played a key role in ensuring that the appropriate governance and challenge around risk and assurance is embedded throughout the business. It has been closely monitoring the management of our cyber risk, health and safety and business continuity of our UK and international operations, and has undertaken a thorough review of the

notable non-underlying items impacting this year's performance. Information on the activities of the Committee can be found on pages 42 to 46 of this report.

In supporting talent and future leadership for the business, the Remuneration Committee has reviewed our remuneration framework, to ensure it remains relevant to the business, and continued to develop and test the setting and disclosure of objectives and targets. The Committee's activities, considerations and a summary of our Remuneration Policy, are on pages 50 to 71.

## APPOINTMENTS AND BOARD CHANGES

We made a number of changes to the Board this year. On 1 April 2015, we welcomed Helen Weir as Chief Finance Officer. She has brought considerable financial challenge to our processes, data and key performance metrics and has built a strong team to support the business.

In April 2015 Richard Solomons joined the Board as Non-Executive Director. As the CEO of Intercontinental Hotels Group, he brings considerable knowledge of operating an international, multi-channel consumer business.

In July 2015, John Dixon, Executive Director of GM, resigned from the Board. Given his success in running Food for three years, Steve Rowe was appointed to the role.

In December 2015 we were delighted to appoint Andrew Fisher as a non-executive director; he brings considerable experience of digital services, consumer insight and international context to the M&S Board. His appointment followed a review of the Board experience and skills. The Nomination Committee set a clear search specification which focused on digital and consumer experience. This appointment was part of our planning for the retirement

of Martha Lane Fox, who stepped down as a non-executive director on 2 April, after nearly nine years on the Board.

Andrew, Helen and Richard all undertook comprehensive inductions into the business. Detail on Andrew's induction programme is provided on page 38, an overview of Helen's and Richard's was provided in last year's report.

These appointments bring new energy, challenge and oversight to the Board. Their additional skills and experience build on our existing talent and will stand us in good stead for the year ahead.

We continue to drive the agenda of diversity in its broadest sense across the business, and are proud to have built a workforce that is diverse in terms of gender, experience, ethnicity, age and levels of physical ability. Further insight is provided on page 41 and in our Plan A Report.

We hope this report demonstrates how our governance helps us test whether we are doing the right things in the right way, with the right safeguards, checks and balances, and whether the right considerations underpin the decisions we take. Furthermore, we report with honesty, integrity and transparency to ensure our stakeholders receive a fair and balanced view of the business in which they invest.

We approach the year ahead with confidence in our leadership and business and as outlined on pages 06 to 08, our focus will be on performance and delivery of our strategic priorities.



ROBERT SWANNELL CHAIRMAN

LEADERSHIP & EFFECTIVENESS

OUR BOARD

CHAIRMAN



**Robert Swannell**  
Chairman

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

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

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

EXECUTIVE DIRECTORS



**Steve Rowe**  
Chief Executive

**Appointed:** Executive Director, General Merchandise in July 2015, Chief Executive from 2 April 2016

**Skills, competence and experience:** Steve joined M&S in 1989 and progressed through a variety of roles within store management before moving to Head Office in 1993. He has worked in senior roles across various areas of the business, including Director of Home, Director of Retail, and Director of Retail and E-commerce. He was appointed to the Board as Executive Director, Food in 2012, leading the Food division as it continued its record of outstanding innovation and strong growth. Steve moved to the role of Executive Director, General Merchandise in July 2015, with a mandate to improve overall performance and build on the Clothing & Home division's design and sourcing capabilities, prior to his appointment as CEO on 2 April 2016.



**Helen Weir**  
Chief Finance Officer

**Appointed:** April 2015

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

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



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

**Appointed:** July 2013

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

**Other roles:** Non-Executive Director of Brown-Forman Inc, Non-Executive Director of Collectively.org.

INDEPENDENT NON-EXECUTIVE DIRECTORS



**Vindi Banga**  
Senior Independent Director

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

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

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



**Miranda Curtis**  
Non-Executive Director

**Appointed:** February 2012

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

**Other roles:** Chairman of Waterstones, Non-Executive Director of Liberty Global plc, board member of both the Institute for Government and the Royal Shakespeare Company, Vice-Chairman of Carsington Opera and chairs African girls' education charity, Camfed.



**Andy Halford**  
Non-Executive Director

**Appointed:** January 2013

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

**Other roles:** Chief Financial Officer of Standard Chartered plc.



**Alison Brittain**  
Non-Executive Director

**Appointed:** January 2014

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

**Other roles:** Chief Executive of Whitbread plc and member of the Prime Minister's Business Advisory Group.

## FIND OUT MORE

+ See p34 for Governance and Board structures + See p36-37 for Board activities in 2015/16

+ See p34 for Board roles and responsibilities

## RETIREMENTS IN 2015/16



**Laura Wade-Gery**  
Executive Director, Multi-channel

**Appointed:** July 2011

**Skills, competence and experience:** Laura brings considerable retail, e-commerce and customer experience, gained from over 15 years in senior roles in the retail sector. Laura has been instrumental in the improvement and modernisation of our e-commerce and multichannel capabilities, which she continues to lead. In July 2014, Laura's role was expanded to include responsibility for UK stores to provide greater oversight and a fully integrated approach to M&S's multi-channel strategy. Laura is currently on maternity leave and is due to return in September 2016.

**Other roles:** Non-Executive Director of British Land, Trustee of Royal Opera House Covent Garden Limited, Trustee of Aldeburgh Music.



**Marc Bolland**  
Chief Executive

**Retired:** 2 April 2016. Marc stepped down on 2 April 2016 after six years as Chief Executive. He remains available to the Board to assist in the transition until 30 June 2016.



**John Dixon**  
Executive Director, GM

**Resigned:** 16 July 2015. After 29 years with M&S, John stepped down in July 2015 to pursue new career opportunities outside of the Company.



**Martha Lane Fox**  
Non-Executive Director

**Retired:** 2 April 2016. In line with best practice, Martha chose not to seek re-election at the AGM following completion of her third three year term and retired from the Board on 2 April 2016.



**Richard Solomons**  
Non-Executive Director

**Appointed:** April 2015

**Skills, competence and experience:** Richard brings strong commercial, financial, consumer, branding and global experience to the Board. His extensive international retail, and global consumer experience, and role as a CEO of an international business provides valuable insight to the Board. During his career at IHC, Richard was integral in shaping and implementing IHC's asset-light strategy, which has helped the business grow significantly since it was formed in 2003, as well as supporting the return of \$10.4bn to shareholders.

**Other roles:** Chief Executive of IHC, Governor of the Aviation Travel Industry Group of the World Economic Forum, Member of the Industry Real Estate Financing Advisory Council.



**Andrew Fisher**  
Non-Executive Director

**Appointed:** December 2015

**Skills, competence and experience:** Andrew has substantial experience of the international consumer and technology sectors, and has led the successful growth of a number of technology-focused enterprises over the past 18 years. He is currently Executive Chairman of Shazam Entertainment Limited, having previously served as Chief Executive Officer since 2005. Prior to that, Andrew was European Managing Director of Infospace Inc and founder and Managing Director of TDLI.com. He is a member of the Advisory Board to the Secretary of State for the Review of the BBC Charter.

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

## GROUP SECRETARY



**Amanda Mellor**  
Group Secretary and  
Head of Corporate Governance

**Appointed:** July 2009

**Other roles:** Non-Executive Director of Kier Group plc.

## BOARD DIVERSITY

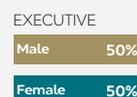
The tables and graphics below provide a visual outline of our Board's diversity in terms of gender, range of experience and length of tenure. More information on our Board Diversity Policy can be found on page 41.

## GENDER DIVERSITY

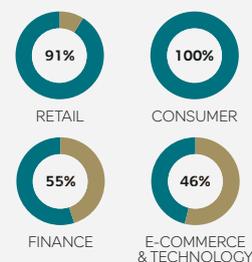
**2 April 2016**  
(As at year end)



**24 May 2016**  
(As at date of Annual Report)



## SECTOR EXPERIENCE



## INTERNATIONAL EXPERIENCE



## NON-EXECUTIVE DIRECTOR TENURE



## KEY TO COMMITTEES

**N** Nomination    **R** Remuneration  
**A** Audit    **CC** Committee Chair

Full biographical details of each director are available on [marksandspencer.com/thecompany](http://marksandspencer.com/thecompany)

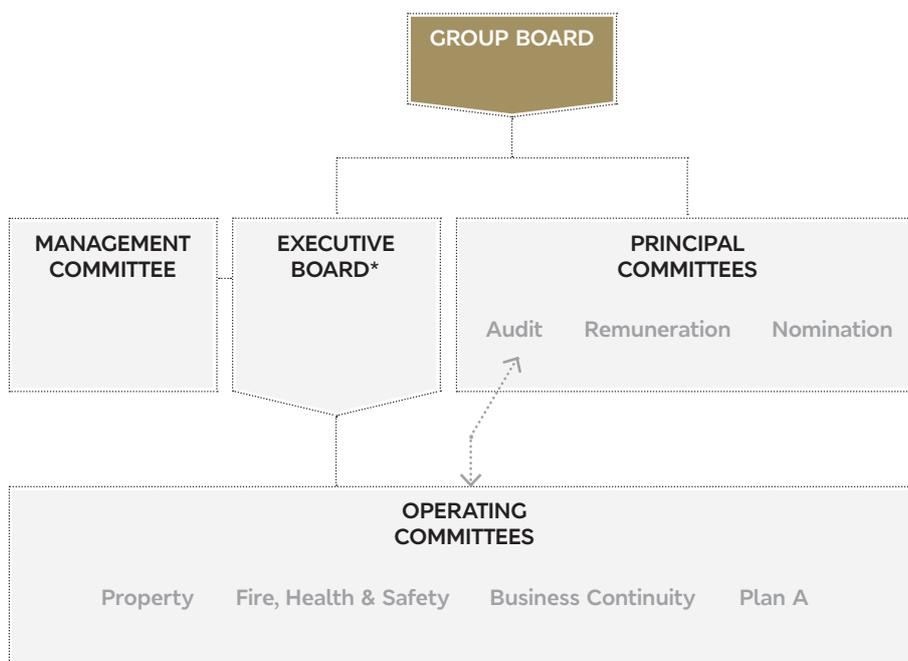
## LEADERSHIP & EFFECTIVENESS OUR BOARD CONTINUED

### BOARD OVERVIEW

#### BOARD COLLABORATION

The Board and Committee structure throughout 2015/16, is provided on the right. As highlighted on page 09 of the Strategic Report, going forward the Management Committee will be disbanded and the Executive Board will be renamed the Operating Committee with renewed membership. Operating Committee membership is provided on page 09. Updated Terms of Reference for this Committee will be added to our corporate website once agreed by the Board.

The work of the Board complements, enhances and supports the work of the Executive Board. We believe that effective governance is realised through leadership and team work. Collaboration across all levels within the Board structure drives a culture of continuous improvement in standards and performance across our business. Working together, all parts of the Board structure conduct robust interrogation of plans and actions, ensuring high-quality decision-making in all areas of strategy, performance, responsibility and accountability.



\* Going forward, this will become the Operating Committee

### ROLE OF THE BOARD AND ITS COMMITTEES

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

The Board discharges some of its responsibilities directly and discharges others through its Board Committees and through management. The Terms of Reference of the Board and its Committees are included in our Governance Framework.

The Board agrees, and has collective responsibility for, the strategy of the Company. For M&S, our strategy is understood to mean the development of specific actions aimed at satisfying the needs of our target customer groups across the product categories and in the territories in which we choose to operate. The articulation of our strategy will include agreement on how our physical and intellectual property and the skills of our people should be used, developed and

enhanced to create competitive advantage for the Company.

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

The Board is responsible for ensuring that appropriate values, ethics and behaviours for the conduct of the Company are agreed and that appropriate procedures and training are in place to ensure that these are observed throughout the Company. The Board has discussed and agreed the key values of Inspiration, Innovation, Integrity and In Touch and these underpin the required values, ethics and behaviours.

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

The Board is responsible for:

→ Ensuring leadership through effective oversight and review. Supported by its principal committees – Audit,

Remuneration, and Nomination – the Board sets the strategic direction and aims to deliver sustainable shareholder value over the longer term.

→ Overseeing the implementation of appropriate risk assessment systems and processes to identify, manage and mitigate the principal risks of the Company's business. Much of this work is delegated to the Audit Committee.

→ Effective succession planning at Board level and for assessing the processes in place to ensure that there is appropriate succession planning amongst senior management. Much of this work is delegated to the Nomination Committee.

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

## FIND OUT MORE

+ See Board activities overview on p36-37

+ See our Board biographies on p32-33 + See our Remuneration Report on p50-71

## BOARD COMPOSITION, ROLES AND ATTENDANCE AS AT YEAR END

EXECUTIVE DIRECTORS	ATTENDED	MAX POSSIBLE	RESPONSIBILITY IN 2015/16	LINKED TO REMUNERATION	CHAIRMAN	ATTENDED	MAX POSSIBLE	RESPONSIBILITY
<b>Chief Executive</b> Marc Bolland (Retired 2 April 2016)	8	8	Strategy & Group performance	✓	Robert Swannell	8	8	Board governance and performance, and shareholder engagement.
<b>Chief Executive Designate</b> Steve Rowe (CEO from 2 April 2016)	8	8	Food performance from April to July 2015 General Merchandise performance thereafter	✓				
<b>Chief Finance Officer</b> Helen Weir	8	8	Group Financial Performance and Ecommerce distribution	✓				
<b>Executive Director</b> Patrick Bousquet-Chavanne <sup>1</sup>	7	8	Marketing & International performance	✓	<b>NON-EXECUTIVE DIRECTORS</b>	<b>ATTENDED</b>	<b>MAX POSSIBLE</b>	<b>RESPONSIBILITY</b>
<b>Executive Director</b> John Dixon (Resigned 16 July 2015)	3	3	Clothing & Home performance	✓	Vindi Banga <sup>2</sup>	7	8	Independent non-executive directors assess, challenge and monitor the executive directors' delivery of the strategy within the Board's risk and governance structure.
<b>Executive Director</b> Laura Wade-Gery (Maternity Leave from 1 September 2015)	4	4	UK Retail & Multi-channel performance	✓	Alison Brittain	8	8	In addition, they review the integrity of financial information, devise appropriate succession plans, and monitor Board Diversity.
					Miranda Curtis	8	8	
					Andrew Fisher (appointed 1 December 2015)	3	3	
					Martha Lane Fox <sup>3</sup> (Retired 2 April 2016)	7	8	
					Andy Halford	8	8	
					Richard Solomons	8	8	

## BOARD MEETINGS

The Board held eight scheduled meetings during the year, and individual attendance is set out above. Sufficient time is provided at the start and end of each meeting for the

Chairman to meet privately with the Senior Independent Director and the non-executive directors to discuss any matters arising. At the start of each meeting, one

director provides feedback on the previous meeting, highlighting matters that received a good level of debate and areas where further improvements could be made.

This table provides details with regard to scheduled meetings held in the 2015/16 financial year.

1. Patrick Bousquet-Chavanne was unable to attend the meeting on 18 May due to overseas personal commitments.
2. Vindi Banga was unable to attend the meeting on 17 June due to business commitments with CD&R.
3. Martha Lane Fox was unable to attend the meeting on 18 May due to personal commitments.

+ See Board Activities on p36-37

## MONITORING AND OVERSIGHT

## RISK MONITORING AND OVERSIGHT

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

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

## STRATEGIC PROCESS

Progress against the strategy is closely monitored by the Executive Board and discussed at each Group Board meeting. Given the change in leadership, announced at the start of January, the Board's annual two-day strategy meeting was postponed. Much of the proposed agenda for this meeting has subsequently been discussed.

The Board has since debated the priorities and the longer-term challenges, some of which we have communicated earlier in this report. We have identified opportunities for improvement and continue to formulate an agreed action plan. The non-executive directors continue to share their expertise and provide independent oversight to these discussions.

## INDEPENDENCE OF DIRECTORS

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

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

All non-executive directors have served fewer than six years on the Board.

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

+ See details and experience of each director on p32-33

LEADERSHIP & EFFECTIVENESS  
OUR BOARD CONTINUED

BOARD ACTIVITIES

TOPIC	ACTIVITIES/DISCUSSION	ACTIONS ARISING	PROGRESS
Strategy	<b>Discussed strategic priorities, including the combined Food and Clothing &amp; Home proposition.</b>	<ul style="list-style-type: none"> <li>→ Conduct a thorough review of UK store estate, including format and profitability.</li> <li>→ Improve capability in buying, merchandising and design in respect of Clothing &amp; Home.</li> <li>→ Review organisational capability across all departments.</li> <li>→ Improve processes around succession planning to ensure candidates build required skillset.</li> <li>→ Provide more challenge to accepted practices.</li> <li>→ Become more agile and less risk averse in piloting new initiatives.</li> <li>→ Drive simplicity in our culture, organisational structure and processes.</li> </ul>	<ul style="list-style-type: none"> <li>→ Accelerated rollout of new Simply Food stores.</li> <li>→ Senior leadership appointments made in critical areas with proven talent.</li> <li>→ Centralised design authority through introduction of Design Director structure.</li> <li>→ New design and product forums introduced to encourage colleagues to share knowledge and upskill.</li> <li>→ Identified actions to bring brand proposition to life in store.</li> </ul>
	<b>Discussed the Group's capital structure and financial strategy, including capital investments, shareholder returns and the dividend policy.</b>	<ul style="list-style-type: none"> <li>→ Continued investment to promote sustainable business growth over the long-term.</li> <li>→ Utilise improved cash-flow position to implement ongoing, sustainable programme of returns of capital to investors.</li> </ul>	<ul style="list-style-type: none"> <li>→ Strong cash generation due to better buying, lower capital expenditure and robust cost management.</li> <li>→ £150m returned to investors through a share buyback programme.</li> <li>→ Total dividend for the 2015/16 up to 18.7p, a 3.9% increase on last year.</li> </ul>
	<b>Reviewed the development of the strategic logistics network.</b>	<ul style="list-style-type: none"> <li>→ Consider scenarios for future business requirements.</li> <li>→ Evaluate proposals for improved network design.</li> <li>→ Investigate opportunities for further operational improvements.</li> </ul>	<ul style="list-style-type: none"> <li>→ Substantial progress made in development of logistics network design in support of business requirements.</li> <li>→ Detailed transition plan to move to a single tier network.</li> <li>→ Lessons learned from early stages of project leading to improved processes for current and future development phases.</li> </ul>
	<b>Reviewed international strategy, including key priorities.</b>	<ul style="list-style-type: none"> <li>→ Review of international franchise operations in the context of a changing macro-environment.</li> <li>→ Identify and prioritise initiatives to deliver the international strategy.</li> <li>→ Deliver the relevant product ranges for local customers.</li> <li>→ Build an international supply chain that is fit for the future.</li> <li>→ Adapt and implement e-commerce business model to drive sustainable and profitable growth.</li> </ul>	<ul style="list-style-type: none"> <li>→ Key growth drivers in franchise markets identified.</li> <li>→ Increased focus on proven markets and concepts.</li> <li>→ Write down of assets and exit costs linked to withdrawal from Balkan region.</li> <li>→ Proposed store openings kept under review to ensure appropriate balance of food and full line stores in target markets.</li> </ul>
	<b>Discussed internal governance processes underpinning key programmes and initiatives.</b>	<ul style="list-style-type: none"> <li>→ Review the business's programme management and post investment review processes to improve delivery.</li> </ul>	<ul style="list-style-type: none"> <li>→ Progress made in pinpointing particular areas for improvement and implementing a 'One Best Way' approach to programme management.</li> </ul>
Governance & risk	<b>Discussed new Corporate Governance developments and disclosure requirements.</b>	<ul style="list-style-type: none"> <li>→ Clearly define the Company's risk appetite and determine the nature and extent of principal risks.</li> <li>→ Discuss and determine the Company's longer-term viability disclosures, accounting for current position and principal risks.</li> </ul>	<ul style="list-style-type: none"> <li>→ Review of risk appetite statements in the context of the principal risks and objectives.</li> <li>→ Agreed scope, appropriate lookout period and timeline in respect of the newly required long-term viability statement, in line with the UK Corporate Governance Code.</li> </ul>
	<b>Reviewed progress against the 2015/16 Board Action Plan.</b>	<ul style="list-style-type: none"> <li>→ Conduct an internally facilitated Board Evaluation</li> <li>→ Obtain and evaluate director feedback on the processes, effectiveness and working of the Board and Committees.</li> </ul>	<ul style="list-style-type: none"> <li>→ Introduced internal Board framework</li> <li>→ Agreed 2016/17 action plan with clear process for monitoring during the year.</li> </ul>
	<b>Half yearly review of Group Risk Profile, covering core internal and external risks, risks driven by business change and areas of emerging risk.</b>	<ul style="list-style-type: none"> <li>→ Assess the effectiveness of the Company's risk management systems.</li> <li>→ Review completeness and ordering of the Group Risk Profile, including key risk movements, and considered appropriate mitigating factors.</li> <li>→ Ongoing robust debate around risk appetite.</li> </ul>	<ul style="list-style-type: none"> <li>→ Agreed a robust set of Group level risks and mitigating activities, which are regularly monitored.</li> <li>→ Further developed the Board's approach to risk appetite and agreed a set of Group-level statements.</li> <li>→ Considered movements in key risks resulting from changes to likelihood or business impact, recategorising as appropriate.</li> </ul>
	<b>Conducted a review of the Company's cyber security position.</b>	<ul style="list-style-type: none"> <li>→ Assess the strength of M&amp;S's cyber security policies, capability and areas of risk.</li> <li>→ Discuss the structure of our approach to cyber security in light of recent changes to data protection legislation.</li> <li>→ Provide an objective assessment of business capabilities in light of the relevant risks.</li> </ul>	<ul style="list-style-type: none"> <li>→ Robust plans in place to ensure the business's cyber security systems remain sufficiently robust going forward.</li> <li>→ Existing capabilities comprehensively reviewed and consideration given to future developments in the area of cyber security.</li> <li>→ Areas of risk identified and future priorities agreed.</li> </ul>

