CHAIRMAN'S GOVERNANCE OVERVIEW

"The long-term, sustainable success of M&S has been, and will continue to be, the Board's primary objective."

ARCHIE NORMAN CHAIRMAN

AN ENGAGED BOARD

We continue to face significant headwinds in delivering our transformation strategy. We are, however, ambitious for the future and confident that we are on the road towards making M&S special again.

Driving this agenda forward with an eye on the long-term, sustainable success of M&S has been, and will continue to be, the Board's primary objective. It is therefore essential for us to be highly engaged, able to support and challenge senior management and committed to making the hard decisions required to support the turnaround. We also continue to fulfil our other core duties to oversee M&S's culture, governance, financial controls, risk and change management.

This year saw the completion of a substantial but necessary refresh of the Board's structure, which has ensured that we have in place a strong non-executive team with a breadth of skills, experience and perspectives. Full details of these changes are provided in the Nomination Committee Report on pages 46-47.

M&S has long championed the benefits of a diverse Board and has a strong track record of female representation on the Board. As at the date of this report, we are pleased that female directors comprise 30% of our Board.

BOARD ACTIVITIES

During the year, we complied with all the provisions of the UK Corporate Governance Code 2016 and have also sought to incorporate some of the changes introduced by the substantially revised 2018 Code. The Governance section that follows is by intention concise, in keeping with our approach over the past couple of years. In support of our digital ambitions, greater detail on the Board is available at **marksandspencer.com/thecompany**.

Over the last few months, the Board has reviewed its activities and the roles of its committees to ensure that it can focus on driving transformational change at pace. In particular, the remit of the Remuneration Committee was enhanced to cover senior leadership reward, pay policy, gender pay and employee engagement. While we implemented this change ahead of the Financial Reporting Council's (FRC's) consultation on the revised UK Corporate Governance Code, we feel that it remains appropriate for M&S. The Nomination Committee will also now take on greater responsibility for the development of the wider talent pipeline, rather than focusing only on our Board and Operating Committee.

An overview of the range of matters that the Board discussed and debated at its meetings during the year is presented on pages 40-41.

The reports of the Audit and Remuneration Committees for 2018/19 are available on pages 48-53 and 54-75 respectively.

OCADO DEAL AND RIGHTS ISSUE

In February, we announced that M&S would create a joint venture (JV) with Ocado Group plc that the Board believes will transform online grocery shopping for UK consumers. The JV combines the strength of M&S's brand and its leading food quality and innovation with Ocado's unique and proprietary technology to create an unrivalled online offer for our customers.

As announced in February, the transaction will be primarily equity financed. The Board intends to conduct a rights issue to raise up to £601.3m, which will be launched in due course following the publication of a prospectus in May. While I recognise that this will be dilutive for existing shareholders, the Board strongly believes that the deal with Ocado will create significant, sustainable shareholder value over the longer term and that it demonstrates our commitment to becoming a truly digital retailer that can thrive in the competitive online landscape.

The process by which the deal was negotiated and agreed was undoubtedly a complex one and represents an excellent case study of the importance of good governance at M&S. An overview of this, covering the process followed, the deal controls that the Board ensured were in place and the involvement of the Board, its committees and key business areas, can be found on pages 42 and 43.

DIVIDEND

In February, we also announced that we had taken the difficult decision to reset our dividend per share, reducing it by 40%. We took this proactive step to strengthen our balance sheet and to provide a secure platform for the Group's transformation programme. It is our belief that this strikes the right balance between investing in our business and providing returns for shareholders with the aim of creating a sustainable, successful business in the long term.

ENGAGING WITH OUR STAKEHOLDERS

Engagement with and feedback from our colleagues across the business is vital, especially as we drive forward with our transformation. Open dialogue is key to this, which is why I host numerous listening groups with colleagues from stores, distribution centres and offices. My Board colleagues have also spent time meeting with staff throughout the business as part of our Board Involvement Programme to understand fully the challenges we face as a business.