➤ See our Board Effectiveness Review on p39

## BOARD ACTIVITIES CONTINUED

TOPIC	ACTIVITIES/DISCUSSION	ACTIONS ARISING	PROGRESS
Leadership & Employees	<b>Discussed succession, talent development and diversity across management.</b>	<ul style="list-style-type: none"> <li>→ Review Board composition and diversity policy.</li> <li>→ Continue to support executive director and senior management development.</li> <li>→ Deliver robust succession planning and nurture internal talent pipeline to provide our people with the required skills and capabilities for today and for the future.</li> </ul>	<ul style="list-style-type: none"> <li>→ 39% of our Board members were female as at close of the 2015/16 financial year, reducing to 36% following the retirements of Marc Bolland and Martha Lane Fox on 2 April 2016.</li> <li>→ Ongoing initiatives include Leadership Development Service, mentoring and coaching.</li> <li>→ Significantly refreshed approach to development of internal talent through introduction of initiatives such as the 'Fit To Lead The Future' programme.</li> </ul>
	<b>Reviewed the composition and succession planning procedures of the Board and its Committees.</b>	<ul style="list-style-type: none"> <li>→ Ongoing commitment to maintaining a balance of appropriate skills and experience among the Board and its Committees.</li> </ul>	<ul style="list-style-type: none"> <li>→ Approved the appointments of a new Chief Executive and an additional Non-Executive Director.</li> </ul>
	<b>Discussed employee engagement, reward and pensions.</b>	<ul style="list-style-type: none"> <li>→ Conduct a thorough review of how we reward our people with emphasis on fairness, consistency and sustainability.</li> <li>→ Evaluate results of annual 'Your Say' and quarterly 'Pulse' surveys to identify areas for improvement.</li> </ul>	<ul style="list-style-type: none"> <li>→ Proposed new approaches to pay and pensions and initiated a period of consultation with employees through our National Business Involvement Group.</li> <li>→ Increased engagement with our people across all areas of the business.</li> </ul>
Customers	<b>Discussed improvement of customer engagement through introduction of innovative new reward programme.</b>	<ul style="list-style-type: none"> <li>→ Introduce a new customer engagement strategy and encourage a more centralised relationship with the customer.</li> <li>→ Drive further promotion of Sparks to help customers understand the proposition and the benefits of membership.</li> </ul>	<ul style="list-style-type: none"> <li>→ Successful launch of Sparks with over 4m registered members since October 2015.</li> <li>→ Progress made in addressing early challenges following launch.</li> </ul>
	<b>Reviewed Clothing &amp; Home strategy.</b>	<ul style="list-style-type: none"> <li>→ Drive market share growth through improved product availability, pricing consistency and range focus.</li> <li>→ Support multichannel growth.</li> <li>→ Build foundational elements required to support sustainable growth in Clothing &amp; Home.</li> </ul>	<ul style="list-style-type: none"> <li>→ Notable successes in refreshed style credentials and improvements in product quality.</li> </ul>
	<b>Discussed development of brand and customer proposition.</b>	<ul style="list-style-type: none"> <li>→ Evaluate new concepts and in-store enhancements to improve customer experience.</li> <li>→ Consider future evolution of the M&amp;S brand and product proposition.</li> <li>→ Continue to refine our customer understanding.</li> </ul>	<ul style="list-style-type: none"> <li>→ Directional focus on customer with emphasis on simplicity and financial responsibility.</li> <li>→ Ongoing rollout of refreshed store fascias and enhancements to in-store environments.</li> </ul>
	<b>Reviewed the performance and progress of M&amp;S.com.</b>	<ul style="list-style-type: none"> <li>→ Review of developments during the year and further promotion of digital mind-set as key facet of development strategy.</li> <li>→ Continue to invest in building digital capability to provide a better experience for customers.</li> </ul>	<ul style="list-style-type: none"> <li>→ Progress made in embedding digital mind-set at heart of strategy.</li> <li>→ Strong growth and improved returns achieved in 2015 following challenging transitional year in 2014.</li> <li>→ Continued progress in improving customer satisfaction.</li> </ul>
	<b>Discussed security risks affecting the business.</b>	<ul style="list-style-type: none"> <li>→ Review of incident reporting and management procedures to ensure ongoing security awareness.</li> </ul>	<ul style="list-style-type: none"> <li>→ Delivered crisis management exercises across UK Crisis Management Teams and 'duty manage with confidence' courses across the International business.</li> </ul>
Values	<b>Discussed continued evolution of Plan A.</b>	<ul style="list-style-type: none"> <li>→ 104 Plan A commitments to be achieved by 2020.</li> <li>→ Review progress made in 2015/16 and set priorities for 2016/17.</li> </ul>	<ul style="list-style-type: none"> <li>→ 57 achieved, 5 not achieved.</li> <li>→ 40 on plan, 1 behind plan.</li> <li>→ 1 commitment cancelled.</li> <li>→ Identified strategic priorities for 2016/17.</li> </ul>
	<b>Reviewed organisational culture and improvements to our ways of working.</b>	<ul style="list-style-type: none"> <li>→ Review ways of working across stores and offices.</li> <li>→ Consider implementation and business impact of the National Living Wage.</li> <li>→ Evaluate M&amp;S's pay positioning in context of wider retail industry.</li> </ul>	<ul style="list-style-type: none"> <li>→ Introduced 'Smarter Working' workstream to evaluate and improve use of office space.</li> <li>→ Proposed a new approach to future pay positioning.</li> </ul>
Shareholder engagement	<b>Encouraged strong engagement with investors and stakeholders.</b>	<ul style="list-style-type: none"> <li>→ Actively support engagement opportunities.</li> </ul>	<ul style="list-style-type: none"> <li>→ 30 largest shareholders invited to our fifth annual Governance Event, hosted by the Chairman.</li> </ul>
	<b>Reviewed feedback from shareholders in advance of AGM.</b>	<ul style="list-style-type: none"> <li>→ Specific issues raised by shareholders to be addressed in Chairman's statement.</li> </ul>	<ul style="list-style-type: none"> <li>→ Communicate progress made in key topics raised by shareholders.</li> </ul>
	<b>Reviewed the success of the first year's operation of the Payment Plus Scheme.</b>	<ul style="list-style-type: none"> <li>→ Evaluate overall performance of the scheme during the year and consider future viability.</li> <li>→ Consider feasibility of extending the scheme to nominees.</li> </ul>	<ul style="list-style-type: none"> <li>→ Successful delivery of the scheme over two dividend payments during the year.</li> <li>→ Ongoing assessment of the scheme's performance to date.</li> </ul>

## LEADERSHIP & EFFECTIVENESS OUR BOARD CONTINUED

### SUCCESSION

In January 2016 we announced that after six years in the role, Marc Bolland would retire as CEO. We advised that Marc would be succeeded by Steve Rowe on 2 April. At the time of the announcement Steve was Executive Director of General Merchandise. To ensure a smooth transition Marc agreed to remain available to Steve and the Board until 30 June 2016.

When Marc joined M&S he indicated informally that he would serve a tenure of five to six years. Having guidance from the date of appointment assisted with the planned and orderly succession of the CEO role. In the summer of 2015, Marc indicated

that he was considering his retirement and that the Board, with the assistance of the Nomination Committee, may want to step up their succession search.

In reaching its conclusion to appoint Steve as CEO, the Nomination Committee set a rigorous assessment, development and selection process, including external benchmarking.

Succession is not just about Board appointments. Succession and succession planning remain key agenda items to ensure a continuous supply of suitable individuals ready to take over when directors, senior staff or other key

employees leave the business in a range of situations. In addition, our focus on succession demonstrates our commitment to recruit, retain, develop and promote high performing staff.

We believe our approach to succession is strategic, thoughtful and practical. We appoint on merit against objective criteria and with due regard to the benefits of diversity in its widest definition. We ensure that new appointments come with the required qualifications, experience and skills to meet the challenges ahead.

### DIRECTOR INDUCTION

#### STEVE ROWE INDUCTION

Steve already had a unique considerable understanding of M&S. His journey to the Board started when he joined the business over 25 years ago. Steve undertook and progressed through a number of store-based positions, which provided him with a clear understanding of our customers, their expectations, and the demands on our store-based employees.

Moving to Head Office in 1993, Steve worked in a variety of roles across all areas of the business including menswear, merchandising, home, online and the store estate. In 2012 he was appointed to the Board as Executive Director of Food and

received a thorough induction led by the Chairman. Steve led Food through three years of continued growth. In 2015 Steve moved from Food to Clothing & Home. These roles have provided an in-depth understanding of the business and the structures within our offices.

Over the past two years, Steve has received mentoring from senior business leaders and has undertaken executive development programmes in the UK and overseas. This was to broaden his understanding of core business functions and global strategic management.

Over his time with M&S Steve has experienced many changes to the business and operated under the differing leadership styles of six Chief Executives.

Following the announcement of his appointment as CEO, Steve met with the Chairman, each of the non-executive and executive directors, the Group Secretary, members of senior management and a wide range of individuals from across the business. Steve met with the Company's lead audit partner and its remuneration advisors. Steve has met with some of our private and institutional shareholders.

#### ANDREW FISHER INDUCTION

During the year, the induction process has been reviewed based on feedback from earlier tailored programmes. The comments from the review were used to update the induction process for Andrew Fisher, who joined the business in December 2015.

Andrew's induction was comprehensive and tailored to his understanding of the business. It was led by the Chairman and covered:

Company structure and strategy, including our history; strategy (including details of all key investment decisions), key people and

succession plans; Board procedures including the Governance Framework, Code of Ethics and Behaviours; Board calendar, minutes from previous meetings, effectiveness reviews and action plans; finances, performance, operating plans, current KPIs and targets, operational overview of all business areas; key relationships, including suppliers and major contracts; Group Risk Profile and our approach to risk; insight into key audits and areas of focus.

Industry and competitive environment, including: customer trends; consumer and regulatory environment including

governance and all relevant consumer and industry bodies, Corporate Social Responsibility, environment and sustainability.

Sentiment and reputation, including: brand positioning and media profile; marketing campaigns; brand values; analyst and investor opinion; review of investor surveys; share register and voting history; key stakeholder relations including employees, customers, suppliers and service providers; opinion leaders; an overview of our remuneration policy and pensions.

## BOARD EFFECTIVENESS REVIEW

The assessment of the M&S Board was conducted according to the guidance set out in the UK Corporate Governance Code.

Given the change in leadership, the Board were keen for its evaluation to highlight learnings from the past and build on these for the future. The evaluation was internally facilitated by the Group Secretary and undertaken from February to April 2016.

The evaluation was based around a number of key areas:

- Board composition, role, skills, diversity, balance and experience;
- Board leadership and culture;
- Agenda, information, papers and resource;
- Monitoring company performance;

- Strategic and risk debate;
- Governance, regulatory compliance and support;
- Committee performance.

The Board was asked to reflect on its action plan set out at the start of the 2015/16 financial year and the summary of the Board's assessment of progress against this plan as at December 2015.

**Stage 1:** A comprehensive questionnaire (60 questions with rankings and open text boxes) was sent to each Board member, along with a copy of the previous year's evaluation and action plan.

**Stage 2:** Alongside the questionnaire, Board members participated in one-on-one discussions with the Group Secretary.

**Stage 3:** A report was compiled by the Group Secretary based on the information and views provided. All recommendations were based on best practice as described in the UK Corporate Governance Code and other current corporate governance guidelines.

**Stage 4:** Draft conclusions were discussed with the Chairman and subsequently the whole Board at its meeting in May 2016. The conclusions of that discussion were

recorded in the minutes of the meeting. Robert Swannell also received a separate report with feedback on individual directors. Following the Board meeting, the Group Secretary gave feedback on the Chairman to the Senior Independent Director, and to the Committee Chairmen on the performance of each committee. The Senior Independent Director also met with the non-executive directors to review the Chairman's performance. This review is then shared with the Chairman.



The Board evaluation for the 2016/17 financial year will be facilitated by Ffion Hague.

## BOARD REVIEW INSIGHTS 2015/16

- Overall the Board is considered strong, bringing a good balance and mix of expertise and experience and offering real diversity of view and perspective.
- Progress was felt to have been made against the 2015/16 Action Plan, particularly in relation to the quality of management information.
- The subsequent discussions on the risk process and risk appetite, post investment reviews and action follow up were positively highlighted.
- However, despite the progress on last year's evaluation, views on Board effectiveness continue to be tempered by the overall business performance.
- As a result, items from last year's Action Plan will continue to form the base for the 2016/17 Plan.
- Board Committees were all considered to work well and were noted for their level of debate, grasp of key issues and overall subject and regulatory knowledge. The Action Plans for the Nomination, Audit and Remuneration Committees are set out on pages 40 to 41, 42 to 46 and 50 to 71 respectively.

## BOARD ACTION PLAN

### THE BOARD ACTION PLAN 2016/17 WILL COVER:

- oversight of business change and performance;
- key business and strategic risks and associated risk appetite parameters;
- greater knowledge of and interaction with senior management and wider employee community;
- key performance indicators and link to strategic context;

LEADERSHIP & EFFECTIVENESS

# NOMINATION COMMITTEE REPORT



The Nomination Committee and the Board have ensured that **development, mentoring and continued assessment** remain key agenda items.

ROBERT SWANNELL CHAIRMAN OF THE NOMINATION COMMITTEE

## INTRODUCTION

Earlier in this report I provided detail on the Board changes during the year. Succession and director development have been key areas of focus for the Committee this year, culminating with the appointment of Steve Rowe as the new CEO, and the appointment of a non-executive director, Andrew Fisher.

For the CEO and executive director appointment, selection is based on the experience and skills required for specific roles, for which a specification is developed and agreed. For the succession of non-executives, the Nomination Committee considers the combination of skills and experience required to fulfill the Board's purpose. There is a well-defined

specification for each appointment with a clear understanding of the attributes and values required to help the effective functioning of the whole Board. The Board explicitly acknowledges the need for diversity in its composition and in particular, that there should be a strong representation of women.

Emergency succession planning is also an important area of discussion for the Committee, ensuring the business develops a framework with clearly identified individuals capable of covering key management roles on an interim basis. All these individuals then receive the necessary coaching to ensure they have the required skills to provide any critical support when needed.

The effectiveness of our emergency planning was tested following the resignation of John Dixon, Executive Director of GM. Steve Rowe moved from Food, which he had run successfully for three years, to take over from John. Andy Adcock, who had worked closely with Steve, was appointed to lead Food. In addition, we reallocated responsibilities to cover Laura Wade-Gery's maternity leave.

Development for directors and high performing individuals below Board level has been an essential area of focus. Coaching and mentoring is provided to develop and enhance specific skill sets, and the Committee believes the benefits of this approach are critical for developing our own talent for the future.

## EFFECTIVENESS OF THE NOMINATION COMMITTEE

### Committee review

The Committee's performance was internally evaluated this year by the Group Secretary. The Committee has had a busy year and its remit and effectiveness were tested, both in terms of succession and emergency planning. The Committee considered its composition during the year

following Steve's appointment as CEO. In order to ensure independence, the Committee decided that its membership should only include independent non-executive directors. Therefore, Steve will not be joining the Nomination Committee as a member, however, he will attend Committee meetings when invited.

### Nomination Committee activity

The Committee held a significant number of unscheduled meetings to support CEO succession. It continued to support succession and development of the executive directors, implemented development initiatives for senior executives, international business school training, executive coaching and non-executive director mentoring. Committee members also participated in several employee-focused and diversity-based initiatives, giving increased access to the organisation, direct employee feedback and greater visibility of high potential talent.

MEMBER ATTENDANCE	MEMBER SINCE	NUMBER OF MEETINGS ATTENDED	MAXIMUM POSSIBLE MEETINGS	% OF MEETINGS ATTENDED
Vindi Banga	3 Sept 2011	5	5	100%
Marc Bolland	1 May 2010	5	5	100%
Alison Brittain	1 Jan 2014	5	5	100%
Miranda Curtis	3 Feb 2012	5	5	100%
Andrew Fisher	1 Dec 2015	2	2	100%
Martha Lane Fox	1 June 2007	5	5	100%
Andy Halford	1 Jan 2013	5	5	100%
Richard Solomons	13 Apr 2015	5	5	100%
Robert Swannell	4 Oct 2010	5	5	100%

### ACTION PLAN 2016/17

- Continue to review succession plans for the Board and key roles across the business;
- Continue to identify future talent pipeline;
- Review development initiatives for directors; and
- Continue to identify opportunities for broader business engagement.

## BOARD DIVERSITY POLICY

Since the launch of the Board Diversity Policy in 2012, the Board has made progress in broadening the diversity of the Board and senior management. In 2015, the Board reviewed the policy to ensure that it continues to drive the benefits of a diverse Board and workforce across the business. The Board agreed that the ambitions and objectives set out in the policy remain relevant targets against which to measure our progress.

➤ **For further information on employee diversity, including gender, ethnicity and age, see p23 of our Plan A Report [marksandspencer.com/plana2016](http://marksandspencer.com/plana2016).**

## BOARD DIVERSITY: PROGRESS UPDATE

**Maintain a level of at least 30% female directors on the Board over the short to medium term.**

As highlighted earlier in the report, changes to the Board were made during the year to 2 April, experienced two retirements and one resignation. Despite the reduced overall size of the Board, the percentage of women on the Board remains strong at 36% at time of publication. The charts on page 33 provide a clearer picture of our Board diversity.

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

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

In 2016, M&S was again listed in The Times Top 50 Employers for Women for the sixth year running.

**Assist the development of a pipeline of high-calibre candidates by encouraging a broad range of senior individuals within the business to take on additional roles to gain valuable Board experience.**

During the year, the Board continued to focus on strengthening the pipeline of executive talent in the Company. It remains committed to learning and building on existing programmes while introducing new initiatives to broaden and develop the strong talent which exists across the business.

Key initiatives include:

- A comprehensive talent review presented to the Board annually, mapping successional candidates and opportunities across all senior roles within the business.
- A thorough refresh of our approach to talent development through the introduction of new initiatives, including

the 'Fit to Lead the Future' programme, Fit For the Future Leadership journey, Line Manager focus and Emerging Leaders approach.

→ The Leadership Development Service has been in place for two years and continues to identify and partner key senior talent across the business, broadening their skillsets and experience to prepare them for future opportunities. This has been supported through greater boardroom exposure, non-executive and Trustee roles outside of M&S, and participation in mentoring schemes.

→ Access to International Business School Training.

→ Senior management mentoring and coaching schemes, including individual leadership assessments, and non-executive director sponsored lunches and breakfasts.

**Consider candidates for appointment as non-executive directors from a wider pool, including those with little or no listed company board experience.**

During the year, the Nomination Committee discussed the successional needs of the Board in respect of its non-executive directors, and continues to work closely with executive search agencies in compiling long and short lists of candidates. During the search for the most recent appointments, the Board identified and interviewed a range of candidates from various backgrounds and industries, all of whom were measured against criteria agreed at the start of the process. The Chairman also meets informally with a range of people introduced by third parties or through direct approaches. Although we do not currently openly advertise our non-executive director positions, we appreciate the benefit of this approach and will keep this under review.

**Ensure long lists of potential non-executive directors include 50% female candidates.**

The Board remains committed to ensuring that high-performing women from within the business and from a variety of backgrounds, who have the requisite skills, are given greater exposure to the nomination committees of FTSE100 companies. Once again, the Board met its commitment, and all non-executive director long lists in 2015/16 included 50% female candidates.

**Only engage executive search firms who have signed up to the voluntary Code of Conduct on gender diversity and best practice.**

The Board continues to support the nine principles of the Executive Search Firms Voluntary Code of Conduct on gender diversity, demonstrated by remaining committed to only engaging executive search firms who are signatories to this code. During the year, we worked closely with Egon Zehnder and JCA, and maintained our focus on the targets and ambitions around female

representation on the Board. The Board confirms that neither Egon Zehnder or JCA has any other connection with the Company.