Following the success of the pilot last year, we have extended the number of Board meetings that the chair of our Business Involvement Group (BIG) (which represents the interests of over 80,000 colleagues) is invited to attend so that she can share with us our colleagues' perspectives on the issues under discussion. This was particularly constructive when we considered the challenges facing the store estate and consequently the number of stores that we have taken the decision to close.

The Chair of BIG will be invited to attend two Board meetings a year and will also be invited to attend at least one Remuneration Committee meeting each year. This approach pre-dated the UK Corporate Governance Code 2018 changes, but we believe that this model is the best fit for the business as it gives our employees direct access to the Board.

Good engagement with our colleagues is vital as we continue this period of transformational change, and to support this we will look at ways to step up our dialogue with them during the year ahead. Details of the ways in which we engage with, and have considered, our stakeholders are available on pages 44-45.

RETAIL SHAREHOLDERS

Now in its third year, our successful Private Shareholder Panel continues to meet with members of the Operating Committee, Board and senior leadership, discussing a diverse range of topics relating to the Company and its performance in an open and honest fashion.

The candour of these discussions and the insights they provide continue to reinforce the importance of the Shareholder Panel as a key element of our overall stakeholder engagement programme. In line with our policy of rotating its membership annually, we have now recruited a new panel and have an active programme to drive our engagement with them over the course of the coming year.

Additionally, we are arranging for additional Private Shareholder Panels to take place to focus on the specific topic of the Ocado deal and resulting rights issue. We are inviting back panelists from previous years to participate in discussions about this key strategic event, as it is important to us that our private shareholders, not just institutions, are engaged with and able to participate in the rights issue.

ARCHIE NORMAN CHAIRMAN

UK CORPORATE GOVERNANCE CODE

The UK Corporate Governance Code 2016 (the "Code") is the standard against which we measured ourselves in 2018/19. We have also chosen to adopt some key elements of the new UK Corporate Governance Code, as published in 2018 (the "2018 Code"), early and intend to comply in full in our next Annual Report. Copies of the Code and the updated 2018 Code are available from the Financial Reporting Council's website.

We are pleased to confirm that we complied with all of the provisions set out in the Code for the period under review. To keep this report concise, we have focused on the key governance issues only. Our compliance with key areas of the Code and the 2018 Code are summarised below, together with cross references, where applicable, to the relevant sections of this report where more information can be found.

Full details on how we comply with the Code, including full biographies of our directors and our Corporate Governance Statement, is available on our website. Where reference is made to the availability of further information on our website, it can be found at **marksandspencer.com/thecompany**.

→ **Independence***
Over half of our Board (excluding the Chairman) comprises independent non-executive directors and the composition of all Board Committees complies with the Code. Additionally, the Chairman was considered independent on his appointment. More information about the Board is available on pages 36-37.

→ **Senior Independent Director**
Our Senior Independent Director is Andy Halford.

→ **Accountability and election**
There is a clear separation of duties between the Chairman and CEO roles, and all the directors are to stand for annual re-election.

→ **Evaluation**
Following an external evaluation undertaken in 2016/17, an internally facilitated performance evaluation of the Board and its Committees was undertaken during the year in accordance with the requirements of the Corporate Governance Code.

→ **Attendance**
The directors have all attended an acceptable level of Board and Committee meetings, details of which are available on page 38.

→ **Committee Chair Experience***
1. The Audit Committee chairman met the specific requirements with regard to recent and relevant financial experience throughout 2018/19.

2. Andrew Fisher had been a member of a remuneration committee (for Moneysupermarket.com Group PLC) for more than 12 months prior to his appointment as Chair of the Remuneration Committee.

→ **Governance Framework**
Our full Governance Framework, setting out full details of our corporate governance practices, is available on our website.

→ **Auditor tenure**
We changed our auditor in 2014/15, following a thorough tender process. After five years as lead audit partner, Ian Waller will be replaced by Richard Muschamp following the completion of the 2018/19 audit.

→ **Non-audit policy**
This is disclosed on our website, along with the limited non-audit work undertaken during 2018/19. Details of non-audit fees can be found on page 52.

→ **Auditor appointment**
We disclose our external auditor appointment policy on our website.

→ **Internal Audit**
Details of the Internal Audit function are provided within this report on page 53.