**Report annually against these objectives and other initiatives taking place within the Company which promote gender and other forms of diversity.**

The Board has made strong progress against the key policy objectives during the year, as reported above.

In addition, the business has continued to promote diversity with the introduction or continuation of key initiatives:

- The annual Board evaluation process includes an assessment of the Board's diversity including gender, helping to objectively consider its composition and effectiveness.
- The M&S Inspiring Women's Network, launched in 2014, continues to support the progress of women in our business, giving access to a range of role models, providing informal mentoring and networking opportunities, and creating a forum for discussion to explore and address the career challenges women face.
- Continued involvement in the government-backed 30% Club, an organisation committed to increasing female representation on UK Boards.
- The MBA Leadership Programme is in its fifth year, recruiting and developing talented MBA graduates from international business schools; to date intake into the programme has been over 50% women.
- A number of programmes to help people in our communities, including Marks & Start, Marks & Start Logistics and Make Your Mark are successfully helping young people, the homeless, lone parents and those with disabilities, to find work in our stores and distribution centres.

**Report annually on the outcome of the Board evaluation, the composition and structure of the Board as well as any issues and challenges the Board is facing when considering the diverse make-up of the Company.**

We continue to regard the Board evaluation process as an important means of monitoring our progress. Full details of the 2015/16 Board evaluation and the Action Plan are on page 39. We remain committed to getting the right balance of internal versus external hires and work towards understanding and managing some of the challenges we face, such as:

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

ACCOUNTABILITY

# AUDIT COMMITTEE REPORT



The Committee **continue to challenge the risk and assurance programme**, ensuring it is embedded throughout the business.

ANDY HALFORD CHAIRMAN OF THE AUDIT COMMITTEE

## INTRODUCTION

As Chairman of the Audit Committee, I am pleased to present the Audit Committee's report for the year ended 2 April 2016.

Over the following pages we share discussions from the boardroom and provide insight into the workings of the Audit Committee and its activities in the year, as well as update you on the effectiveness of our statutory auditor (Deloitte) and the fees they received for non-audit work undertaken. It provides an overview of the significant issues the Audit

Committee assessed and the Committee's opinion on the Annual Report when viewed as a whole, including how it has assessed the narrative reporting in the front of the report to accurately reflect the financial statements in the back.

This report also shares some of the insight we received from the executive updates presented to us from across the business. These continue to provide the Committee with real insight into the business's challenges and its aspirations. These also tell us how the risks are being managed and

mitigated throughout the organisation, as well as helping the Committee members understand the progress being made towards the strategic objectives. The updates provide us with an opportunity to challenge, discuss and debate with the presenters whilst sharing our experience and providing an independent perspective.

Looking forward to the next 12 months, the Committee will continue to focus on the audit, assurance, and risk processes within the business, as well as monitor changes in EU and UK regulation.

## EFFECTIVENESS OF THE AUDIT COMMITTEE

**As part of the annual review of the effectiveness of the Committee, the expertise of the members is considered and reviewed. The Board is satisfied that the Committee members bring a wide range and depth of financial and commercial experience across various industries, and that Andy Halford meets the specific requirement for recent and relevant financial experience.**

### AUDIT COMMITTEE ACTIVITY

- Remained focused on the audit, assurance and risk processes within the business, and maintained oversight of financial and other regulatory requirements.
- Reviewed the Group's system of internal control and risk management, and any changes in accounting policies and impact on our financial statements.
- Discussed and reviewed the non-underlying items that may impact the performance of the business.
- Reviewed the process and timeline for assessing the effectiveness of the external auditor.
- Provided oversight of particular business risks including International retail and ethical sourcing.

- Supported the work to draft the definitions of risk appetite for the business.
- Reviewed the design and scope of the assurance plan, with particular focus on key strategic priorities.
- Received and discussed specific business presentations relating to risks within the Group Risk Profile.
- Reviewed formal announcements on the Group's financial performance, including an assessment of the estimates and judgements.

Some members of senior management are invited to attend the Audit Committee meeting to provide technical business information as needed. Therefore, we allocated specific time for Committee members to meet without management present, prior to each meeting. At the end of each Committee meeting we meet separately with the lead audit partner from Deloitte and the Head of Internal Audit & Risk, to provide an opportunity to discuss matters without executive management being present. In addition, I regularly hold separate one-to-one meetings with the Chief Finance Officer, Director of Group Finance, Head of Internal Audit & Risk, other senior management, and with the lead audit partner. These are usually before Committee meetings as this enables me to better understand the issues and any areas of concern, and to allow sufficient time for meaningful discussion at the subsequent meeting.

MEMBER ATTENDANCE	MEMBER SINCE	NUMBER OF MEETINGS ATTENDED	MAXIMUM POSSIBLE MEETINGS	% OF MEETINGS ATTENDED
Andy Halford (Chairman)	1 Jan 2013	5	5	100%
Alison Brittain	11 Mar 2014	5	5	100%
Miranda Curtis	4 Mar 2015	4	5	80%
Andrew Fisher (Appointed 1 December 2015)	3 Feb 2016	1	1	100%
Martha Lane Fox (Retired 2 April 2016)	1 Jun 2007	5	5	100%

## EFFECTIVENESS OF THE AUDIT COMMITTEE (CONTINUED)

### AUDIT COMMITTEE ACTION PLAN

The Audit Committee's performance was reviewed within the framework of the wider Board Effectiveness Review. The Committee received positive feedback on the way it challenges the business and was seen as open, transparent and effective. Areas of improvement were highlighted, discussed and debated by the Committee, and included as part of the action plan for the coming year. The Committee made

good progress on the 2015/16 action plan by continuing to focus on our international business and ethical sourcing, monitoring the Group risk management process, and supporting the development of the assurance plan.

Looking ahead, the Committee will remain focused on the audit, assurance and risk processes within the business, and strengthen its oversight of financial and other regulatory requirements.

The action plan for 2016/17:

- Review the mitigating controls over the Group's principal risks and assess the level of assurance provided.
- Continue to support risk assurance mapping across the Group, with particular focus on strategic priorities.
- Increased oversight of the Board's management of cyber security risk.
- Monitor and respond to the changing regulatory environment.

## EXTERNAL AUDITORS

### TENURE

**Deloitte were appointed by shareholders as the Group's Statutory Auditor in 2014 following a formal tender process. The external audit contract will be put out to tender at least every ten years.**

The Committee recommend the reappointment of Deloitte for 2016/17. We believe the independence and objectivity of the external auditor and the effectiveness of the audit process are safeguarded and remain strong. The Company has complied with the Statutory Audit Services Order for the financial year under review.

The FRC's Audit Quality Review ('AQR') team selected to review the audit of the Company's 2014/15 financial statements as part of their 2015 annual inspection of audit firms. The focus of the review and their reporting is on identifying areas where improvements are required rather than highlighting areas performed to or above the expected level. The Chairman of the Audit Committee received a full copy of the findings of the AQR team and has discussed these with Deloitte. Whilst there were no significant findings, some matters were identified as requiring improvement and we have agreed an action plan with Deloitte to ensure the matters identified by the AQR have been addressed in the audit of the Company's 2015/16 financial statements.

### EFFECTIVENESS

The assessment of the effectiveness of our external auditor is based on a framework setting out the key areas of the audit process for the Audit Committee to consider, as well as the role that management has contributed to an effective process.

The framework provides the Audit Committee with a mechanism to encourage management to improve standards in a number of key areas. These include ensuring

that information is presented with a culture of 'right first time'; that the quality of management papers is high, that robust internal systems and controls are maintained, that the audit process is respected and valued by the management team, and that proposed audit adjustments are examined seriously. The Committee believes that this framework provides a robust process for monitoring auditor effectiveness, and can be measured against the findings of future external auditor effectiveness surveys. Looking forward, the Committee will reassess the calendar timing of the effectiveness review to ensure maximum insight and efficiency is gained from the process.

The approach to the assessment is tailored to enable senior management to answer the detailed questions on the Company-wide audit process, and provide the Audit Committee with sufficient detail to establish an informed view on the overall efficiency, integrity and effectiveness of the external audit.

**Questionnaires were tailored to the following target groups:**

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

### WHAT WAS THE OUTCOME?

The results of the questionnaire were examined, and feedback identified a good understanding of the business and its values, a joined-up approach towards significant issues for discussion, and a team that offer robust challenge and technical insight. Areas for improvement were identified in relation to better communication during the audit, and more business insights.

### NON-AUDIT FEES

**A robust auditor engagement policy is in place and adhered to. It is reviewed annually and disclosed on [marksandspencer.com/thecompany](http://marksandspencer.com/thecompany).**

The business is committed to maintaining non-audit fees at a low level, and can report that the non-audit fees to audit fees ratio for the year was 0.17:1, compared to 0.49:1 last year. Of the total non-audit fees of £0.3m paid to Deloitte, £0.2m relates to assurance services in relation to the Half Year review, turnover certificates, and EMTN renewal. It is normal practice for such assurance services to be provided by the Company's statutory auditor. A number of smaller non-assurance services were provided, including in relation to taxation compliance in the International business, and these amounted to £0.1m.

Where non-audit work is performed by Deloitte, both the Company and Deloitte ensure robust processes to prevent auditor objectivity and independence from being compromised.

All non-audit work performed by Deloitte was put to the Audit Committee for consideration and approval, regardless of size.

Further details on non-audit services provided by Deloitte can be found in note 4 on page 96.

## ACCOUNTABILITY

### AUDIT COMMITTEE REPORT CONTINUED

#### AUDIT COMMITTEE UPDATES

The Committee receives a detailed update from the business at each committee meeting, with one or more areas represented. Business updates are planned on a rolling 12-month basis and reviewed at every meeting. Any matter identified by internal audit as in need of discussion is added to the agenda of a future meeting. Some of the 2015/16 updates are listed below:

#### CASTLE DONINGTON DISTRIBUTION CENTRE RESILIENCE

- Updated on Business Continuity, including contingency options and embedding the plan for e-commerce fulfilment.
- Discussed the triggers to the business continuity action plan and the service standards required to protect the Company in the situation of a triggered event, as well as consideration of customer expectations.
- Discussed the link between Castle Donington and store inventories.

#### CYBER SECURITY

- Updated on the cyber security measures in place at M&S, and noted the proactive approach adopted by the business.
- Discussed the protection around customer data, including encryption and regular reviews of the security measures in place.
- Updated on the external review of the company's cyber security systems, which were assessed against an external framework, and considered the proposed improvement plan.
- Agreed regular updates be provided to the Committee throughout the year.

#### BUSINESS CONTINUITY

- Updated on progress made in the international business following the implementation of several initiatives, including the increased levels of crisis management training.
- Discussed the current national threat level, level of preparedness with the introduction of shopping centre/retail park preparedness assessments, and key areas of improvement.
- Discussed the strategy and focus for 2016/17 which includes international retail and sourcing, cyber security, and global terrorism.

#### PROPERTY, FIRE, HEALTH, AND SAFETY

- Updated on the property Fire Health and Safety Management (FHSM) Plan which includes safety arrangements, monitoring performance, and performance targets.
- Discussed the management of electrical safety and the policies and arrangements in place.
- Updated on the improvements to international governance, including a third-party FHSM inspection plan, and our global minimum standard for FHSM.
- Noted the continued partnership with Birmingham City Council for Health & Safety and the West Midlands Fire Service for fire safety, as well as partnerships with local NHS Ambulance Trusts and emergency responders.

#### GROSS MARGIN AND ETHICAL SOURCING

- Updated on the improvements in gross margin and sourcing strategy, key drivers to delivering the target growth in the plan, and key areas of risk.
- Noted the internal risks and impacts of external factors, including wage inflation and currency volatility risk, and discussed mitigating actions.
- Discussed supplier relationships and changes to team structure within our Sourcing Offices, leading to a change in culture.
- Updated on the ethical trading approach, including M&S standards and auditing, noting independent ethical audits undertaken by an accredited third party on all factories used by M&S.
- Discussed the ethical compliance monitoring process, reporting structure, and escalation procedures, and improvements made in this area.

#### GOVERNANCE AND COMPLIANCE

- Updated on the improvements to the whistleblowing policy, anti-bribery policy, and Code of ethics and behaviours, including stronger employee awareness and compliance monitoring.
- Discussed and reviewed the process undertaken by the Board to assess the long-term viability of the business.
- Updated on international compliance, and noted key risks and mitigating actions, and the continued support from Head Office to the local teams.

#### SIGNIFICANT ISSUES

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

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

The main areas of judgement that have been considered by the Committee to ensure that appropriate rigour has been applied are outlined in this section. All accounting policies can be found in note 1 on pages 90-94. Where further information is provided in the notes to the financial statements, we have included the note reference.

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

#### IMPAIRMENT OF GOODWILL, BRANDS TANGIBLE AND INTANGIBLE ASSETS

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

#### FAIR, BALANCED AND UNDERSTANDABLE

At the request of the Board, the Committee has considered whether, in its opinion, the 2015/16 Annual Report and Financial Statements is fair, balanced and understandable, and whether it provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

The structure of the report continues to provide a strong focus on the key strategic messages in the Strategic Report, whilst ensuring these changes do not dilute the level of transparency in disclosure that we know is useful for stakeholders, and that the business continues to provide a clear message that is reflective of the Company as a whole.

A broad outline of the structure the Annual Report was given to the Committee early in the planning process, along with a similarly broad indication of content. The Committee received a full draft of the report some two weeks prior to the meeting at which it would be requested to provide its final opinion. Feedback was provided by the Committee in advance of that meeting, highlighting any areas where the Committee believed further clarity was required. The draft report was then

of impairments, valuation methodology, the basis for key assumptions (discount rate and long-term growth rate) and the key drivers of the cash flow forecasts. The Committee has challenged management and is satisfied that these are appropriate. The Committee has also understood the sensitivity analysis used by management in their review of goodwill and brand impairment. In addition, the business plans detailing management's expectations of future performance of the businesses are considered by the Board. The Committee is satisfied that appropriate impairment of tangible and intangible assets has been recognised. **See notes 5, 14 and 15 on pages 97, 98, 108 & 109**

#### INVENTORY VALUATION AND PROVISIONING

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

#### PRESENTATION OF THE FINANCIAL STATEMENTS

The Committee gave consideration to the presentation of the financial statements and in particular the presentation of the non-

underlying measures in accordance with the Group accounting policy. This policy states that adjustments are only made to reported profit before tax where income and charges are one-off in nature, significant, and distort the Group's underlying performance. The Committee received detailed reports from management outlining the judgements applied in relation to the disclosure of non-underlying items. In the current year, management has included profit on property disposal and impairments of properties where commitment to close has been demonstrated, restructuring costs, significant and one-off impairment charges and provisions, fair value movement of financial instruments and the reduction in M&S Bank income for the impact of the financial product mis-selling provision within this category. This was an area of focus for the Committee in the current year due to the number and value of these items (£200.8m charge). In addition, the current year is a 53-week statutory reporting period so consideration had been given to the balance of 52-week and 53-week metrics reported throughout the Annual Report. 52-week measures have been quoted to ensure meaningful comparison with last year's 52-week period. Following detailed review and active discussion with management the Committee has concluded that the presentation of non-underlying items and 52 and 53-week metrics throughout the Annual Report and Financial Statements is appropriate. **See note 5 on p97**

**See note 5 on p97**

#### RETIREMENT BENEFITS

The Committee has reviewed the actuarial assumptions such as discount rate, inflation rate, expected return of scheme assets and mortality which determine the pension cost and the UK defined benefit scheme valuation, and has concluded that they are appropriate. The assumptions have been disclosed in the financial statements. **See note 11 on p102-105**

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

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

#### SUPPLIER INCOME

This continues to be monitored closely by management and robust controls are in place to ensure appropriate recognition in the correct period. The Committee are satisfied with management's conclusion that there is no risk of material misstatement. Enhanced disclosure has been made again in the current year through publication of the accounting policy and disclosing the effects of supplier income on certain balance sheet accounts.

amended to incorporate this feedback prior to being tabled at the Audit Committee meeting for final comment and approval.

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

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

#### IS THE REPORT FAIR?

- Is the whole story presented and has any sensitive material been omitted that should have been included?
- Is the reporting on the business segments in the narrative reporting consistent with those used for the financial reporting in the financial statements?

→ Are the key messages in the narrative reflected in the financial reporting?

→ Are the KPIs disclosed at an appropriate level based on the financial reporting?

#### IS THE REPORT BALANCED?

→ Is there a good level of consistency between the narrative reporting in the front and the financial reporting in the back of the report, and does the messaging reflected in each remain consistent when read independently of each other?

→ Is the Annual Report properly a document for shareholders?

→ Are the statutory and adjusted measures explained clearly with appropriate prominence?

→ Are the key judgements referred to in the narrative reporting and the significant issues reported in this Audit Committee Report consistent with the disclosures of key estimation uncertainties and critical judgements set out in the financial statements?

→ How do these compare with the risks that Deloitte plan to include in their report?

#### IS THE REPORT UNDERSTANDABLE?

→ Is there a clear and understandable framework to the report?

→ Are the important messages highlighted appropriately throughout the document?

→ Is the layout clear with good linkage throughout in a manner that reflects the whole story?

#### CONCLUSION

**Following its review, the Committee was of the opinion that the 2016 Annual Report and Accounts is representative of the year and presents a fair, balanced and understandable overview, providing the necessary information for shareholders to assess the Group's position, performance, business model and strategy.**

**ACCOUNTABILITY**  
AUDIT COMMITTEE REPORT CONTINUED

**ASSURANCE AND INTERNAL CONTROL ENVIRONMENT**

The Board assumes ultimate responsibility for the effective management of risk across the Group, determining its risk appetite as well as ensuring that each business area implements appropriate internal controls. The Group's risk management systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

➕ See p27-29 of the Strategic Report for more information on our material risks.

➕ See p47-48 for further information on our risk management processes.

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

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

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

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

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

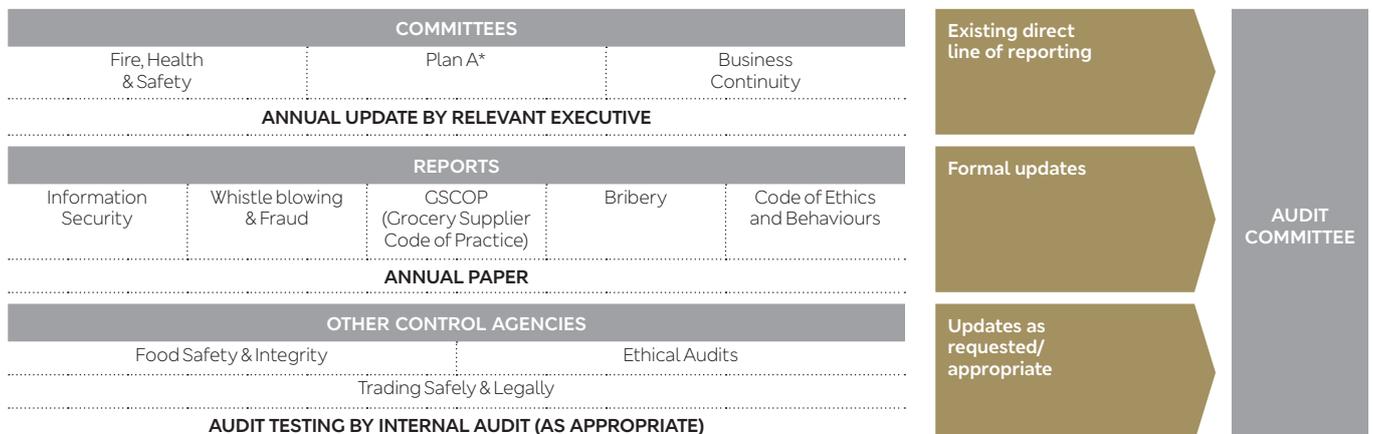
The Group was compliant throughout the year with the provisions of the UK Corporate Governance Code relating to internal controls and the FRC's revised Turnbull Guidance on Internal Control. No significant failings or weaknesses were identified during the Committee's review in respect of the year ended 2 April 2016 and up to the date of this Annual Report.

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

Further details of these processes can be found within our detailed Corporate Governance Statement which is available to view in the Corporate Governance section of [marksandspencer.com/thecompany](http://marksandspencer.com/thecompany).

**Andy Halford**  
Audit Committee Chairman

**INTERNAL ASSURANCE FRAMEWORK**



\* Reports directly to the Group Board.

## ACCOUNTABILITY

## RISK IN ACTION

## RISK AND THE ROLE OF INTERNAL AUDIT

Internal Audit & Risk comprises both the Group Risk function and Internal Audit. Group Risk facilitates and manages the risk process that is ultimately owned by the Group Board. Internal Audit, accountable to the Audit Committee, uses a risk-based approach to provide independent assurance over the adequacy and effectiveness of the control environment, including controls related to key risks on the Group Risk Profile. The following examples illustrate how Internal Audit supports the business through driving improvements to our control environment and adding value in core business areas.

**RISK: CLOTHING & HOME TRANSFORMATION**

Improving product availability to customers in-store and online is a key priority and Internal Audit reviewed the process to allocate the stock available in our warehouses. Our audit found opportunities to improve the reconciliation of stock data, to ensure that allocation decisions are made based on the most current and accurate stock data possible. We also found that availability targets used within the

business are not wholly aligned with our customers' view of availability. These challenges have led to manual intervention in the allocation process, impacting the efficiency of operations. The audit findings support the transformation activities underway in Clothing & Home.

**RISK: INTERNATIONAL**

India is a key growth market for our International business. Internal Audit assessed the scalability of business operations to support this growth, including the clarity of plans to deliver against the strategy, the adequacy of core logistics processes and the management of new store build and development projects. We found the customer proposition to be clearly defined, with a range of store formats trialled prior to wider rollout. New tools and processes have been implemented at the India warehouse to improve stock management and capacity controls, although product labelling enhancements are required to speed up the movement of stock through the warehouse. Robust project management controls are in place over new store build and development projects.

**RISK: CLOTHING & HOME SUPPLY CHAIN AND LOGISTICS NETWORK**

In April 2016 we began the phased implementation of a new automated warehouse in Bradford, as part of our wider supply chain and logistics transformation. Internal Audit reviewed governance over the project testing phase supporting this launch, including the adequacy of testing standards and the management of test exceptions. Our audit found the governance over testing to be robust; however, there were opportunities to improve record keeping relating to defect management and to incorporate the re-testing of changes into resource plans. The audit recommendations were applied to the remaining testing phases, ahead of the warehouse launch.

Management actions from all of our audits are tracked to completion and the status of these actions is reported to the Audit Committee to ensure that the risks identified are appropriately addressed. This will, in turn, further mitigate the risks included in our Group Risk Profile.

## OUR APPROACH TO ASSESSING LONG-TERM VIABILITY

As highlighted last year, the UK Corporate Governance Code now requires us to issue a 'viability statement' declaring whether we believe the Company is able to continue to operate and meet its liabilities, taking into account its current position and principal risks. The overriding aim is to encourage directors to focus on the longer term and be more actively involved in risk management and internal controls; an important part of stewardship. The Board are required to assess the Company's viability over a period greater than 12 months. The M&S Board have selected a three year assessment period as this aligns with how we plan, measure performance, and remunerate at a senior level.

The process adopted to assess the viability of the Company involved collaborative input from a number of functions across the business to model a series of theoretical 'stress test' scenarios linked to the Group's principal risks, in the context of the three year plan. Examples include significant interruption to our business as a result of a cyber-attack or infrastructure

failure, and brand impacting incidents driven by product sourcing failures. Consideration was also given to the strength of the control environment and its impact in mitigating risk, as well as inevitable interdependencies. Scenarios were then reviewed against the Group's current and projected liquidity position, considering current committed lending facilities. To support the final conclusion on viability, the assessment also took account of additional potential mitigations available to the business in the event of further downside factors. An overview of the process undertaken was provided to the Audit Committee and reviewed for completeness. The viability evaluation was then provided to the Board to assist in its assessment.

In assessing viability the Board has considered a number of key factors, including our business model (see page 10), our strategy (see pages 6-8), risk appetite (see page 48) and our principal risks and uncertainties (see pages 28-29). These have been reviewed in the context of our current

position and financial planning process, specifically the annual forecast and three year plan. The directors also satisfied themselves that they have the evidence necessary to support the statement in terms of the effectiveness of the internal control environment in place to mitigate risk.

In making the statement, the directors have applied the following assumptions:

- Capital markets will be closed and any bond maturing during the assessment period will be refinanced through our existing facility;
- Net capital investment will remain in line with expectations; and
- In the event that the UK votes to leave the European Union, the terms of exit are such that the business would be able to continue to operate broadly in line with current operations.

The Board are in agreement that M&S is a viable business. The Viability Statement can be found on page 77.

**ACCOUNTABILITY**  
RISK IN ACTION CONTINUED

**OUR APPROACH TO RISK APPETITE**

The UK Corporate Governance Code requires companies to define their risk appetite in terms of the nature and extent of the principal risks they are willing to take in achieving strategic objectives. In real terms it is an expression of the type and amount of risk that the company is prepared to take; by clearly defining this our business benefits in a number of ways. Not only does it promote consistent, risk-informed decision-making across the Group that is aligned with our strategic aims, it also supports robust corporate governance by setting clear risk-taking boundaries.

Our approach to risk appetite has evolved during 2015/16, building on the foundations put in place last year. Following a review of the draft statements prepared in 2014/15, the Board have now agreed a set of Group-level risk appetite statements that address key risk areas and specific business operations; they are also designed to support the business in its management of

a number of principal risks. The statements articulate the normal risk parameters within which the Group operates; this is reflective of the fact that our business is already governed by robust policies and procedures.

Our risk appetite statements cover a wide range of topics from Clothing & Home ethical sourcing and food safety and integrity through to our core values and behaviours. The size and diverse nature of our business means that there is no 'one size fits all' approach to establishing risk parameters. Whilst it is important that these are clearly defined, it is also essential that we foster an environment where innovation and entrepreneurial activities thrive. At times there may be merit in operating outside of agreed risk parameters but proposed exceptions will need to be escalated to senior management for debate and approval before activities commence, ensuring that appropriate mitigating controls are in place.

Our work is ongoing. As the business evolves during 2016/17 we will continue to assess whether we have the right risk appetite statements in place, and to consider additional topics, including emerging risks. We also plan to incorporate our work on risk appetite into our existing Group Risk process to promote consistent consideration of risk and reward across the Group.

**EXAMPLE RISK APPETITE STATEMENT**

Each agreed risk appetite statement is designed to provide guidance on the nature and extent of risk that the Group is prepared to take in achieving its strategic aims and operational objectives. For example:

**Food safety and integrity** – We only sell food products that meet our safety and integrity Codes of Practice. This is managed throughout the product lifecycle, and assessed via our Food Safety and Food Integrity audit programmes.

**RISK INTERDEPENDENCY**

**We recognise that there is significant interdependency between our key risks.**

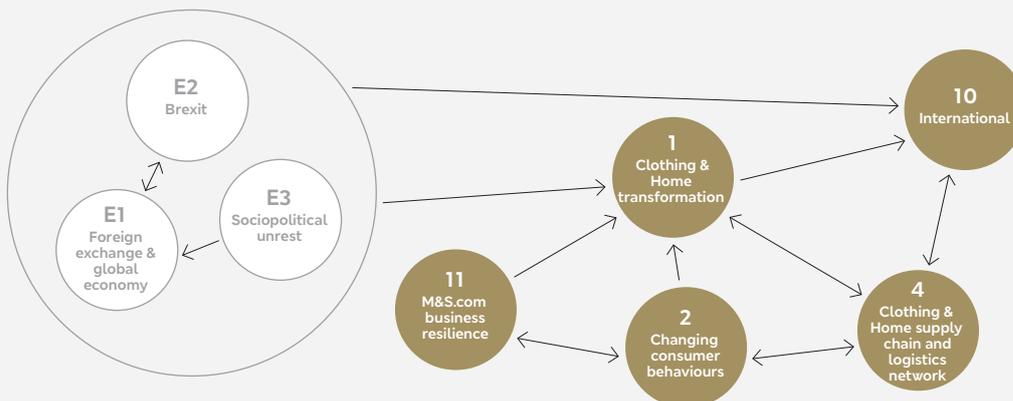
This diagram, based on an extract from our current Group Risk Profile, highlights how changes to one risk could impact on those connected to it. By understanding the relationship between our key risks if they were to materialise, we are better placed to ensure that we are managing them appropriately and to understand our broader risk exposure.

**The following is an illustrative example of a potential scenario:**

In order to strengthen the performance of our Clothing & Home business (1), both in the UK and internationally (10), we need to ensure we keep abreast of, and adapt to, changing consumer behaviours (2). A critical part of this is ensuring that our customer proposition is well executed, including maximising product availability and the speed of delivery to customers

(4), as well as ensuring the resilience of our online business (11). We recognise that business performance is also affected by external factors, the causes of which are primarily out of our control. These include fluctuations in foreign exchange rates and the global economy (E1) (encompassing uncertainties conferred by the upcoming referendum on Britain's membership of the European Union (E2)), along with global sociopolitical unrest (E3).

**+ See Risk Management on p27-29**



## ENGAGEMENT

STAKEHOLDER  
ENGAGEMENT**ROBERT SWANNELL** CHAIRMAN

In my introduction on page 30 I touched on the importance of having a clearly defined Board culture and ensuring that the way in which the Board operates as a team is fully integrated with our values. This is equally important in determining the Board's approach to engaging with our investors, as we believe that staying in touch with them through regular, open dialogue and candid debate forms the strong foundation of this important relationship.

Inevitably, there will be areas in which our views and those of our investors will diverge. However, we firmly believe that encouraging points of difference to be debated openly is a significant advantage, helping us to understand the concerns of our investors while framing the discussion in the context of our wider business objectives to ensure we are clear about what we are trying to achieve.

We believe that our trusted relationship with our shareholders is enhanced by our commitment to staying in touch with them

throughout the year and not just at our AGM. During the year, the business had 431 contacts with 253 separately identifiable institutions via one-to-one or group meetings hosted by an executive director or our Investor Relations team. For my part, I have had discussions on a variety of governance matters with numerous investors, industry representatives and Chairs of other leading FTSE companies. Additionally, in June I once again hosted our annual Governance Event, details of which are provided on the right.

We also stay in touch with the views and opinions of our private investors by engaging with a number of leading client brokers who typically represent our private shareholder base. Our Investor Relations team receive independent guidance from capital markets advisory firm Makinson Cowell, which undertakes an annual audit of our major investors' views on the Company's management and performance. The results of its audit are presented to the Board each year.

**AMANDA MELLOR** GROUP SECRETARY

In addition to remaining in touch with our investors, we also believe in utilising M&S's unique heritage and long history to engage beyond this 'traditional' stakeholder group. In last year's Annual Report I highlighted the innovative contributions towards this from our acclaimed Company Archive in Leeds, which I am pleased to say continued its record of consistent excellence over the course of the year.

During 2015 the archive continued to improve the accessibility of its collection through digitisation, adding a further 2,600 archives to its online catalogue. As a result, the number of students, academics and members of the public using the collection for research purposes has increased by 61%.

The archive also broadened its award winning education programme, partnering with the Prince's Trust to introduce workshops to support children who have been or are at risk of exclusion from school. Alongside this direct work with schools, the archive also expanded its successful Heritage Ambassador Scheme to the South London region in 2015. To date, these Ambassadors have helped M&S stores to connect with local schools by delivering 25 workshops focussing on the history of M&S, Plan A and the environment to over 650 school children.

The archive has also excelled in developing initiatives that draw from M&S's heritage to engage with communities on important issues such as dementia support. It has introduced reminiscence sessions for groups visiting from care homes and day centres, and in 2016 launched its own monthly Memory Café in conjunction with the Alzheimer's Society. Additionally, the archive offers a range of digital reminiscence resources for people living with dementia, their families and carers, utilising images and samples of products from decades past to encourage social interaction through the sharing of experiences. Over 900 people to date have been engaged through these reminiscence sessions and digital resources, more information about which is available at [marksintime.marksandspencer.com](http://marksintime.marksandspencer.com).

The work undertaken by the archive is underpinned by our close partnership with the University of Leeds, to which I am proud to make my own contribution by promoting the importance of ethical leadership as a Visiting Professor of the University's Ethics Centre.

**GOVERNANCE EVENT**

The annual M&S Governance Event is hosted by the Chairman, Robert Swannell, and is attended by our Senior Independent Director, Committee Chairmen and senior representative(s) of our Plan A department. Board attendees in 2016 will be Vindi Banga (Senior Independent Director and Chairman of our Remuneration Committee), Andy Halford (Chairman of our Audit Committee), Amanda Mellor (Group Secretary and Head of Corporate Governance) and Adam Elman (our Head of Global Plan A Delivery).

Invitations are sent to our 30 largest shareholders, plus representatives from influential investor advisory firms and industry governance specialists. The event is an opportunity to meet and discuss the wide range of matters considered by the Board, both during the year and going forward. Presentations at the meeting will focus on the following six areas:

The Board Remuneration	Audit Plan A	Risk Q&As
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The presentation will be available to view at [marksandspencer.com/thecompany](http://marksandspencer.com/thecompany) following the event.

**AGM**

The 2016 AGM will be held at Wembley Stadium in London on Tuesday 12 July at 11am. The Notice of Meeting sets out the schedule for the day and the resolutions to be proposed at the meeting. A copy of the Notice can be downloaded at [marksandspencer.com/thecompany](http://marksandspencer.com/thecompany). The meeting will be webcast live and a recording made available on our website after the event.

The Board and M&S's senior management team will be available for shareholders to speak to before the meeting. Robert Swannell and the Chairs of our Committees will be available to answer shareholders' questions during the formal proceedings of the meeting.

The AGM in 2015 was well-attended and all of the proposed resolutions were passed, with the percentage of the Company's share capital voted in favour of each ranging from 89.34% to 99.99%.

➤ See Shareholder information on p127-128

## REMUNERATION

# REMUNERATION OVERVIEW

We are committed to **fair and motivating remuneration**,  
and to creating value for our shareholders.



VINDI BANGA CHAIRMAN OF THE REMUNERATION COMMITTEE

On behalf of the Board, I am pleased to present our Remuneration Report for 2016. We have sought to improve our disclosures further this year. As a result, we have introduced a summary section highlighting the key elements of our remuneration framework. This 'Remuneration at a Glance' overview is intended to illustrate our Remuneration Policy in action, the alignment between our senior remuneration strategy and the Company's performance for the 2015/16 financial year.

This year, we have also summarised the Remuneration Policy approved by shareholders at the 2014 AGM rather than reproduce the Policy in full. This gives an overview on the directors' annual remuneration framework.

### BOARD CHANGES

As highlighted earlier, there were a number of changes to the Board during the year. Helen Weir joined us in April 2015, John Dixon left in July 2015 and Marc Bolland retired from the Board in April 2016. I believe that our Remuneration Policy provides the flexibility to manage our pay arrangements while providing certainty to our shareholders that any payments made in the implementation of our Policy are in the best interests of both the Company and our shareholders.

After a rigorous selection process, I am delighted that we appointed Steve Rowe to succeed Marc Bolland as Chief Executive Officer with effect from 2 April 2016. The remuneration arrangements relating to Steve in this report cover his roles during the year; as the Executive Director for Food and later for GM. Steve's remuneration as Chief Executive Officer began after the financial year-end. Full details for

Steve's appointment were disclosed at the time and are detailed later in this report on page 68 with a starting salary in this role of £810,000. In line with the provisions in the Policy, the Committee intends that Steve's salary will be reviewed annually reflecting performance and operational delivery. The first review will be in July 2017, 15 months after his appointment.

### PAY AND PERFORMANCE

The charts shown on pages 52 and 53 demonstrate the clear linkage between M&S business strategy and payments made to the executive directors.

The key business priorities are referenced on pages 18 to 21 of this report and the executive directors' bonus measures for the year were aligned with this focus. In addition, each executive director was set a number of strategic priorities which the Committee considered relevant to the delivery of the short- to medium-term goals in their areas of responsibility.

### Annual Bonus Scheme

As highlighted earlier, our performance during the year was mixed. Overall underlying profits were up 3.5% with strong cash flow delivery. We delivered positive Food growth in a tough market; improved customer experience of M&S.com, and progressed our end to end Clothing & Home supply chain infrastructure. In Clothing & Home, margins improved but sales performance was unsatisfactory. Our International business was impacted by a number of macro-economic factors and operational challenges.

Bonus payments to the executive directors were determined by the above performance, as well as an evaluation of

individual performance against a number of challenging targets and average around 35% of maximum (70% of salary).

Taking into account overall Company performance and balance of the team, the Committee determined that the bonus for the CEO be subject to a discretionary downward adjustment of 20% (from c.80% to c.64% of salary). Bonus payments awarded to the executive team are summarised on page 60. We are satisfied that the payments to the CEO, the executive directors and elsewhere in the business are fair and balanced in the context of overall Company performance.

### Performance Share Plan

The Performance Share Plan awards granted in 2013 were measured for the three year period up to 2 April 2016 against challenging EPS, ROCE and revenue targets. As a result, executive directors will receive only 4.8% of the original award when it vests in June 2016. Full details are provided on page 62.

### SALARY INCREASES

While the Committee was minded to award an annual increase of 2% of salary to Patrick Bousquet-Chavanne, Helen Weir and Laura Wade-Gery, all executive directors have declined their respective pay increases, in recognition of the new pay arrangements proposed across the rest of the UK business. All executive directors have similarly stated that they will decline their annual salary reviews in July 2017, should the Committee deem it appropriate to award any increases at that time. The Committee are fully supportive of their collective decision to support the business in ensuring pay arrangements are affordable and appropriate across M&S.

**IN THIS SECTION**  
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**SUMMARY REMUNERATION POLICY p54**

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- + Recruitment policy p55
- + Termination policy p56
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**REMUNERATION REPORT p58**

- + Strategic alignment of pay p58
- + Total single figure remuneration p58
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- + Directors' share interests p64-66
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- + Remuneration Committee p70-71

**LOOKING AHEAD**

Looking ahead to 2016/17, remuneration arrangements will be broadly in line with 2015/16 and will be aligned with the new chapter and strategy being developed for M&S. Incentives will support Steve's strategic direction for the business, his clear focus on our customer, simplicity and teamwork while running the business profitability for our shareholders. Directors will again be eligible to participate in an Annual Bonus Scheme which for this year will be focused on building solid foundations of profit growth in the business (70% of awards will be measured against Underlying Group Profit Before Tax targets). Individual performance will continue to be relevant as we seek improvements in a number of key areas of priority which are necessary for the future growth of M&S. This structure is strongly aligned to the bonus scheme arrangements in place for the wider workforce, which was a consideration in the Committee's discussions.

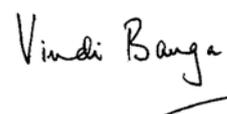
Further Committee debates for incentive schemes for 2016/17 were related to the appropriateness of performance measures and targets for long-term incentive arrangements under Steve Rowe's new leadership. Considerable work is currently underway to review and redefine our long-term goals and the Committee wishes to ensure that the Performance Share Plan is aligned to this strategic review. The Committee believes it is vital that the performance targets in the Performance Share Plan are not only aligned to these goals but are motivational for participants. As a result, the Committee decided that awards under the Performance Share Plan

will be granted in November 2016, shortly after the announcement of the Interim results. This will ensure that we can set stretching yet achievable targets which are within the approved Remuneration Policy and designed to deliver increased shareholder value.

This will be the final year under the current remuneration framework as we will be seeking your support and approval for a new Remuneration Policy at the 2017 AGM. We are committed to ensuring that the executive directors' pay arrangements support and drive the business strategy and are balanced between motivating and challenging our senior leaders to grow the business and deliver value to shareholders.

We will be supported by our Committee advisors in setting the new Remuneration Policy to ensure that it aligns with the

business drivers and goals to deliver strong performance and sustainable shareholder returns. We will seek to engage with our major shareholders as part of this process to reflect their views and to maintain our ongoing dialogue on director pay arrangements. 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**  
Chairman of the Remuneration Committee

**REMUNERATION COMMITTEE**

The following independent non-executive directors were members of the Committee during 2015/16:

MEMBER	MEMBER SINCE	MAXIMUM POSSIBLE MEETINGS	NUMBER OF MEETINGS ATTENDED	% OF MEETINGS ATTENDED
<b>Vindi Banga</b> (Chairman)	1 September 2011	6	6	100
<b>Robert Swannell</b>	1 March 2015	6	6	100
<b>Miranda Curtis</b>	1 February 2012	6	6	100
<b>Richard Solomons</b>	21 July 2015	3	3	100

EXECUTIVE REMUNERATION 2015/16

# REMUNERATION AT A GLANCE

This overview summarises our Policy in action and shows the alignment between our remuneration framework, the Company's performance and payments to directors for 2015/16.

**STRATEGIC PAY ALIGNMENT 2015/16**

[+ See more on p58](#)

The table below shows the integration between M&S's financial key performance indicators as shown on page 18 and the senior remuneration framework for 2015/16.

This clearly demonstrates a strong linkage between performance metrics, payments to directors and business performance over the short- and long-term.

Further details of the alignment with non-financial and strategic measures are set out in the table on page 58.