→ **Culture***
Information about how the Board has assessed and monitored culture can be found on pages 15-17 of the Strategic Report.

→ **Performance-related pay***
A significant part of performance-related pay is delivered through shares. Our reward framework is simple, transparent and designed to support and drive our strategy.

More information on our approach to investing in and rewarding our workforce is available in the report of the Remuneration Committee from page 54.

→ **Workforce engagement***
The Chair of the Company's workforce advisory panel, the Business Involvement Group (BIG), is invited to attend two Board meetings and one Remuneration Committee meeting each year. More detail on how M&S engages with its key stakeholder groups is presented on pages 44-45.

→ **Diversity***
Information about the diversity of our Board, including its consideration of diversity in its succession plans and in developing senior management, can be found on pages 36, 41, 44 and 47.

* Newly incorporated or amended disclosures to align with the 2018 Code.

OUR BOARD

CHAIRMAN

Archie Norman N R
Chairman

Appointed: September 2017

Key strengths and experience

- Extensive retail and business leadership experience.
- Long-term track record of value creation and change in major British companies.

Archie is an experienced Chairman and former Chief Executive having led major transformation programmes at ITV, Lazard, Asda, Energis and Hobbycraft. He was previously Deputy Chairman of Coles Limited and, in 2016, was appointed Lead Director at the Department for Business, Energy & Industrial Strategy.

EXECUTIVE DIRECTORS

Steve Rowe
Chief Executive

Appointed: April 2016 (as Chief Executive)

Key strengths and experience

- Very extensive in-depth commercial and retail experience.
- Extensive knowledge of M&S having worked in all major areas of the business.

Steve joined M&S in 1989 and worked in senior roles across all areas of the business prior to his appointment as CEO, including Director of Home, Director of Retail, Director of Retail and E-commerce, Executive Director, Food, and Executive Director, General Merchandise.

Humphrey Singer
Chief Finance Officer

Appointed: July 2018

Key strengths and experience

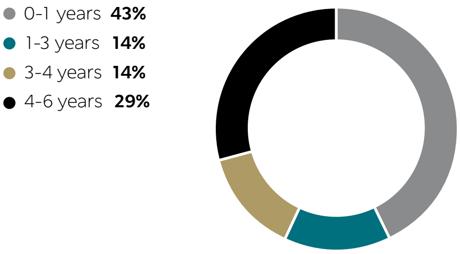
- Strong financial background and extensive retail expertise.
- Significant experience in delivering the transformational strategies of large listed businesses.

Humphrey joined M&S in July 2018 from Dixons Carphone plc, where he was Group Finance Director. He was previously Group Finance Director of Dixons Retail plc and is currently a non-executive director of Taylor Wimpey plc.

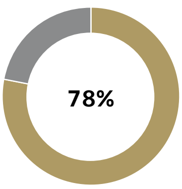
BOARD DIVERSITY

BOARD GENDER DIVERSITY

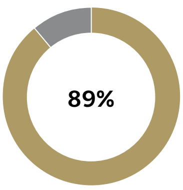
NON-EXECUTIVE DIRECTOR TENURE



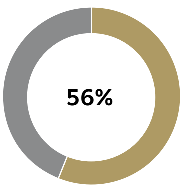
SECTOR EXPERIENCE



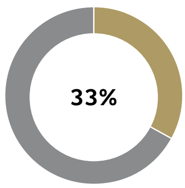
Retail



Consumer



Finance



E-commerce & technology

DEPARTURES AND APPOINTMENTS SINCE 1 APRIL 2018

Exec appointments in year:
Humphrey Singer

Exec resignations in year:
Patrick Bousquet-Chavanne

Exec resignations after year end:
None

NED appointments in year:
Katie Bickerstaffe
Justin King
Pip McCrostie

NED resignations in year:
Vindi Banga
Richard Solomons

KEY TO COMMITTEES

Ⓐ Audit   Ⓝ Nomination   Ⓡ Remuneration   ● Committee Chair

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Andy Halford
A (Chair) N

Senior Independent Director

Appointed: January 2013

Key strengths and experience

- Significant recent and relevant financial experience.
- International, consumer and digital experience.