KPI	Incentive scheme	Impact on incentive payment for 2015/16
<b>Group Revenue</b>	● Performance Share Plan	Multi-channel revenue was the only metric above threshold target for the year resulting in 4.8% vesting of PSP awards under this element.
<b>Underlying Group Profit Before Tax (PBT)</b>	● Annual Bonus Scheme	Underlying Group PBT for the year was £684.1m, and above the target set for bonus payments to begin. For executive directors, 5.9% of bonus was payable as a result of 2015/16 PBT results.
<b>Return on Capital Employed (ROCE)</b>	● Performance Share Plan	Average three-year ROCE performance of 14.7% (which included 15.0% achievement for 2015/16) was below the threshold required for this element of the PSP to vest.
<b>Underlying Earnings per Share (EPS)</b>	● Performance Share Plan	EPS growth was 2.9% over the three years ending in 2015/16 (based on an outturn of 34.8p for this year) and was below the 5% growth required for vesting under the PSP.
<b>Free cash flow<sup>1</sup></b>	● Annual Bonus Scheme	Free cash flow performance for the year was above the maximum target. The Committee felt it appropriate to adjust downwards the outturn for bonus purposes as a result of items such as project delays resulting in an achievement of 18.2% of bonus.

1. Pre shareholder returns and pre acquisition of subsidiary.

[+ See full Strategic alignment of pay on p58](#)

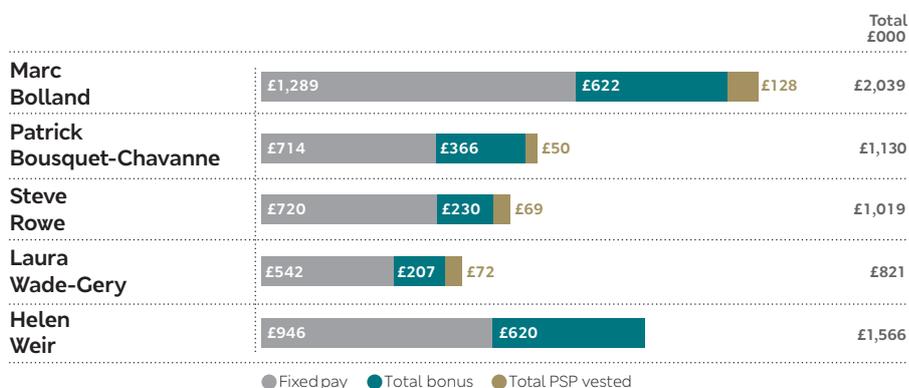
**SINGLE FIGURE REMUNERATION 2015/16**

[+ See more on p58](#)

The graph opposite summarises the total payments made to executive directors in respect of the 2015/16 financial year. These figures illustrate those detailed in the single figure table later in this report.

Fixed pay comprises salary, benefits and pension benefits. Further information on payments made under the Annual Bonus Scheme and Performance Share Plan as a result of one- and three-year performance respectively is illustrated on page 53, with full detail provided later in this report.

[+ See more on Single Figure Remuneration on p58](#)



[+ See Annual Bonus Scheme on p53 & p60-61](#)

[+ See PSP on p53 & p62-63](#)

KEY PERFORMANCE MEASURES

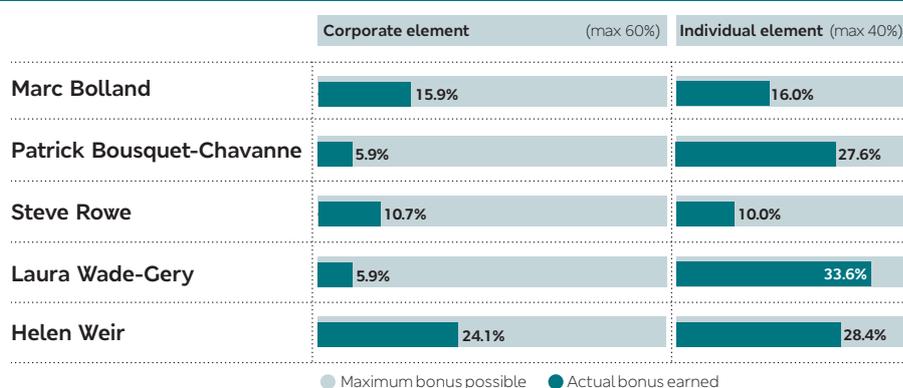


ANNUAL BONUS SCHEME 2015/16 [+ See more on p60-61](#)

Bonus payments made in respect of performance for the year were between 21% and 53% of maximum bonus opportunity. This resulted in payments ranging from £207,000 to £622,000 with half of all amounts being deferred into shares for three years, subject to malus provisions being met.

Further detail of the performance targets and the extent to which each were achieved are shown on page 60 of this report.

[+ See more on Annual Bonus Scheme on p60](#)



PERFORMANCE SHARE PLAN (PSP) 2015/16 [+ See more on p62-63](#)

The chart opposite illustrates the results of the three-year performance against the PSP targets which were set in 2013. Awards will vest in June 2016, with an estimated vesting value detailed in the single figure table.

**EPS weighting/performance**

Three-year EPS growth of 2.9% was below the 5% required for threshold vesting.

**ROCE weighting/performance**

Average ROCE over the last three years was 14.7%, below the 15.0% required for this element of the award to vest.

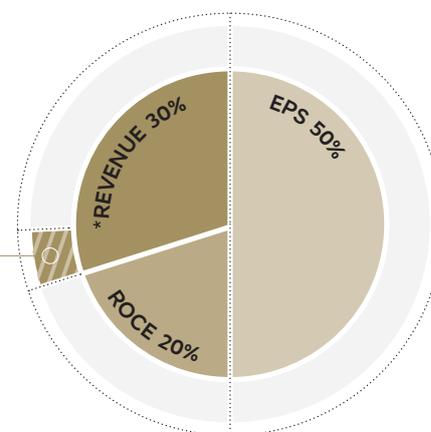
**Revenue weighting/performance**

As a result of 2015/16 Multi-Channel revenue performance, 4.8% of awards will vest. Other revenue measures were not met, meaning these elements of the award will lapse.

[+ See more on Performance Share Plan on p62](#)

**PSP performance weighting**

<b>EPS</b>	Maximum possible	50%
	Actual performance	0%
<b>ROCE</b>	Maximum possible	20%
	Actual performance	0%
<b>Revenue*</b>	Maximum possible	30%
	Actual performance	4.8%
<b>*Weighting (by revenue source)</b>		
	UK	10%
	International	10%
	Multi-channel	10%



# REMUNERATION SUMMARY REMUNERATION POLICY

This report sets out a summary of M&S's policy on remuneration for executive and non-executive directors. The Policy in full was approved by shareholders at the AGM on 8 July 2014

and can be found on our website at [marksandspencer.com/thecompany](http://marksandspencer.com/thecompany). The Policy took effect from this date and may operate for up to three years.

The Policy remains to attract, retain and motivate our 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 our shareholders' interests.

## SUMMARY EXECUTIVE DIRECTORS' REMUNERATION POLICY (AS APPROVED ON 8 JULY 2014)

FIGURE 1: SUMMARY EXECUTIVE DIRECTORS' REMUNERATION POLICY TABLE

ELEMENT	OPERATION	OPPORTUNITY
Base salary	Salaries are reviewed annually by the Committee, considering a number of factors, including: <ul style="list-style-type: none"> <li>→ Salary increases in the wider M&amp;S workforce.</li> <li>→ The experience, responsibility and contribution of the individual.</li> <li>→ Salaries for comparable roles in appropriate comparator groups (such as major retailers and our peer group of FTSE 25-75 companies).</li> </ul>	Annual increases are normally in line with those in the wider workforce, although no maximum is set. Individual adjustments may be made in appropriate circumstances (e.g. where the role scope has changed or as part of salary progression for newly-appointed directors).
Benefits	In line with our policies, executive directors are eligible to receive benefits which may include: <ul style="list-style-type: none"> <li>→ A car or cash allowance and a driver.</li> <li>→ Life assurance.</li> <li>→ Relocation and tax equalisation allowances in line with our mobility policies.</li> </ul> As with all employees, directors are also offered other benefits including: <ul style="list-style-type: none"> <li>→ Employee discount.</li> <li>→ Salary sacrifice schemes.</li> <li>→ Participation in our all-employee share schemes.</li> </ul>	There is no set maximum, however any provision will be commensurate with local markets and for all-employee shares schemes, the local statutory limits.
Pension benefits	Executive directors may choose to: <ul style="list-style-type: none"> <li>→ Participate in our defined contribution pension scheme; or</li> <li>→ Receive cash payments in lieu of pension contributions.</li> </ul> The defined benefit pension scheme is closed to new members. Directors who are members of this scheme will continue to accrue benefits.	A maximum of 25% of salary for executive directors (30% for the CEO).
Annual Bonus Scheme including Deferred Share Bonus Plan (DSBP)	All directors are eligible to participate in the Annual Bonus Scheme, which is a discretionary, non-contractual scheme. Performance is measured against quantifiable one-year financial and individual performance targets linked with the sustainable delivery of our business plan. Targets are set at the start of the year and approved by the Remuneration Committee. At least half of awards are measured against financial measures which typically includes Underlying Group Profit Before Tax (PBT). Corporate and individual elements may be earned independently, but no part of the individual objectives may be earned unless a 'threshold' level of PBT has been achieved. For threshold performance, up to 40% of maximum may be payable for the achievement of individual objectives. At least half of any bonus earned is paid in shares which are deferred for three years. The value of any dividends during the deferral period will be payable. The Committee can, in circumstances it believes appropriate, reduce to zero unvested deferred share awards. In certain circumstances, the Committee can also reclaim all or part of the cash bonus for up to three years after the payment date, for payments made after July 2015.	Total maximum annual bonus opportunity is capped at 200% of salary for each executive director.
Performance Share Plan (PSP)	To encourage long-term shareholding, to retain directors and to provide greater alignment with shareholders' interests, all directors are eligible to participate in the Performance Share Plan. This is a non-contractual, discretionary scheme and is M&S's main long-term incentive scheme. Performance is measured against a balanced scorecard of three-year financial measures set prior to grant. Measures currently include Earnings per Share (EPS) and Return on Capital Employed (ROCE). The value of any dividends during the vesting period will be payable. The Committee can, in circumstances it believes appropriate, reduce to zero unvested PSP awards. In addition, the Committee can, for awards made after June 2015, reclaim all or part of vested awards for up to two years after the vesting date in certain specified circumstances.	The maximum annual value of shares at grant is capped at 300% of salary for each executive director.

## FIND OUT MORE

+ See Remuneration Report p58 + See our Strategy p06-08 + See our KPIs p18-21

+ Read our full Remuneration Policy at [www.marksandspencer.com/thecompany](http://www.marksandspencer.com/thecompany)

## EXECUTIVE DIRECTORS' REMUNERATION POLICY CONTINUED

## FIGURE 2: RECRUITMENT POLICY &amp; SERVICE CONTRACTS

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

ELEMENT	APPROACH
Service contract	→ All executive directors have rolling contracts for service which may be terminated by M&S giving 12 months' notice and the individual giving six months' notice.
Base salary	→ Salaries are set by the Committee, taking into consideration a number of factors including the current pay for other executive directors, the experience, skill and current pay level of the individual and external market forces. → The Committee may choose to set the salary below that of the market or the other directors with the intention of applying staged increases.
Benefits	→ The Committee will offer a benefits package in line with our benefits policy for executive directors. The benefits provided will appropriately reflect the individual's circumstances.
Pension benefits	→ Maximum contribution in line with our Policy.
Annual Bonus Scheme	→ Maximum bonus potential will be capped at 200% of salary in line with our Policy.
PSP	→ Maximum award of up to 300% of salary in line with our Policy.
Buy-out awards	→ The Committee may offer compensatory payments or buy-out awards where an individual forfeits outstanding variable pay opportunities or contractual rights as a result of their appointment with M&S. → The specifics of any buy-out awards would be dependent on the individual circumstances of recruitment and would be determined on a case-by-case basis. On assessing such awards, the Committee will seek to make awards on a like-for-like basis to ensure that the value awarded would be no greater than the value forfeited by the individual. The Committee may choose to apply performance conditions to these awards.

In addition, the Committee in exceptional circumstances has discretion to include any other remuneration component or award which it feels is appropriate, taking into account the specific circumstances of the

individual, subject to the limit on variable remuneration set out above. 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 which may be outside of the standard policy summarised on page 54.

## REMUNERATION POLICY CONTINUED

### EXECUTIVE DIRECTORS' REMUNERATION POLICY CONTINUED

#### TERMINATION POLICY

The Company may choose to terminate the contract of any executive director in line with the terms of their service agreement either by means of a payment in lieu of notice or through a series of phased payments. Service agreements may be terminated without notice and without payments in certain circumstances, such as gross misconduct.

The Company's policy toward exit payments allows for a variety of

circumstances whereby a director may leave the business. In all circumstances, the Committee does not intend to 'reward failure' and will make decisions based on the individual circumstances ensuring they are in the best interests of the Company and shareholders at that time, and reflect the director's contractual and other legal rights.

The table below summarises our termination policy for executive directors under their service agreement and the incentive plan rules.

The full Policy sets out further detail on the treatment of the executive directors' pay arrangements, including the treatment of share schemes in the event of a change of control or winding-up of the Company and some legacy long-term incentive plans which the Company operates. No current executive director holds unexercised awards under these legacy plans.

#### FIGURE 3: TERMINATION POLICY

ELEMENT	APPROACH
Base salary, benefits and pension benefits	→ Payment made up to the termination date.
Annual Bonus Scheme	→ There is no contractual entitlement to a bonus payment. If the director is under notice or not in active service at either the end of the bonus year or on the payment date, awards (and any unvested deferred bonus shares) may lapse. The Committee may, however, use its discretion to make a bonus award, typically pro-rated for time and based on the performance assessed at the end of the bonus year.
Long-term incentive awards	→ The treatment of outstanding share awards is determined in the accordance with the respective plan rules. → Where a director leaves in certain circumstances, for performance share awards held for at least 12 months, awards typically vest at the end of the relevant performance period (to the extent to which any performance conditions are met) and are pro-rated for time. The plan rules allow for the Committee to permit these awards to vest at the time the director leaves and to not apply time pro-rating.
Repatriation	→ M&S may pay for repatriation where a director has been recruited from overseas.
Legal expenses & outplacement	→ Where a director leaves by mutual consent, M&S may reimburse for reasonable legal fees and pay for professional outplacement services.

#### CONSIDERATION OF WIDER WORKFORCE PAY & SHAREHOLDER VIEWS

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. Throughout the year the Committee is provided with information and context on pay in the wider workforce to enable its decision-making. This includes the approach for UK pay review, the total annual bonus cost budget and PSP awards to be made to directors below the Board.

The Committee receives updates on a variety of employee engagement initiatives including our annual 'Your Say' employee survey which asks employees about the fairness and reasonableness of employee pay and benefits. Employee representatives in our Business Involvement Groups are annually provided with an explanation of the executive directors' pay arrangements during the year, and are able to ask questions on the arrangements and their fit with the other reward policies at this time.

The Committee is committed to an open and transparent dialogue with its shareholders. The Committee annually engages in a process of investor consultation, which is typically in written format. Where appropriate, the Committee will actively engage with shareholders and shareholder representative bodies, seeking views which may be taken into account when making any decisions about changes to the directors' Remuneration Policy.

The Committee Chairman is available to answer questions at the Annual General Meeting (AGM) and the answers to specific questions are posted on our website.

### SUMMARY NON-EXECUTIVE DIRECTORS' REMUNERATION POLICY (AS APPROVED ON 8 JULY 2014)

The table below summarises our Policy for the operation of non-executive director fees and benefits at the Company.

**FIGURE 4: SUMMARY NON-EXECUTIVE DIRECTORS' REMUNERATION POLICY TABLE**

ELEMENT	OPERATION AND OPPORTUNITY
<b>Service agreements</b>	<ul style="list-style-type: none"> <li>→ All non-executive directors have an agreement for an initial three-year term. The Chairman's agreement requires six months' notice by either party. The non-executive directors' agreements may be terminated by either party giving three months' notice.</li> </ul>
<b>Chairman's fees</b>	<ul style="list-style-type: none"> <li>→ Fees are reviewed annually by the Committee taking into consideration:               <ul style="list-style-type: none"> <li>- Time commitment, demands and responsibility of the role.</li> <li>- External market practice.</li> </ul> </li> <li>→ The maximum aggregate fees for the Chairman and non-executive directors is £750,000 p.a. as set out in our Articles of Association.</li> </ul>
<b>Non-executive director basic fee</b>	<ul style="list-style-type: none"> <li>→ Fees are reviewed annually by the executive directors taking into consideration:               <ul style="list-style-type: none"> <li>- Time commitment, scope and responsibility of the role.</li> <li>- External market practice.</li> </ul> </li> <li>→ The maximum aggregate fees for the non-executive directors, including the Chairman's fee, is £750,000 p.a. as set out in our Articles of Association.</li> </ul>
<b>Additional fees</b>	<ul style="list-style-type: none"> <li>→ Additional fees are paid for undertaking the extra responsibilities of:               <ul style="list-style-type: none"> <li>- Board Chairman.</li> <li>- Senior Independent Director.</li> <li>- Committee Chairman.</li> </ul> </li> </ul>
<b>Benefits</b>	<ul style="list-style-type: none"> <li>→ In line with our other employees, the Chairman and non-executive directors are entitled to receive employee discount.</li> <li>→ The Chairman is also entitled to the use of a car and driver.</li> <li>→ No further benefits are provided to the Chairman or non-executive directors.</li> </ul>
<b>Recruitment</b>	<ul style="list-style-type: none"> <li>→ 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 and take into account the time commitment, role responsibility and market practice in our comparator groups when doing so.</li> <li>→ M&amp;S may offer benefits to the Chairman in line with our Policy.</li> </ul>

## 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 Remuneration Policy and pay arrangements throughout the rest of the organisation. The table below shows the performance measures used in current incentive schemes and how these align with the key performance indicators detailed on pages 18 to 21. As shown, there is a strong

linkage between the key performance indicators which are integrated in to the directors' incentive schemes. This ensures that directors are clearly aligned and motivated to deliver the strategy.

FIGURE 8: STRATEGIC ALIGNMENT OF PAY

See KPIs on p18-21

FINANCIAL OBJECTIVES	KPI	INCENTIVE SCHEME
Grow Group revenue	Group Revenue	PSP
Increase earnings and returns	Underlying Group Profit Before Tax (PBT) Return on Capital Employed (ROCE) Underlying Earnings per Share (EPS)	Annual Bonus Scheme PSP PSP
Strong cash generation	Free cash flow	Annual Bonus Scheme & PSP
NON-FINANCIAL OBJECTIVES	KPI	INCENTIVE SCHEME
Foster a skilled, motivated and engaged team	M&S Values	Annual Bonus Scheme
Source products with integrity	Plan A	Annual Bonus Scheme
Efficient and responsible operations	Plan A	Annual Bonus Scheme
LONG TERM STRATEGIC OBJECTIVES	KPI	INCENTIVE SCHEME
Driving growth	Sales revenue	Annual Bonus Scheme & PSP
Reaching customers	Sales growth and online visits	Annual Bonus Scheme
Improving profitability	Gross margin/operating profit	Annual Bonus Scheme & PSP

FIGURE 9: TOTAL SINGLE FIGURE REMUNERATION (audited)

Director	Year	Salary £000	Benefits <sup>3</sup> £000	Total Bonus <sup>4</sup> £000	Total PSP vested <sup>5</sup> £000	Pension benefits <sup>6</sup> £000	Total £000
Marc Bolland	2015/16	975	21	622	128	293	2,039
	2014/15	975	19	596	212	293	2,095
Patrick Bousquet-Chavanne	2015/16	541	38	366	50	135	1,130
	2014/15	525	36	222	60	131	974
John Dixon <sup>1</sup>	2015/16	177	7	0	0	44	228
	2014/15	600	25	217	122	150	1,114
Steve Rowe	2015/16	549	34	230	69	137	1,019
	2014/15	525	42	653	66	131	1,417
Laura Wade-Gery <sup>2</sup>	2015/16	383	18	207	72	141	821
	2014/15	552	21	219	118	138	1,048
Helen Weir	2015/16	590	208	620	0	148	1,566
	2014/15	-	-	-	-	-	-

- The amounts shown for 2015/16 reflect that John Dixon resigned from the Board on 16 July 2015.
- The amounts shown for 2015/16 for Laura Wade-Gery take into account the period of maternity leave taken from 22 August 2015, calculated in line with the Company's relevant policies.
- Benefits include the value of car allowance and intrinsic value of SAYE in addition to the taxable value of car, driver and life assurance, as applicable to each director and as described on page 59. As disclosed in last year's report, for Helen Weir, benefits also include £188,500, the differential value in contractual pension she forfeited to join M&S. This was paid in 12 equal instalments.
- Half of any award will be deferred into Company shares for a period of three years. Further details of the 2015/16 Annual Bonus Scheme are shown on page 60.
- The value of awards vesting in 2014/15 has been restated to reflect the actual value of dividend equivalents and share price at the time of vesting. The value of awards vesting in 2015/16 has been estimated based on the three-month average share price from 4 January 2016 – 1 April 2016 as these awards do not vest until after the end of the financial year. This value also includes the anticipated value of dividend equivalents which will be payable in July 2016. These estimated figures will be restated in next year's report.
- Pension benefits comprise the value of cash provided in lieu of participation in an M&S pension scheme.

## EXECUTIVE DIRECTORS' REMUNERATION CONTINUED

The following sections detail additional disclosure regarding each of the components set out in the previous 'single figure' table. Targets and the resultant outturn under the Annual Bonus Scheme and Performance Share Plan are measured on a 52 week basis.

**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 last year, salary increases, where awarded, were between 2% and 6% in recognition of the change in pay review date, and the individual performance of each executive director. These pay increases took effect from 1 July 2015.

The average pay increase for the executive directors was 3.0%, in line with the average increase awarded to the wider UK workforce over the same 18-month period.

During the year, the Committee discussed the executive directors' annual salary review for all executive directors eligible for review. Steve Rowe was not eligible for a pay

review in July 2016. The Committee was minded to award an annual increase of 2% of salary to Patrick Bousquet-Chavanne, Laura Wade-Gery and Helen Weir. This increase is in line with the average pay increase for the rest of the organisation, effective July 2016.

All executive directors have declined their respective pay increases in recognition and support of the proposed new pay

arrangements being made elsewhere in the UK organisation. Further, they have also indicated an intention to similarly decline their increases in July 2017, should the Committee deem it appropriate to award any such increase.

The table below details the executive directors' salaries as at 2 April 2016 and salaries which will take effect from 1 July 2016.

**FIGURE 10: SALARIES**

	Annual salary as of 2nd April 2016 £000	Annual salary as of 1st July 2016 £000	Change in salary % increase
<b>Steve Rowe<sup>1</sup></b>	557	810	45.4
<b>Patrick Bousquet-Chavanne</b>	546	546	0
<b>Laura Wade-Gery</b>	569	569	0
<b>Helen Weir</b>	590	590	0

1. The figure for Steve Rowe for 1 July 2016 reflects his appointment to CEO in April 2016.

**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% salary supplement in lieu of participation in an M&S pension scheme. Marc Bolland received a supplement of 30% of salary.

Steve Rowe and John Dixon are deferred members of the Marks & Spencer UK Pension Scheme. Details of the pension accrued during the year ended 2 April 2016 are shown below.

**FIGURE 11: PENSION BENEFITS**

	Normal retirement age	Accrued pension entitlement as at year end <sup>1</sup> £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
<b>John Dixon</b>	60	138	0	0	0	3,515
<b>Steve Rowe</b>	60	147	0	0	0	3,759

1. The accrued pension entitlement is the deferred pension amount that the director would receive at age 60 if they left the Company on 2 April 2016. All transfer values have been calculated on the basis of actuarial advice in accordance with the current Transfer Value Regulations. The transfer values of the accrued entitlement represent the value of the assets that the pension scheme would transfer to another pension provider on transferring the scheme's liability in respect of the director's pension benefits. They do not represent sums payable to the director and therefore cannot be added meaningfully to annual remuneration.

## REMUNERATION REPORT CONTINUED

### EXECUTIVE DIRECTORS' REMUNERATION CONTINUED

#### ANNUAL BONUS SCHEME

##### ANNUAL BONUS SCHEME 2015/16 (audited)

Annual performance for 2015/16 was measured against Underlying PBT (30% of awards) and either business unit operating profit for trading directors or free cash flow for the CEO and CFO (30% of awards).

Individual performance accounted for 40% of bonus opportunity, with objectives aligned to the relevant key strategic business priorities. Figure 12 provides an overview of the key achievements against objectives.

Steve Rowe's measures were amended to reflect his change in accountabilities in July 2015 from Food to Clothing & Home. His pro-rated performance for each business area is reflected in his final bonus payment.

Underlying PBT outturn was £684m which was above the £680m target set to trigger payments under both the corporate and individual elements of the Scheme.

The Committee reviewed all of the bonus outcomes in the context of the Company's overall performance and quality of earnings. With regard to free cash flow, the Committee judged it appropriate to adjust downwards the actual bonus outturn figure to reflect certain items such as project delays which the Committee felt should not be reflected in the bonus payment. As a result, payments under this element were 18.2% of bonus as shown in Figure 13.

The Committee also reviewed achievement to ensure that total payments were appropriate in the context of M&S's overall performance and outturn of individual objectives. Taking into account overall Company performance and balance of the team, the Committee determined that the bonus for the CEO be subject to a discretionary downward adjustment of 20% (from c. 80% to c. 64% of salary). Bonus payments awarded to the executive team are shown below. We are satisfied that the payments to the CEO, the executive directors and elsewhere in the business are fair and balanced in the context of overall Company performance.

Success towards Plan A targets and M&S Values underpinned the entire Scheme. The Committee was satisfied that each

director continued to ensure that Plan A and leadership in embedding M&S's cultural values remained a major focus of the ways of working and that the performance supported this.

➕ See Plan A Report for more detail.

The Committee ensures that targets set are the relevant drivers of required annual performance. Some of the 2015/16 targets are too commercially sensitive to disclose as they are not disclosed elsewhere in this 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 to disclose wherever possible, while ensuring that any measures set are those most appropriate to grow the business.

FIGURE 12: KEY ACHIEVEMENTS OF INDIVIDUAL OBJECTIVES 2015/16

<b>Marc Bolland</b>	Continued improvement in UK Food sales and embedding 'Fit To Lead The Future' through talent development and recognition
<b>Patrick Bousquet-Chavanne</b>	Successful launch of 'Sparks' and inspirational marketing campaigns to drive store and online footfall
<b>Steve Rowe</b>	Continued improvement in UK Food sales and driving change in Clothing & Home
<b>Laura Wade-Gery</b>	Significant improvements in the stability and performance of Donington and increased customer satisfaction in stores and online
<b>Helen Weir</b>	Robust control of business costs and successful delivery of Clothing & Home supply change transformation project

FIGURE 13: ANNUAL BONUS SCHEME 2015/16

Director	CORPORATE TARGETS									BUSINESS UNIT PROFIT		INDIVIDUAL OBJECTIVES		TOTAL PAYMENT	
	UNDERLYING GROUP PBT				FREE CASH FLOW <sup>2</sup>				Performance	Achievement	Performance	Achievement	%	£000	
	Target	Max	Actual	% max bonus	Target	Max	Actual	% max bonus							
<b>Marc Bolland</b>	680	735	<b>684</b>	5.9	489	589	<b>546</b>	18.2	–	–	⊖	16.0	63.8	<b>622</b>	
<b>Patrick Bousquet-Chavanne</b>	680	735	<b>684</b>	5.9	–	–	–	–	×	0.0	✓	27.6	67.0	<b>366</b>	
<b>Steve Rowe</b>	680	735	<b>684</b>	5.9	–	–	–	–	⊖	4.8	⊖	10.0	41.4	<b>230</b>	
<b>Laura Wade-Gery<sup>1</sup></b>	680	735	<b>684</b>	5.9	–	–	–	–	×	0.0	✓	33.6	79.0	<b>207</b>	
<b>Helen Weir</b>	680	735	<b>684</b>	5.9	489	589	<b>546</b>	18.2	–	–	✓	28.4	105.0	<b>620</b>	

1. Laura Wade-Gery's bonus payment reflects her period of maternity leave which began on 22 August 2015.  
2. Targets and achievement exclude shareholder returns and pre acquisition of the subsidiary.

Performance assessment key

⊗ Below Threshold ⊖ Threshold > Target ✓ Target > Stretch ⊕ Above stretch

## EXECUTIVE DIRECTORS' REMUNERATION CONTINUED

**DEFERRED SHARE BONUS PLAN (audited)**

Currently 50% of any bonus award 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 2014/15. The face value of each award reflects half of the value shown for 2014/15 bonus payments in the single figure table.

**FIGURE 14: DSBP AWARDS MADE IN 2015/16**

	Basis of award	Face value of award <sup>2</sup> £000	End of deferral period
<b>Marc Bolland</b>	50% of bonus	298	19/06/2018
<b>Patrick Bousquet-Chavanne</b>	50% of bonus	111	19/06/2018
<b>Steve Rowe</b>	50% of bonus	327	19/06/2018
<b>Laura Wade-Gery</b>	50% of bonus	109	19/06/2018
<b>Helen Weir</b>	–	–	–

1. Helen Weir joined M&S during the 2015/16 financial year.
2. 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 being £5.483, being the average share price between 12 June 2015 and 18 June 2015. Further details of these awards are shown in the table on pages 65-66.

**ANNUAL BONUS SCHEME FOR 2016/17**

During the year, the Committee discussed the 2016/17 Scheme, considering the strategic way forward for M&S under its new leadership. As a result, some minor changes to the structure of the Scheme which are in line with the Remuneration Policy were approved. These amendments are aimed at driving the profitable growth necessary for the success of M&S, more closely aligning the bonus to arrangements in the wider workforce.

Performance will be measured against collective corporate performance as well as performance in the individual's specific business area. Individual performance will continue to be measured independently of any financial targets. However, no individual element can be earned unless a 'threshold' level of PBT has been achieved. This maintains the important principle that

below a defined level of financial performance, no bonus will be earned.

As shown below, 70% of awards will be measured against Underlying Group PBT under the corporate element. The remainder of the bonus will be measured against individual objectives. These will be structured so that 10% will be assessed against the financial performance in local business areas, 10% against a customer focused measure and 10% against the success of implementing the relevant business change central to success in 2016/17. Local measures will be those quantifiable deliverables most relevant to the renewed strategy and will focus on improving Clothing & Home sales and controlling our costs, providing value for money and optimum rates of return on expenditure for our shareholders.

Laura Wade-Gery's bonus objectives will be agreed with her upon her return from maternity leave but will be structured similarly, following the same principles.

The targets under these measures 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.

**FIGURE 15: ANNUAL BONUS SCHEME TARGETS 2016/17**

Director	CORPORATE TARGETS			INDIVIDUAL OBJECTIVES	
	GROUP PBT	LOCAL FINANCIAL	CUSTOMER	INDIVIDUAL	Measure
	% bonus	% bonus	% bonus	% bonus	
<b>Steve Rowe</b>	70%	10%	10%	10%	Clothing & Home UK LFL sales Organisational development
<b>Patrick Bousquet-Chavanne</b>	70%	10%	10%	10%	Business Unit performance Organisational development
<b>Laura Wade-Gery</b>	70%	10%	10%	10%	Organisational development
<b>Helen Weir</b>	70%	10%	10%	10%	Operating costs Organisational development

## REMUNERATION REPORT CONTINUED

### EXECUTIVE DIRECTORS' REMUNERATION CONTINUED

#### PERFORMANCE SHARE PLAN (PSP)

The Committee believes that long-term share awards reward executives for the delivery of long-term business goals and make annual awards under the Performance Share Plan (PSP) to incentivise executive directors and senior managers.

At the 2015 AGM, shareholders were asked to approve the introduction of a replacement PSP as the previously approved plan had expired. The terms of this Plan were broadly the same as those of the previous 2005 Plan. With nearly 98% of shareholders approving the 2015 Plan, awards of 250% of salary were awarded to each executive director in July 2015.

#### PSP AWARDS MADE IN 2015/16 (audited)

As we disclosed last year, minor amendments to the performance conditions were made for 2015/16 awards. Awards will vest subject to the achievement of stretching targets in those measures determined to appropriately reflect the key drivers of shareholder value and our strategic business priorities. Targets were set to reward the delivery of consistent, ambitious long-term performance. The Committee regularly reviews estimated performance throughout the vesting period.

As shown in Figure 18, performance for these awards is measured against EPS, ROCE, sales growth (in M&S.com and International), cumulative free cash flow and UK Clothing & Home gross margin. Each performance condition is measured independently over the three-year period to the end of the 2017/18 financial year. Awards will vest on 24 July 2018 to the extent that the performance conditions are met.

#### FIGURE 16: PSP AWARDS MADE IN 2015/16

	Basis of award	Face value of award <sup>1</sup> £000	End of performance period <sup>2</sup>
<b>Marc Bolland</b>	250% of salary	2,438	31/03/2018
<b>Patrick Bousquet-Chavanne</b>	250% of salary	1,365	31/03/2018
<b>Steve Rowe</b>	250% of salary	1,391	31/03/2018
<b>Laura Wade-Gery</b>	250% of salary	1,421	31/03/2018
<b>Helen Weir</b>	250% of salary	1,475	31/03/2018

- 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 being £5.334, being the average share price between 17 July 2015 and 23 July 2015. Further details of these awards are shown in the table on pages 65-66.
- For threshold performance, 20% of the shares awarded will vest.

#### FIGURE 17: PSP AWARDS VESTING IN 2015/16 (audited)

For directors in receipt of PSP awards granted in 2013, the awards will vest on 24 June 2016 based on three-year performance over the period to

2 April 2016. Performance has been assessed and it has been determined that 4.8% of the award will vest.

Details of performance against the specific targets set are set out in the table below.

	Performance target					Total vesting <sup>6</sup>
	EPS Growth <sup>2</sup>	ROCE (%)	Revenue (£ 2015/16)			
			UK <sup>3</sup>	Multi-channel <sup>4</sup>	International <sup>5</sup>	
	50% of award	20% of award	10% of award	10% of award	10% of award	
<b>Threshold performance targets<sup>1</sup></b>	5.0%	15.0%	£8,900m	£900m	£1,400m	
<b>Maximum performance targets<sup>1</sup></b>	12.0%	18.5%	£9,600m	£1,100m	£1,800m	
<b>Actual performance achieved</b>	2.9%	14.7%	£8,386m	£971m	£1,034m	
<b>Percentage of maximum achieved</b>	0.0%	0.0%	0.0%	4.8%	0.0%	<b>4.8%</b>

- 20% of an award vests for threshold performance with full vesting for achieving or exceeding maximum performance. Vesting is a straight line between these two points.
- Based on base EPS in 2012/13 of 31.9p (restated as a result of IAS19) and final EPS of 34.8p in 2015/16.
- Excluding Multi-channel.
- Net of VAT/gross of returns.
- Excluding Multi-channel/including Republic of Ireland.
- Details of the number of shares awarded to each director in 2013 are shown in the table on pages 65-66. The estimated value of these awards, including the dividend equivalents, are set out in the single figure table on page 58.

## EXECUTIVE DIRECTORS' REMUNERATION CONTINUED

**PSP AWARDS TO BE MADE IN 2016/17**

The Committee believes in the importance of strategically-aligned incentives so that executive directors are motivated to deliver the commercial success of M&S. The Committee's aim is to ensure realistic and sustainable targets to support the delivery of such success. The Committee therefore intends to make awards under the PSP in November 2016 shortly after the announcement of the Interim results,

having allowed Steve Rowe and his leadership team sufficient time to develop M&S's long-term business plan. This will ensure that PSP targets are rigorously reviewed in the context of this new leadership, rewarding stretching yet achievable performance designed to deliver increased shareholder value. Such awards will vest three years after the date of grant.

M&S remains committed to clear and transparent communication and intends to report back to shareholders by November 2016 with more detail on these awards. Awards will remain in line with the current Remuneration Policy, first approved by shareholders in 2014.

**FIGURE 18: PERFORMANCE CONDITIONS FOR OUTSTANDING PSP AWARDS (audited)**

The details of outstanding PSP awards are set out in the table on pages 65 and 66. These awards vest subject to the extent that the following three-year performance conditions are met.

	Annualised EPS growth (%)	ROCE (%)	Revenue (£) <sup>5</sup>		
			UK <sup>2</sup>	Multi-channel <sup>3</sup>	International <sup>4</sup>
2014/15 Award	50% of award	20% of award	10% of award	10% of award	10% of award
<b>Threshold performance<sup>1</sup></b>	5.0%	15.0%	£8,900m	£1,100m	£1,400m
<b>Maximum performance<sup>1</sup></b>	12.0%	16.5%	£9,600m	£1,300m	£1,800m

1. Vesting is a straight line between 'threshold' at which 20% vests and 'maximum' performance at which 100% vests.

2. Excluding Multi-channel.

3. Net of VAT/gross of returns.

4. Excluding Multi-channel/including Republic of Ireland.

5. Measured at the end of 2016/17.

	Annualised EPS growth (%)	ROCE (%)	Financial strategic scorecard			
			International sales growth <sup>2</sup> (%)	M&S.com sales growth <sup>3</sup> (%)	UK Clothing & Home gross margin <sup>4</sup>	Cumulative free cash flow <sup>5</sup>
2015/16 Award	50% of award	20% of award	7.5% of award	7.5% of award	7.5% of award	7.5% of award
<b>Threshold performance<sup>1</sup></b>	5.0%	15.0%	5.0%	11.0%	-	£1,350m
<b>Maximum performance<sup>1</sup></b>	12.0%	16.5%	15.0%	18.0%	-	£1,650m

1. Vesting is a straight line between 'threshold' at which 20% vests and 'maximum' performance at which 100% vests.

2. Excluding M&S.com/including Republic of Ireland.

3. Net of VAT and post store returns.

4. Targets relating to UK Clothing & Home gross margin are deemed by the Board to be too commercially sensitive to disclose, but will be retrospectively disclosed in the report relating to the end of the relevant three-year performance period.

5. Pre dividends and returns

**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 106 and 107.

## REMUNERATION REPORT CONTINUED

### EXECUTIVE DIRECTORS' REMUNERATION CONTINUED

#### FIGURE 19: DIRECTORS' SHAREHOLDINGS (audited)

The table below sets out the total number of shares held at 2 April 2016 or date of retirement by each executive director serving on the Board during the year.

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 24 May 2016. No director had an interest in any of the Company's subsidiaries at the statutory end of the year.

	Unvested				Vested but unexercised <sup>3</sup>
	Shares owned outright <sup>2</sup>	With performance conditions Performance Share Plan	Deferred Share Bonus Plan	Without performance conditions Restricted Share Plan	
<b>Marc Bolland</b>	683,929	1,572,534	149,153	0	0
<b>Patrick Bousquet-Chavanne</b>	99,070	772,669	46,448	0	0
<b>John Dixon<sup>1</sup></b>	361,076	686,498	82,277	0	0
<b>Steve Rowe</b>	188,535	861,512	110,013	0	0
<b>Laura Wade-Gery</b>	172,955	898,029	73,622	0	56,995
<b>Helen Weir</b>	4,500	276,527	0	0	0

1. Shareholding at 16 July 2015, the date John Dixon resigned from the Board. Please refer to footnote 3 on page 65 for further information on John Dixon's shareholdings.
2. Includes shares held by connected persons.
3. Comprises all unexercised awards under these plans.

#### FIGURE 20: SHAREHOLDING REQUIREMENTS (audited)

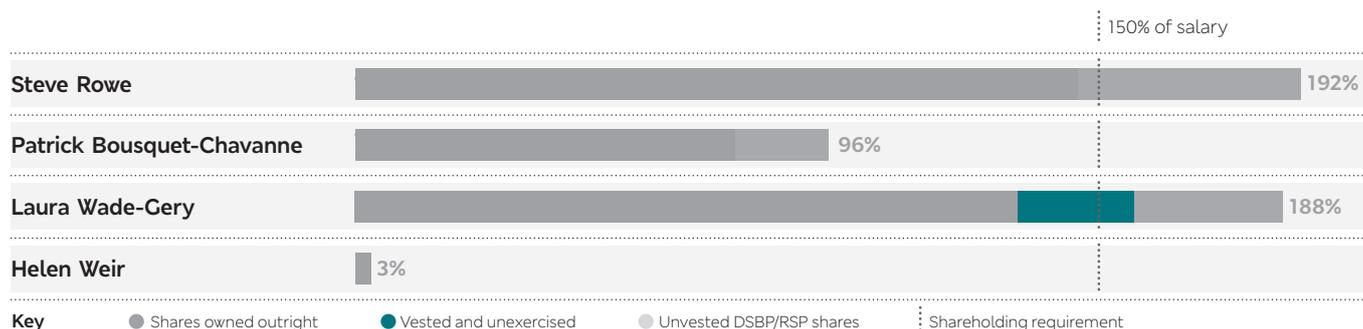
All executive directors are required to hold shares equivalent in value to a minimum percentage of their salary within a five-year period from their appointment date. For the CEO this requirement is 250% of salary and for other Board directors the requirement is 150% of salary. Similar guidelines of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

The chart below shows the extent to which each director has met their target shareholding as at 2 April 2016.

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.

Following Steve Rowe's appointment to CEO on 2 April 2016, his shareholding requirement has been increased to 250% of his new salary which will be reported in next year's report.