Andy's strong finance background and broad knowledge of the UK and international consumer market was gained from CFO positions held in global listed companies. He is Chief Financial Officer of Standard Chartered, which he joined after 15 years at Vodafone, nine of which were spent as Chief Financial Officer.

Katie Bickerstaffe
N R

Non-Executive Director

Appointed: July 2018

Key strengths and experience

- Extensive experience of retail and operations.
- Significant understanding of UK retail and leading consumer-focused businesses.

Katie was Chief Executive (Designate) of the new independent British energy supply and services company created by the proposed merger of SSE plc's retail unit and Npower and is subsequently working on a separate project for the SSE Retail Business. She was previously Chief Executive, UK and Ireland of Dixons Carphone plc, having also been on the board of Dixons Retail plc prior to its merger.

Alison Brittain CBE
A N

Non-Executive Director

Appointed: January 2014

Key strengths and experience

- Financial and commercial experience.
- Considerable knowledge of running large-scale consumer businesses.

Alison is CEO of Whitbread, a global organisation with a broad portfolio of hospitality brands, and was previously Group Director at the Retail Division of Lloyds Banking Group, with responsibility for its retail branch networks as well as its Retail Business Banking and UK Wealth businesses.

Andrew Fisher OBE
R (Chair) N

Non-Executive Director

Appointed: December 2015

Key strengths and experience

- International consumer and technology sector experience.
- Extensive knowledge of high-growth digital businesses.

Andrew was instrumental in establishing mobile lifestyle app Shazam, where he was Executive Chairman until October 2018, as a leading mobile consumer brand, and brings over 20 years' experience leading and growing numerous technology-focused enterprises.

Justin King CBE
N

Non-Executive Director

Appointed: January 2019

Key strengths and experience

- Extensive experience of working in and leading large businesses.
- Considerable knowledge of retail transformation and operations.

Justin is currently Vice Chairman of Terrafirma, acting as adviser to the General Partner. Between 2004 and 2014, he was the CEO of Sainsbury's, leading the business through a major transformation. He has also previously held senior positions at M&S as Head of Food, as well as Asda, Haagen-Dazs, PepsiCo and Mars.

Pip McCrostie
A N

Non-Executive Director

Appointed: July 2018

Key strengths and experience

- Substantial experience of corporate finance and tax.
- Extensive knowledge of global businesses and corporate transactions.

Pip's extensive financial experience was gained from a career at Ernst & Young, where she transformed and led the Global Corporate Finance business. She was the founder of the Global Transaction Tax network, and has been a non-executive director of Inmarsat since 2016.

GROUP SECRETARY

Nick Folland

Group General Counsel and Company Secretary

Appointed: February 2019

Nick has extensive legal and governance experience, having been General Counsel and Company Secretary in FTSE 100 businesses since 2001. More recently, he has held positions as Chief Executive of the Crown Prosecution Service and Chief External Affairs Officer and Chief of Staff to the CEO of the Co-op.

BOARD COMPOSITION AND MEETING ATTENDANCE

BOARD MEETING ATTENDANCE AND DIRECTOR RESPONSIBILITIES IN 2018/19

CHAIRMAN	ATTENDED	MAX POSSIBLE	INDEPENDENT	RESPONSIBILITY IN 2018/19	LINKED TO REMUNERATION
Archie Norman*	**10**	**10**		Board governance and performance, shareholder engagement	

* Considered independent on appointment

EXECUTIVE DIRECTORS	ATTENDED	MAX POSSIBLE	INDEPENDENT	RESPONSIBILITY IN 2018/19	LINKED TO REMUNERATION
Chief Executive Steve Rowe	**10**	**10**		Strategy and Group performance	✓
Chief Finance Officer Humphrey Singer (appointed 9 July 2018)	**8**	**8**		Group financial performance, IT, investor relations and data governance	✓
Executive Director Patrick Bousquet-Chavanne (resigned 18 April 2018)	**1**	**1**		Customer, marketing and M&S.com	✓