#### SHARE CAPITAL & DILUTION

##### 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 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 2 April 2016 was as follows:

#### FIGURE 21: ALL SHARE PLANS



#### FIGURE 22: EXECUTIVE SHARE PLANS



## EXECUTIVE DIRECTORS' REMUNERATION CONTINUED

FIGURE 23: EXECUTIVE DIRECTORS' INTERESTS IN THE COMPANY'S SHARE SCHEMES (audited)

	Date of grant	Maximum receivable at 29 March 2015 (or date of appointment)	Awarded during the year	Exercised during the year	Lapsed during the year	Maximum receivable at 2 April 2016 (or date of retirement)	Option price (p)	Share price on date of grant (p)	Share price on date of exercise (p)	Exercise period/ vesting date
<b>Marc Bolland</b>										
Performance Share Plan <sup>1</sup>	18/06/12	749,769	–	35,239	714,530	–	0.0	325.1	543.5	–
	24/06/13	557,780	–	–	–	557,780	0.0	437.0	–	24/06/16 – 23/06/23
	23/06/14	557,780	–	–	–	557,780	0.0	437.0	–	23/06/17 – 22/06/24
	24/07/15	–	456,974	–	–	456,974	0.0	533.4	–	24/07/18 – 23/07/25
Deferred Share Bonus Plan	18/06/12	101,968	–	101,968	–	–	0.0	325.1	543.5	–
	24/06/13	94,822	–	–	–	94,822	0.0	437.0	–	24/06/16 – 23/06/23
	19/06/15	–	54,331	–	–	54,331	0.0	548.3	–	19/06/18 – 18/06/25
SAYE	21/11/13	2,222	–	–	–	2,222	405.0	505.6	–	01/01/17 – 30/06/17
<b>Total</b>		<b>2,064,341</b>	<b>511,305</b>	<b>137,207</b>	<b>714,530</b>	<b>1,723,909</b>				
<b>Patrick Bousquet-Chavanne<sup>2</sup></b>										
Performance Share Plan <sup>1</sup>	05/12/12	230,735	–	10,844	219,891	–	–	389.4	503.0	–
	24/06/13	216,421	–	–	–	216,421	–	437.0	–	24/06/16
	23/06/14	300,343	–	–	–	300,343	–	437.0	–	24/06/17
	24/07/15	–	255,905	–	–	255,905	–	533.4	–	24/07/18
Deferred Share Bonus Plan	24/06/13	26,195	–	–	–	26,195	–	437.0	–	24/06/16
	19/06/15	–	20,253	–	–	20,253	–	548.3	–	19/06/18
Restricted Share Plan	13/09/12	174,258	–	174,258	–	–	–	368.0	505.0	–
SAYE	21/11/13	2,222	–	–	–	2,222	405.0	505.6	–	01/01/17 – 30/06/17
<b>Total</b>		<b>950,174</b>	<b>276,158</b>	<b>185,102</b>	<b>219,891</b>	<b>821,339</b>				
<b>John Dixon<sup>3</sup></b>										
Performance Share Plan <sup>1</sup>	18/06/12	432,174	–	20,312	411,862	–	0.0	325.1	536.0	–
	24/06/13	343,249	–	–	343,249	–	0.0	437.0	–	–
	23/06/14	343,249	–	–	343,249	–	0.0	437.0	–	–
Deferred Share Bonus Plan	18/06/12	62,233	–	62,233	–	–	0.0	325.1	543.5	–
	24/06/13	62,471	–	–	62,471	–	0.0	437.0	–	–
	19/06/15	–	19,806	–	19,806	–	0.0	548.3	–	–
SAYE	21/11/13	2,222	–	–	2,222	–	405.0	505.6	–	–
<b>Total</b>		<b>1,245,598</b>	<b>19,806</b>	<b>82,545</b>	<b>1,182,859</b>	<b>–</b>				

1. The number of options/conditional shares shown under the Performance Share Plan is the maximum (100%) number that could be receivable by the executive director if the performance conditions are fully met. The 2012 award vested in June 2015 at 4.7% (December 2015 for Patrick Bousquet-Chavanne). 4.8% of the 2013 award will vest in June 2016, as set out on page 62.

2. Patrick Bousquet-Chavanne's awards are structured as conditional shares. His RSP award was made prior to his appointment to executive director.

3. John Dixon resigned from the Board on 16 July 2015 and left the Company on 16 January 2016. Details of his leaving arrangements are set out on page 68. All awards made in 2013, 2014 and 2015 and his SAYE award lapsed on leaving the Company. For transparency, these are shown in the 'lapsed during the year' column.

REMUNERATION REPORT  
CONTINUED

EXECUTIVE DIRECTORS' REMUNERATION CONTINUED

FIGURE 23: EXECUTIVE DIRECTORS' INTERESTS IN THE COMPANY'S SHARE SCHEMES (audited) (continued)

	Date of grant	Maximum receivable at 29 March 2015 (or date of appointment)	Awarded during the year	Exercised during the year	Lapsed during the year	Maximum receivable at 2 April 2016 (or date of retirement)	Option price (p)	Share price on date of grant (p)	Share price on date of exercise (p)	Exercise period/ vesting date
<b>Steve Rowe</b>										
Performance Share Plan <sup>1</sup>	18/06/12	232,912	–	10,946	221,966	–	0.0	325.1	543.5	–
	24/06/13	300,343	–	–	–	300,343	0.0	437.0	–	24/06/16 – 23/06/23
	23/06/14	300,343	–	–	–	300,343	0.0	437.0	–	23/06/17 – 22/06/24
	24/07/15	–	260,826	–	–	260,826	0.0	533.4	–	24/07/18 – 23/07/25
Deferred Share Bonus Plan	18/06/12	32,753	–	32,753	–	–	0.0	325.1	543.5	–
	24/06/13	50,457	–	–	–	50,457	0.0	437.0	–	24/06/16 – 23/06/23
	19/06/15	–	59,556	–	–	59,556	0.0	548.3	–	19/06/18 – 18/06/25
SAYE	21/11/13	2,222	–	–	–	2,222	405.0	505.6	–	01/01/17 – 30/06/17
<b>Total</b>		<b>919,030</b>	<b>320,382</b>	<b>43,699</b>	<b>221,966</b>	<b>973,747</b>				
<b>Laura Wade-Gery</b>										
Performance Share Plan <sup>1</sup>	18/06/12	416,025	–	–	396,472	19,553	0.0	325.1	–	18/06/15 – 17/06/22
	24/06/13	315,789	–	–	–	315,789	0.0	437.0	–	24/06/16 – 23/06/23
	23/06/14	315,789	–	–	–	315,789	0.0	437.0	–	23/06/17 – 22/06/24
	24/07/15	–	266,451	–	–	266,451	0.0	533.4	–	24/07/18 – 23/07/25
Deferred Share Bonus Plan	18/06/12	37,442	–	–	–	37,442	0.0	325.1	–	18/06/15 – 17/06/22
	24/06/13	53,684	–	–	–	53,684	0.0	437.0	–	24/06/16 – 23/06/23
	19/06/15	–	19,938	–	–	19,938	0.0	548.3	–	19/06/18 – 18/06/25
<b>Total</b>		<b>1,138,729</b>	<b>286,389</b>	<b>–</b>	<b>396,472</b>	<b>1,028,646</b>				
<b>Helen Weir</b>										
Performance Share Plan <sup>1</sup>	24/07/15	–	276,527	–	–	276,527	0.0	533.4	–	24/07/18 – 23/07/25
SAYE	19/11/15	–	2,083	–	–	2,083	432.0	539.2	–	01/01/19 – 30/06/19
<b>Total</b>		<b>–</b>	<b>278,610</b>	<b>–</b>	<b>–</b>	<b>278,610</b>				

1. The number of options/conditional shares shown under the Performance Share Plan is the maximum (100%) number that could be receivable by the executive director if the performance conditions are fully met. The 2012 award vested in June 2015 at 4.7% (December 2015 for Patrick Bousquet-Chavanne). 4.8% of the 2013 award will vest in June 2016, as set out on page 62.

2. Patrick Bousquet-Chavanne's awards are structured as conditional shares. His RSP award was made prior to his appointment to executive director.

3. John Dixon resigned from the Board on 16 July 2015 and left the Company on 16 January 2016. Details of his leaving arrangements are set out on page 68. All awards made in 2013, 2014 and 2015 and his SAYE award lapsed on leaving the Company. For transparency, these are shown in the 'lapsed during the year' column.

The aggregate gains of directors arising in the year from the exercise of options granted under the PSP, DSBP, RSP and SAYE totalled £2,364,978.

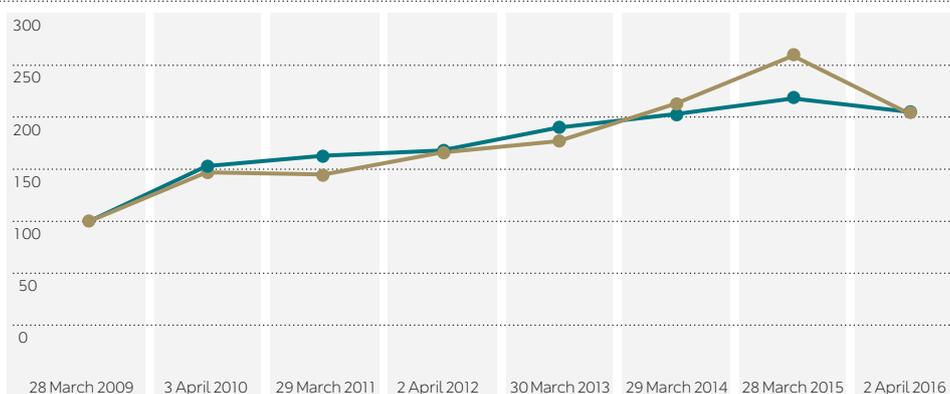
The market price of the shares at the end of the financial year was 407.3p; the highest and lowest share price during the financial year were 596.5p and 392.5p respectively.

## EXECUTIVE DIRECTORS' REMUNERATION CONTINUED

FIGURE 24: PERFORMANCE AND CEO REMUNERATION COMPARISON

This graph illustrates the Company's performance against the FTSE 100 over the past seven 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 seven financial years.

— Marks and Spencer Group plc  
— FTSE 100 Index  
Source: Thomson Reuters



	CEO <sup>1</sup>	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
CEO single figure of remuneration (£000)	Marc Bolland	–	5,998	3,324	2,142	1,568	2,095	2,039
	Stuart Rose	4,294	269	–	–	–	–	–
Annual bonus payment (% of maximum)	Marc Bolland	–	45.80%	34.00%	42.50%	0.00%	30.55%	31.90%
	Stuart Rose	97.00%	57.40%	–	–	–	–	–
PSP vesting (% of maximum)	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 25: 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. As can be seen, average FTE salaries for UK employees increased by 3.9%, in excess of that provided to the CEO.

	% change 2014/15 – 2015/16		
	Base salary	Benefits	Annual bonus
CEO	0.0%	0.0%	4.4%
UK employees (average per FTE)	3.9%	0.6%	37.3%

FIGURE 26: 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. Underlying Group Profit Before Tax has been used as a comparison as this is the key financial metric which the Board consider when assessing Company performance.

	2014/15 £m	2015/16 £m	% change
Total employee pay	1,406.2	1486.7	5.7
Total returns to shareholders <sup>1</sup>	280.7	451.7	60.9
Underlying Group Profit Before Tax	661.2	684.1	3.5

1. Total returns to shareholders for 2015/16 includes distribution to shareholders via share buyback.

## REMUNERATION REPORT CONTINUED

### EXECUTIVE DIRECTORS' REMUNERATION CONTINUED

#### FIGURE 27: 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.

Steve Rowe's service agreement was updated on his appointment to CEO on 2 April 2016.

	Date of appointment	Notice period/unexpired term
<b>Steve Rowe</b>	01/10/2012	12 months/6 months
<b>Patrick Bousquet-Chavanne</b>	10/07/2013	12 months/6 months
<b>Laura Wade-Gery</b>	04/07/2011	12 months/6 months
<b>Helen Weir</b>	01/04/2015	12 months/6 months

#### EXECUTIVE CHANGES TO THE BOARD DURING 2015/16

##### Directors appointed to the Board

**Helen Weir** joined the Board on 1 April 2015 as Chief Finance Officer as reported last year. Full details of her pay arrangements on joining were disclosed in our 2014/15 report.

##### Payments for the loss of office (audited)

**John Dixon** Executive Director, General Merchandise resigned from the Board on 16 July 2015 and left the Company after a period of garden leave on 16 January 2016. In line with his contractual arrangements, John received a payment of £49,431 in respect of accrued but untaken holiday as per the Company's standard holiday policy for leavers. Any share awards which had not vested prior to the date he left the business lapsed at this time.

##### Payments to past directors (audited)

**Steven Sharp** retired from the Board on 9 July 2013 and had two outstanding awards under the Performance Share Plan. In accordance with the rules of the Performance Share Plan, 4.7% of his 2012 award (24,396 shares) vested in May 2015, equating to £153,302, including dividend equivalents. Steven has no further outstanding awards.

##### Changes to the Board in 2016/17

**Marc Bolland**, CEO retired from the Board on 2 April 2016. In line with his contractual arrangements, Marc will receive salary, benefits and pension benefits until the end of his notice period on 7 January 2017. Marc will not be eligible to participate in either the Annual Bonus Scheme or Performance Share Plan for 2016/17. Per the approved Remuneration Policy,

any unvested nil-cost options awarded to Marc Bolland under the Deferred Share Bonus Plan will vest in full on leaving and may be exercised in accordance with the Plan rules. As per the Policy, any unvested nil-cost options awarded under the Performance Share Plan will be time pro-rated and will vest on the normal vesting date, to the extent that performance conditions are met. They may then be exercised in accordance with the Plan rules.

##### Directors changing roles within the Board

**Steve Rowe** became Chief Executive Officer on 2 April 2016, upon Marc Bolland's retirement from the Board. From this date, Steve's salary increased to £810,000 with all other terms of his existing service agreement remaining unchanged.

#### FIGURE 28: 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 29 March 2015 to 2 April 2016.

Director	Company	Fee 000
<b>Marc Bolland</b>	The Coca-Cola Company	\$250
<b>Patrick Bousquet-Chavanne</b>	Brown-Forman	\$267
<b>Laura Wade-Gery</b>	British Land Company	£44
<b>Helen Weir</b>	SABMiller	£117
	Rugby Football Union	£25

## NON-EXECUTIVE DIRECTORS' REMUNERATION

**FIGURE 29: NON-EXECUTIVE DIRECTORS' TOTAL SINGLE FIGURE REMUNERATION (audited)**

Non-executive directors receive fees reflective of the time commitment, demands and responsibilities of the role. The table opposite details the fees paid to the non-executive directors for 2015/16 and 2014/15.

In recognition and support of the proposed new pay arrangements being made in the UK organisation, 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
<b>Robert Swannell</b>	2015/16	70	380	20	<b>470</b>
	2014/15	70	380	18	468
<b>Vindi Banga</b>	2015/16	70	30	0	<b>100</b>
	2014/15	70	12	0	82
<b>Alison Brittain</b>	2015/16	70	0	0	<b>70</b>
	2014/15	70	0	0	70
<b>Miranda Curtis</b>	2015/16	70	0	0	<b>70</b>
	2014/15	70	0	0	70
<b>Andrew Fisher<sup>1</sup></b>	2015/16	23	0	0	<b>23</b>
	2014/15	–	–	–	–
<b>Martha Lane Fox</b>	2015/16	70	0	0	<b>70</b>
	2014/15	70	0	0	70
<b>Andy Halford</b>	2015/16	70	15	0	<b>85</b>
	2014/15	70	15	0	85
<b>Richard Solomons<sup>2</sup></b>	2015/16	68	0	0	<b>68</b>
	2014/15	–	–	–	–

1. The amounts shown for 2015/16 reflect that Andrew Fisher joined the Board on 1 December 2015.
2. The amounts shown for 2015/16 reflect that Richard Solomons joined the Board on 13 April 2015.

**FIGURE 30: NON-EXECUTIVE DIRECTORS' SHAREHOLDINGS (audited)**

The non-executive directors are not permitted to participate in any of the Company's incentive arrangements. The 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 2 April 2016 (or upon their date of retiring from the Board).

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 24 May 2016.

Director	Number of shares held <sup>1</sup>
<b>Robert Swannell</b>	143,000
<b>Vindi Banga</b>	93,700
<b>Alison Brittain</b>	5,096
<b>Miranda Curtis</b>	5,500
<b>Andrew Fisher</b>	3,536
<b>Martha Lane Fox</b>	20,100
<b>Andy Halford</b>	21,000
<b>Richard Solomons</b>	5,000

1. Includes shares held by connected persons.

**FIGURE 31: 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
<b>Robert Swannell</b>	23/08/2010	6 months/6 months
<b>Vindi Banga</b>	01/09/2011	3 months/3 months
<b>Alison Brittain</b>	01/01/2014	3 months/3 months
<b>Miranda Curtis</b>	01/02/2012	3 months/3 months
<b>Andrew Fisher</b>	01/12/2015	3 months/3 months
<b>Andy Halford</b>	01/01/2013	3 months/3 months
<b>Richard Solomons</b>	13/04/2015	3 months/3 months

## REMUNERATION REPORT CONTINUED

### NON-EXECUTIVE DIRECTORS' REMUNERATION CONTINUED

#### NON-EXECUTIVE DIRECTORS' CHANGES TO THE BOARD DURING 2014/15

##### Directors appointed to the Board

**Andrew Fisher** joined the Board on 1 December 2015 as a non-executive director. Andrew is a member of the Nomination Committee and the Audit Committee. In accordance with the Policy, Andrew receives an annual fee of £70,000.

**Richard Solomons** joined the Board on 13 April 2015 as a non-executive director. Richard is a member of the Nomination Committee and the Remuneration Committee. In accordance with the Policy, Richard receives an annual fee of £70,000.

##### Directors retiring from the Board

**Martha Lane Fox** retired from the Board on 2 April 2016. There were no payments for loss of office payable to Martha.

### 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 2015/16

##### Regular items

- Approval of the Directors' Remuneration Report for 2014/15 and review of the AGM voting outcome for the Report.
- 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 achievement of Annual Bonus Scheme profit against target.
- Review of achievement of executive directors' individual objectives for 2015/16.
- Review of the structural design, measures and approach to targets for the 2015/16 Annual Bonus Scheme.
- 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 share plan performance against targets.
- Approval of the vesting level of the 2013/14 PSP awards.
- Consideration of the approach to be taken for the 2016/17 PSP awards.
- Clear articulation of the Committee's reasoning and consideration for vesting and payment levels to executive directors.
- Significant consideration of institutional investors' current guidelines on executive compensation.
- Consideration of remuneration arrangements for the wider workforce.
- Review of, and agreement to, remuneration packages for new senior managers.

→ Assessment of the external environment surrounding the Company's current remuneration arrangements.

→ Consideration of external market developments and best practice in remuneration.

→ Review of Committee performance in 2015/16.

→ Review of Committee Terms of Reference.

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

#### REMUNERATION COMMITTEE ACTION PLAN 2015/16

- Review the executive remuneration framework to ensure strategic alignment with the revised financial and strategic plan.
- Review and update the Remuneration Policy prior to seeking formal shareholder approval in July 2017.
- Review senior management remuneration regularly to provide greater support to Board discussions on talent and development.
- Ensure formal annual review of wider workforce reward framework.
- Review the effectiveness and transparency of remuneration reporting.

#### COMMITTEE ADVISORS

In carrying out its responsibilities, the Committee is independently advised by external advisors. 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](http://remunerationconsultantsgroup.com).

## REMUNERATION COMMITTEE CONTINUED

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 were appointed by the Committee as its independent advisors 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 £94,366 for Remuneration Committee matters. 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, Director of Human Resources and Head of Reward & Global Mobility 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 Reward & Global Mobility, 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 2015, 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 2014/15 DIRECTORS' REMUNERATION REPORT

At the Annual General Meeting on 7 July 2015, 99.07% of shareholders voted in favour of approving the Directors' Remuneration Report for 2014/15. 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 2014/15 Directors' Remuneration Report and Remuneration Policy.

**FIGURE 32: VOTING OUTCOMES FOR 2014/15 REMUNERATION REPORT**

	Votes for	% Votes for	Votes against	% Votes against	Votes withheld
<b>Remuneration Report</b>	999,791,106	99.07	9,400,794	0.93	14,741,053
<b>Replacement PSP</b>	993,189,266	97.97	20,572,593	2.03	10,042,615
<b>Replacement ESOS</b>	978,771,734	95.94	41,398,007	4.06	3,810,085

**FIGURE 33: VOTING OUTCOMES FOR REMUNERATION POLICY (2013/14)**

	Votes for	% Votes for	Votes against	% Votes against	Votes withheld
<b>Remuneration Policy</b>	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, 24 May 2016

*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) (Amendments) Regulations 2013 ('the Regulations'). Where required, data has been audited by Deloitte and this is indicated appropriately.*

## GOVERNANCE

# PENSIONS GOVERNANCE

The Group operates a defined benefit pension scheme (the 'Scheme') for employees with an appointment date prior to 1 April 2002.

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

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

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

The Trustee Board has a business plan against which progress is measured periodically in a similar approach to the Group Board. There is also an annual Board Effectiveness Review and both the Trustee Board and the Investment Committee hold annual strategy days which help drive the long term agenda and the business plan priorities.

Each Trustee Board Director has an individual training plan, which is based on the Pension Regulator's Trustee Knowledge and Understanding requirements and tailored to address any skill gaps and specific Committee roles. The majority of the Trustee Board members hold the Pensions Management Institute Award in Trusteeship.