NON-EXECUTIVE DIRECTORS	ATTENDED	MAX POSSIBLE	INDEPENDENT	RESPONSIBILITY IN 2018/19
Vindi Banga (retired 1 October 2018)	**6**	**6**	✓	**Role at Board meetings** Independent non-executive directors assess, challenge and monitor the executive directors' delivery of strategy within the risk and governance structure agreed by the Board. As board committee members, they also review the integrity of the Company's financial information, recommend appropriate succession plans and monitor board diversity.
Katie Bickerstaffe (appointed 10 July 2018)*	**6**	**7**	✓	
Alison Brittain	**10**	**10**	✓	
Andrew Fisher	**10**	**10**	✓	
Andy Halford	**10**	**10**	✓	
Justin King (appointed 1 January 2019)*	**2**	**3**	✓	
Pip McCrostie (appointed 10 July 2018)*	**6**	**7**	✓	
Richard Solomons (resigned 10 July 2018)	**2**	**2**	✓	

* At the meeting on 13 March 2019, Katie Bickerstaffe was unable to attend due to illness and Justin King was unable to attend due to a previous business commitment. Pip McCrostie was unable to attend the meeting on 9 January 2019 due to a previous personal commitment.

Attended by invitation	ATTENDED	MAX POSSIBLE	RESPONSIBILITY IN 2018/19
Sacha Berendji – Retail, Operations & Property Director	**5**	N/A	**Role at Board meetings** The Operating Committee comprises the Company's senior leadership team below board level and is tasked with running the day-to-day operations of the business and facilitating delivery of the strategy as approved by the Board. Members of the Operating Committee attend board meetings by invitation to present and discuss matters of strategic importance.
Stuart Machin – Managing Director, Food	**4**	N/A	
Jill McDonald – Managing Director, Clothing, Home & Beauty	**7**	N/A	
Melanie Smith – Strategy Director	**10**	N/A	
Paul Friston – International Director	**3**	N/A	
David Guise – HR Director	**1**	N/A	
Jeremy Pee – Chief Digital and Data Director	**1**	N/A	

This table provides details of scheduled meetings held in the 2018/19 financial year.

BOARD MEETINGS HELD IN 2018/19

The Board held 10 scheduled meetings during the year, and individual attendance is set out above.

Sufficient time is provided, periodically, for the Chairman to meet privately with the Senior Independent Director and the non-executive directors to discuss any matters arising.

For information on what the Board did during the year, see Board activities on p40-41

MONITORING NON-EXECUTIVE DIRECTOR INDEPENDENCE

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

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

The Company maintains clear records of the terms of service of the Chairman and non-executive directors to ensure that they continue to meet the requirements of the UK Corporate Governance Code (the "Code"). Neither the Chairman nor any of the non-executive directors have exceeded the maximum nine-year recommended term of service set out in the Code, with our longest-serving non-executive director, Andy Halford, having served less than seven full years on the Board.

As such, the Board considers that all of its non-executive directors continue to demonstrate independence.

For information on the skills and experience of each director, see p36-37

LEADERSHIP AND OVERSIGHT

THE ROLE OF THE BOARD AND ITS COMMITTEES

The Board is responsible for establishing the Company's purpose, values and strategy, promoting its culture and overseeing its conduct and affairs to create sustainable value for the benefit of the Company's members over the long term.

It recognises that it has a wider duty to a broad community of stakeholders whose support is essential, and that the business has impact on colleagues, customers, shareholders, suppliers and the communities in which it operates. Pages 44 and 45 highlight how the Board and the wider business have sought to effectively engage with, and encourage participation from, our shareholders and stakeholders.

The Board discharges some of its responsibilities directly and others through its board committees and senior management. Terms of Reference for the Board and its committees are available in our Governance Framework, published on **marksandspencer.com/thecompany**.

The Board agrees, and has collective responsibility for, the strategy of the Company, which is outlined in the Strategic Report on pages 1-33.