All advisers, investment managers and suppliers are appointed through a rigorous tender process. They are monitored via quarterly reports and periodic meetings and there is also a rolling programme of both informal and formal adviser reviews.

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

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

## GOVERNANCE

## OTHER DISCLOSURES

**DIRECTORS' REPORT**

Marks and Spencer Group plc (the 'Company') is the holding company of the Marks & Spencer Group of companies (the 'Group'). With our rich heritage, M&S is one of the most recognisable brands in the UK retail sector and is regularly voted as one of its most trusted. Our business is driven by a desire to inspire and innovate; to act with integrity and to stay in touch with our customers, shareholders and employees alike. These are our corporate values and they underpin everything we do. They are what make the M&S difference across the 59 territories in which we operate.

The Directors' Report (also the Management Report) for the year ended 2 April 2016 comprises pages 30 to 77 and page 127 to 128 of this report, together with the sections of the Annual Report incorporated by reference. As permitted by legislation, some of the matters normally included in the Directors' Report have instead been included in the Strategic Report on pages 2 to 29, as the Board considers them to be of strategic importance. Specifically, these are:

- **Future business developments (throughout the Strategic Report).**
- **Research and development p14.**
- **Risk management on p27-29.**

Details of branches operated by the Company can be found on page 17 of the Strategic Report.

Information relating to financial instruments are on pages 112 to 117.

Both the Strategic Report and the Directors' Report have been drawn up and presented in accordance with and in reliance upon applicable English company law, and the liabilities of the directors in connection with that report shall be subject to the limitations and restrictions provided by such law. For information on our approach to social, environmental and ethical matters please refer to our Plan A Report, available to view online at [marksandspencer.com/plana2016](http://marksandspencer.com/plana2016). Other information to be disclosed in the Directors' Report is given in this section.

**INFORMATION TO BE DISCLOSED UNDER LR 9.8.4R**

Listing Rule	Detail	Page reference
9.8.4R (1) (2) (5-14) (A) (B)	Not applicable	N/A
9.8.4R (4)	Long-term incentive schemes	54 and 62-63

**BOARD OF DIRECTORS**

The membership of the Board and biographical details of the directors are given on pages 32 and 33 and are incorporated into this report by reference. Changes to the directors during the year and up to the date of this report, are set out below. Details of directors' beneficial and non-beneficial interests in the shares of the Company are shown on pages 64 and 69. Options granted under the Save As You Earn (SAYE) Share Option and Executive Share Option Schemes are shown on pages 65 and 66. Further information regarding employee share option schemes is given in note 13 to the financial statements.

Name	Role	Effective date of appointment/resignation
<b>Helen Weir</b>	Chief Finance Officer	Appointed 1 April 2015
<b>Richard Solomons</b>	Non-executive director	Appointed 13 April 2015
<b>John Dixon</b>	Executive Director, General Merchandise	Resigned 16 July 2015
<b>Andrew Fisher</b>	Non-executive Director	Appointed 1 December 2015
<b>Martha Lane Fox</b>	Non-executive Director	Retired 2 April 2016
<b>Marc Bolland</b>	Chief Executive Officer	Retired 2 April 2016
<b>Steve Rowe</b>	Chief Executive Officer	Appointed 2 April 2016

The appointment and replacement of directors is governed by the Company's Articles, the UK Corporate Governance Code (the 'Code'), the Companies Act 2006 and related legislation. The Articles may be amended by a special resolution of the shareholders. Subject to the Articles, the Companies Act 2006 and any directions given by special resolution, the business of the Company will be managed by the Board who may exercise all the powers of the Company. The Company may by

ordinary resolution declare dividends not exceeding the amount recommended by the Board. Subject to the Companies Act 2006, the Board may pay interim dividends and also any fixed rate dividend, whenever the financial position of the Company, in the opinion of the Board, justifies its payment.

The directors may from time to time appoint one or more directors. The Board may appoint any person to be a director (so long as the total number of directors does not exceed the limit prescribed in the Articles). Under the Articles, any such director shall hold office only until the next AGM and shall then be eligible for election. The Articles also require that at each AGM at least one-third of the current directors should retire as directors by rotation. All those directors who have been in office at the time of the two previous AGMs and who did not retire at either of them must retire as directors by rotation. In addition, a director may at any AGM retire from office and stand for re-election. However, in line with the UK Corporate Governance Code 2014, all directors will stand for annual election at the 2016 AGM.

**DIRECTORS' CONFLICTS OF INTEREST**

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

**DIRECTORS' INDEMNITIES**

The Company maintains directors' and officers' liability insurance which gives appropriate cover for legal action brought against its directors. The Company has also granted indemnities to each of its directors and the Group Secretary to the extent permitted by law. Qualifying third-party indemnity provisions (as defined by section 234 of the Companies Act 2006) were in force during the year ended 2 April 2016 and remain in force, in relation to certain losses and liabilities which the directors (or Group Secretary) may incur to third

## OTHER DISCLOSURES CONTINUED

parties in the course of acting as directors or Group Secretary or employees of the Company or of any associated company.

Qualifying pension scheme indemnity provisions (as defined by section 235 of the Companies Act 2006) were in force during the course of the financial year ended 2 April 2016 for the benefit of the Trustees of the Marks and Spencer pension scheme, both in the UK and the Republic of Ireland.

### PROFIT AND DIVIDENDS

The profit for the financial year, after taxation, amounts to £404.4m (last year £481.7m). The directors have declared dividends as follows:

Ordinary shares	£m
<b>Paid interim dividend of 6.8p per share</b> (last year 6.4p per share)	£110.9m
<b>Proposed final dividend of 11.9p per share</b> (last year 11.6p per share)	£192.6m
<b>Total ordinary dividend of 18.7p per share</b> (last year 18.0p per share)	£303.5m
<b>Special dividend</b>	£75m

The final ordinary dividend and the special dividend will be paid on 15 July 2016 to shareholders whose names are on the Register of Members at the close of business on 3rd June 2016.

### SHARE CAPITAL

The Company's issued ordinary share capital as at 2 April 2016 comprised a single class of ordinary share. Each share carries the right to one vote at general meetings of the Company.

During the period, 6,797,209 ordinary shares in the Company were issued as follows:

- 62,230 shares under the terms of the 2002 Executive Share Option Scheme at a price of 352p.
- 6,645,922 shares under the terms of the United Kingdom Employees' Save As You Earn Share Option Scheme at prices between 258p and 405p.
- 89,057 shares under the terms of the ROI Employees' Save As You Earn Share Option Scheme at prices between 258p and 405p.

Details of movements in the Company's issued share capital can be found on page 119 in note 24 to the financial statements.

### RESTRICTIONS ON TRANSFER OF SECURITIES

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

### VARIATION OF RIGHTS

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

### Rights and obligations attaching to shares

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

### POWERS FOR THE COMPANY ISSUING OR BUYING BACK ITS OWN SHARES

The Company was authorised by shareholders, at the 2015 AGM, to purchase in the market up to 10% of the Company's issued share capital, as permitted under the Company's Articles. Under this authority,

the Company purchased 31,647,148 ordinary Marks & Spencer shares between 8 July 2015 and 24 February 2016, at a nominal value of £7,911,787.00 and a net cost of £149,894,496.11. The 31,647,148 shares purchased represent 1.95% of the issued share capital as at 24 February 2016. All shares purchased were cancelled, and not held in treasury.

This standard authority is renewable annually; the directors will seek to renew this authority at the 2016 AGM. It is the Company's present intention to cancel any shares it buys back, rather than hold them in treasury.

The directors were granted authority at the 2015 AGM to allot relevant securities up to a nominal amount of £137,372,598. This authority will apply until the conclusion of the 2016 AGM. At this year's AGM, shareholders will be asked to grant an authority to allot relevant securities (i) up to a nominal amount of £135,313,863 and (ii) comprising equity securities up to a nominal amount of £270,627,726 (after deducting from such limit any relevant securities allotted under (i)), in connection with an offer of a rights issue, (the Section 551 amount), such Section 551 amount to apply until the conclusion of the AGM to be held in 2017 or, if earlier, on 1 October 2017.

A special resolution will also be proposed to renew the directors' powers to make non pre-emptive issues for cash in connection with rights issues and otherwise up to a nominal amount of £20,297,079. A special resolution will also be proposed to renew the directors' authority to repurchase the Company's ordinary shares in the market. The authority will be limited to a maximum of £164 million ordinary shares and sets the minimum and maximum prices which will be paid.

### INTERESTS IN VOTING RIGHTS

Information provided to the Company pursuant to the Financial Conduct Authority's (FCA) Disclosure and Transparency Rules (DTRs) is published on a Regulatory Information Service and on the Company's website. As at 2 April 2016, the following information has been received, in accordance with DTR5, from holders of notifiable interests in the Company's issued share capital.

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

Notifiable interests	Ordinary shares	% of capital	Nature of holding
Blackrock, Inc	92,601,221	5.68	Indirect (5.13%), Securities lending (0.3%) & CFD (0.25%)
The Capital Group Companies, Inc	66,681,922	4.049	Indirect Interest
The Wellcome Trust	47,464,282	3.01	Direct Interest

Subsequent to year end, Blackrock, Inc have disclosed information in accordance with DTR5 on three occasions. The most recent being 11 May 2016, disclosing a holding of 94,068,439 Ordinary shares (5.79%, broken down as follows: Indirect, 4.85%; Securities lending, 0.54% & CFD, 0.39%).

## DEADLINES FOR EXERCISING VOTING RIGHTS

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

## SIGNIFICANT AGREEMENTS – CHANGE OF CONTROL

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

- The £400m Medium Term Notes issued by the Company on 30 November 2009, the £300m Medium Term Notes issued by the Company on 6 December 2011 and the £400m Medium Term Notes issued by the Company on 12 December 2012 to various institutions ('MTN') and under the Group's £3bn euro Medium Term Note ('EMTN') programme contain an option such that, upon a change of control event, combined with a credit ratings downgrade to below sub-investment level, any holder of an MTN may require the Company to prepay the principal amount of that MTN.
- The \$500m US Notes issued by the Company to various institutions on 6 December 2007 under Section 144a of the US Securities Act contain an option such that, upon a change of control event, combined with a credit ratings downgrade to below sub-investment level, any holder of such a US Note may require the Company to prepay the principal amount of that US Note.
- The \$300m US Notes issued by the Company to various institutions on 6 December 2007 under Section 144a of the US Securities Act contain an option such that, upon a change of control event, combined with a credit ratings downgrade to below sub-investment level, any holder of such a US Note may require the Company to prepay the principal amount of that US Note.
- The amended and restated £1.1bn Credit Agreement dated 16 March 2016 (originally dated 29 September 2011) between the Company and various banks contains a provision such that,

upon a change of control event, unless new terms are agreed within 60 days, the facility under this agreement will be cancelled with all outstanding amounts becoming immediately payable with interest; and

- The amended and restated Relationship Agreement dated 6 October 2014 (originally dated 9 November 2004 as amended on 1 March 2005), between HSBC and the Company and relating to M&S Bank, contains certain provisions which address a change of control of the Company. Upon a change of control the existing rights and obligations of the parties in respect of M&S Bank continue and HSBC gains certain limited additional rights in respect of existing customers of the new controller of the Company. Where a third-party arrangement is in place for the supply of financial services products to existing customers of the new controller, the Company is required to procure the termination of such arrangement as soon as reasonably practicable (whilst not being required to do anything that would breach any contract in place in respect of such arrangement).

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

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

## EMPLOYEE INVOLVEMENT

We remain committed to employee involvement throughout the business. Employees are kept well informed of the performance and strategy of the Group through personal briefings, regular meetings, email and broadcasts by the Chief Executive and members of the Board at key points in the year to all head office and distribution centre employees and store management. Additionally, many of our store colleagues can join the briefings by telephone to hear directly from the business. These types of communication

are supplemented by our employee publications including 'Your M&S' magazine, Plan A updates and DVD presentations. More than 3,500 employees are elected onto Business Involvement Groups ('BIGs') across every store, distribution centre and head office location to represent their colleagues in two-way communication and consultation with the Company. They have continued to play a key role in a wide variety of business changes.

The 21st meeting of the European Works Council ('EWC') (established in 1995) will take place in September 2016. This Council provides an additional forum for informing, consulting and involving employee representatives from the countries in the European Economic Area. The EWC includes representatives from France, Belgium, The Netherlands, Czech Republic, Slovakia, Greece, Hungary, Lithuania, Latvia, Estonia, Poland, the Republic of Ireland and the UK. The EWC has the opportunity to be addressed by the Chief Executive and other senior members of the Company on issues that affect the European business. This includes the directors of International and multi-channel and the director of Plan A, who all have an impact across the European Community.

Directors and senior management regularly attend the National Business Involvement Group ('BIG') meetings. They visit stores and discuss with employees matters of current interest and concern to both employees and the business through meetings with local BIG representatives, specific listening groups and informal discussions. The business has continued to engage with employees and drive involvement. During the year the Company introduced a scheme called Give Me Five, which is a new way of getting great ideas heard by our leadership and turned into action. All employees can put forward ideas for improvements or change to any aspect of the business, and a shortlist of the best ideas are presented to a leadership panel, which includes the CEO. The winning idea is selected with a view to being implemented.

Share schemes are a long-established and successful part of our total reward package, encouraging and supporting employee share ownership. In particular, around 24,800 employees currently participate in Sharesave, the Company's all employee Save As You Earn Scheme. Full details of all schemes are given on pages 106 and 107.

We have taken a specific focus on developing our mental wellbeing programme this year for our employees, our line managers and senior leaders. Mental wellbeing was placed as a challenge on our new senior leadership development programme 'Fit to lead the Future' where 'disruptive' style learning on this agenda

## OTHER DISCLOSURES CONTINUED

inspired our most senior leaders to bring about a step change to drive stronger levels of mental wellbeing across our business. Now a key part of our annual wellbeing calendar, our mental wellbeing week launched a bold awareness campaign across the business including peer to peer experience sharing, mental health training and external expert speaker events. We've also evolved our annual employee 'Weight Loss Challenge' to become a new 'Wellbeing Challenge' bringing a focus on our physical health in parity with our mental health. A new online hub of resources including an essential line manager guide on mental wellbeing gives our employees access to help and support in both developing their mental wellbeing and resilience and to our free, confidential team of mental wellbeing specialists 'Livewellworkwell'.

Employees are able to interact with one another and can gain access to information about corporate projects, which link to their personal health via our employee social media platform Yammer.

We have websites for both our pension schemes – the Defined Contribution (Your M&S Pension Saving Plan) and the Defined Benefit (The M&S Pension Scheme) – which are fully accessible to both employees and former employees that have retained benefits in either of those pension schemes. Employees are updated from time to time with any pertinent information on their pension savings as appropriate.

### EQUAL OPPORTUNITIES

The Group is committed to an active equal opportunities policy from recruitment and selection, through training and development, performance reviews and promotion to retirement. It is our policy

to promote an environment free from discrimination, harassment and victimisation, where everyone will receive equal treatment regardless of gender, colour, ethnic or national origin, disability, age, marital or civil partner status, sexual orientation or religion. All decisions relating to employment practices will be objective, free from bias and based solely upon work criteria and individual merit. The Company is responsive to the needs of its employees, customers and the community at large. We are an organisation which uses everyone's talents and abilities and where diversity is valued. We were one of the first major companies to remove the default retirement age in 2001 and have continued to see an increase in employees wanting to work past the state retirement age. Our oldest employee is 89 years old and joined the business at age 80. In April 2016 the Company once again featured in The Times Top 50 Employers for Women, highlighting how equal opportunities are available for all at M&S.

### EMPLOYEES WITH DISABILITIES

It is our policy that people with disabilities should have full and fair consideration for all vacancies. During the year, we continued to demonstrate our commitment to interviewing those people with disabilities who fulfil the minimum criteria, and endeavouring to retain employees in the workforce if they become disabled during employment. We will actively retrain and adjust their environment where possible to allow them to maximise their potential. We continue to work with external organisations to provide workplace opportunities through our innovative Marks & Start scheme and by working closely with JobCentre Plus. The Marks & Start scheme was introduced into our distribution centre at Castle Donington in 2012/13, where we

work with Remploy to support people with disabilities and health conditions into work.

### GROCERIES SUPPLY CODE OF PRACTICE

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

M&S submitted its report to the Audit Committee on 18 May 2016 covering the period from 1 April 2015 to 2 April 2016. In accordance with the Order, a summary of that compliance report is set out below.

M&S believes that it has complied in full with GSCOP and the Order during the relevant period. No formal disputes have arisen during the reporting period. Two allegations regarding potential breaches of GSCOP were made by suppliers during the relevant period, but both have been resolved.

M&S operates systems and controls to ensure compliance with the Order and GSCOP including the following:

- The terms and conditions which govern the trading relationship between M&S and those of its suppliers that supply groceries to M&S incorporate GSCOP;
- New suppliers are issued with information as required by the Order;
- M&S has a Code Compliance Officer as required under the Order, supported by our in-house legal department; and

### TOTAL GLOBAL M&S GREENHOUSE GAS EMISSIONS 2015/16

The disclosures required by law and additional information relating to the Group's greenhouse gas emissions are included in the table below. For full details of calculations and performance against our 2006/07 voluntary baseline, see the 2016 Plan A Report.

	2015/16 000 tonnes	2013/14 000 tonnes	% change
Direct emissions (scope 1)	182	168	+8
Indirect emissions from energy (scope 2)	328	340	-4
<b>Total statutory emissions (scope 1 and 2)</b>	<b>510</b>	<b>508</b>	<b>Level</b>
Transport, energy T&D, waste and travel emissions (scope 3)	56	59	-5
<b>Total gross/location-based emissions</b>	<b>566</b>	<b>567</b>	<b>Level</b>
<b>Carbon intensity measure (per 1,000 sq ft of salesfloor)</b>	<b>29</b>	<b>30</b>	<b>-3</b>
Green tariffs and bio-methane procured	299	302	-1
<b>Remaining market-based emissions</b>	<b>266</b>	<b>265</b>	<b>Level</b>
Carbon offsets	266	265	Level
<b>Total net operational emissions</b>	<b>0</b>	<b>0</b>	<b>Level</b>

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

→ Employee training on CSCOP is provided, including annual refresher programmes and new starter training.

#### POLITICAL DONATIONS

No political donations were made during the year ended 2 April 2016. M&S has a policy of not making donations to political organisations or independent election candidates or incurring political expenditure anywhere in the world as defined in the Political Parties, Elections and Referendums Act 2000.

#### GOING CONCERN

In adopting the going concern basis for preparing the financial statements, the directors have considered the business activities as set out on pages 02 to 21 as well as the Group's principal risks and uncertainties as set out on pages 28 and 29. Based on the Group's cash flow forecasts and projections, the Board is satisfied that the Group will be able to operate within the level of its facilities for the foreseeable future. For this reason the Board considers it appropriate for the Group to adopt the going concern basis in preparing its financial statements.

➤ See Note 20 to the Financial Statements for more information on our Facilities

#### LONG-TERM VIABILITY STATEMENT

The directors have assessed the prospects of the Company over a three-year period to 30 March 2019. This has taken into account the business model, strategic aims, risk appetite, and principal risks and uncertainties, along with the Company's current financial position. Based on this assessment, the directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three-year period under review.

➤ See our approach to assessing long-term viability on p47

#### AUDITOR

Auditor Resolutions to reappoint Deloitte LLP as auditor of the Company and to authorise the Audit Committee to determine their remuneration will be proposed at the 2016 AGM.

#### ANNUAL GENERAL MEETING

The AGM of Marks and Spencer Group plc will be held at Wembley Stadium, London on 12 July 2016 at 11am. The Notice of Meeting is given, together with explanatory notes, in a booklet which accompanies this report.

#### DIRECTORS' RESPONSIBILITIES

The Board is of the view that the Annual Report should be truly representative of

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

The Board has advised that the narrative reports should contain the key information needed by investors and other users of the report and should avoid being promotional in nature. Furthermore, the narrative reports in the front and the accounting information in the back of the report should be consistent and the teams involved in its production work closely together to achieve this. For an independent opinion, the Board also requested the Audit Committee review the Annual Report and provide feedback. The Committee's opinion on whether the report is fair, balanced and understandable is on pages 44 and 45.

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

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether applicable IFRSs (as adopted by the EU) have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose,

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

Each of the directors, whose names and functions are listed on pages 32 and 33 of the Annual Report, confirm that, to the best of their knowledge:

- The Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group;
- The Strategic Report and the Directors' Report contained in this report include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces; and
- The Annual Report, taken as a whole, is fair, balanced and understandable, and provides the necessary information for shareholders to assess the Group's position, performance, business model and strategy.

#### DISCLOSURE OF INFORMATION TO AUDITORS

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

**The Directors' Report was approved by a duly authorised committee of the Board of Directors on 24 May 2016 and signed on its behalf by**



**Amanda Mellor**  
Group Secretary  
London, 24 May 2016