Execution of the strategy and day-to-day management of the Company's business is delegated to the Operating Committee, with the Board retaining responsibility for overseeing, guiding and holding management to account. The Board is also responsible for:

- → Assessing, monitoring and promoting the Company's culture, and ensuring that this closely aligns with its strategy.
- → Ensuring the necessary resources are in place for the business to meet its strategic objectives.
- → Establishing workplace policies and business practices that align with the Company's culture and values and support its strategy.
- → Overseeing the implementation of a robust controls framework to allow effective management of risk. Much of this work is delegated to the Audit Committee (see pages 48-53).
- → Effective succession planning for key senior personnel, much of which is delegated to the Nomination Committee (see pages 46-47).

While the above summarises the key areas of board responsibility, it is not intended to be exhaustive. More detail on this, together with information on the roles of individual board members, is covered by the Schedule of Matters Reserved to the Board, which is also available at **marksandspencer.com/thecompany**.

ANNUAL BOARD EVALUATION

Our annual Board Evaluation gives us the opportunity to reflect on the effectiveness of our activities, the quality of our decisions and for board members to consider their performance and contribution.

This year, our evaluation was facilitated internally by our Group General Counsel and Company Secretary, Nick Folland, who was considered by the Board to be a suitably independent sounding board for this process. In line with previous years, focused one-to-one discussions were held between Nick and each member of the Board. These covered a broad range of topics relating to the Board, its Committees and to the directors individually, including:

- → What worked well during the year and where improvements could be made.
- → Board culture, teamwork and relationships with management.
- → Shareholders and stakeholders, including communication and relationships.
- → Board composition and succession planning.
- → Resourcing of meetings, agenda planning, quality of information.
- → Strategic oversight and implementation.
- → Corporate governance, regulatory compliance and associated support.
- → Committee effectiveness and communications to the Board.

The Senior Independent Director also met with directors to review the Chairman's performance. This review was then shared with the Chairman.

All recommendations arising from the review are based on best practice as described in the UK Corporate Governance Code and other applicable guidelines.

FINDINGS IN 2018/19

Overall, the Board was considered to have a deep passion for the business and a good mix of skills and experience of particular relevance to M&S in its turnaround phase. The degree of support and challenge demonstrated by the directors was at the correct level, albeit there was acknowledgement of the fact that a number of new non-executive directors (NEDs) had joined during the year and that it would therefore take time to settle into a normal pattern of working.

The Chairmanship of Archie Norman was viewed positively, particularly in focusing the business agenda and facilitating meaningful debate. The level of involvement and engagement of the NEDs was considered strong and the overall quality of discussion during board meetings high. There was a view that work was needed to encourage more focused presentations to allow even more time for board debate. Coverage of governance, regulatory compliance and risk management was viewed positively, with good line of sight to all key regulatory communications.

Board papers were seen as clear and the specific actions the Board was required to take helpfully sign-posted; however, improvements could be made in terms of making them more succinct and reducing repetition.

Board committees were all considered to work well with thorough debate, a clear grasp of issues and subject knowledge. Committees are considered to be well chaired and managed.

The Board has agreed an action plan for the year ahead, focusing on the key areas of board oversight and on driving the transformation forward, reviewing key performance indicators and ensuring that these are linked to the business objectives.

BOARD ACTIVITIES

WHAT WAS ON THE BOARD'S AGENDA IN 2018/19?

The following pages offer some insight into how the Board uses its meetings as a mechanism for discharging its duties under s.172 of the Companies Act 2006, including the breadth of matters it discussed and debated during the year and the key stakeholder groups that were central to those discussions (see the Stakeholder key to the right).

Each Board meeting follows a carefully tailored agenda agreed in advance by the Chairman, CEO and Company Secretary. A typical meeting will comprise reports on current trading and financial performance from the CEO and CFO, legal and governance updates, a review of the strategic transformation programme and one or two detailed deep dives into areas of particular strategic importance. Details of the directors' attendance at the 10 scheduled meetings that took place during the year can be found on page 38.

PRINCIPAL COMMITTEE UPDATES

The Chairs of the Audit, Remuneration and Nomination Committees updated the Board on the proceedings of those meetings, including the key discussion points and any particular areas of concern.

TRANSFORMATION PROGRAMME REVIEW AND KPI UPDATES

The Strategy Director attended each Board meeting to update and discuss with the Board the progress of the transformation programme, as well as strategic key performance indicators (KPIs).

STRATEGY AND COMPANY PERFORMANCE

The CEO led discussions focusing on recent trading, general business performance and the key strategic initiatives under way:

Trading updates

- Considered trading performance updates from across the Group's family of businesses.
- Discussed operational issues arising and responses, such as stock availability, supplier relationships and general systems operations and their impact on colleagues in stores.
- Discussed wider retail market pressures and challenges, competitor performance and the implications of these on trading.

For more detail, see p4-5

Strategic progress and KPIs

- Discussed the ongoing transformation strategy, with a continued focus on the key strategic KPIs and the progress the Company was making in achieving them.
- Agreed the cross-businesses strategic KPIs and key enablers, as well as those for each of the family of businesses, with regular updates provided throughout the year.
- Received updates on key milestones and the progress made under each programme of work underpinning delivery of the transformation strategy.

For more detail, see p6-14

Digital

- Discussed new and planned initiatives under the Digital First strategy, including the Decoded programme to increase digital awareness among our colleagues and improve capability across the business.
- Received updates regarding the ongoing improvements to M&S.com, including site speed, fulfilment and impact on overall customer experience and sales.

For more detail, see p13

Property and store estate

- Reviewed progress in the store rationalisation programme and its impact on colleagues in stores, covering colleague redeployment and sales transfer rates, and the future redevelopment plans for older stores within the estate.
- Discussed the combined pressures of rising business rates and rent increases on the Company's cost base and the challenges these pose to the UK high street.

For more detail, see p12

FINANCIAL UPDATES

Budget

- Considered performance vs the 2018/19 budget and agreed the budgets for each of the family of businesses for 2019/20.
- Considered anticipated performance against the agreed budget for the coming financial year, including implications on long-term performance, planned store investment and the colleague perspective on these issues.
- Discussed funding requirements for the next phases of the transformation strategy, including the proposed joint venture (JV) with Ocado.

For more detail, see p42-43

Cash flow and dividend

- Reviewed cash flow, dividend cover and shareholder returns, taking into consideration financial performance, liquidity and credit metrics, and agreed a dividend reset of 40%, resulting in a full year dividend of 13.9p.

For more detail, see p26

Costs

- Reaffirmed the ambition to create a more efficient cost base and generate savings of at least £350m by 2020/21.
- Reviewed cost savings achieved during the year relating to management structure, property costs, IT transformation programme, procurement and costs linked to store closures.

Risk

- Conducted half-yearly reviews of the Group Risk Profile, covering core internal and external risks, risks driven by business change and areas of emerging risk.
- Agreed the Group-level risks to be monitored and appropriate mitigating activities, and delegated responsibility to the Audit Committee to review the processes and Group policies underpinning these.

For more detail, see p27-33

KEY: STAKEHOLDER GROUPS

Shareholders · Colleagues · Customers · Community · Suppliers

GOVERNANCE AND LEGAL

Board Involvement Programme

- Agreed a Board Involvement Programme for 2019/20 to enhance the directors' engagement with and understanding of different areas of the business.

Board Action Plan and Evaluation

- Reviewed progress against the 2018/19 Board Action Plan and set the Action Plan for 2019/20, with a clear process for monitoring progress over the course of the year.
- Conducted an internally facilitated Board Evaluation covering the Board's effectiveness, processes and ways of working, with feedback from individual directors provided and the outcome discussed by the Board.
- Clarified developments in the roles of the Nomination and Remuneration Committees in light of changes to the UK Corporate Governance Code.

For more detail, see p39

Board succession and diversity

- Considered and reviewed the Board's composition, diversity and succession plans, facilitating the transition to a new CFO and the addition of three new non-executive directors, including their inductions.

For more detail, see p47

Legal and regulatory

- On the recommendation of the Audit Committee, reviewed and approved the Annual Report and Accounts, Notice of AGM, Modern Slavery Statement and the Half and Full Year Results announcements.
- Received regular litigation reports from the Company's legal team.
- Monitored regulatory and legislative developments and considered any potential impact on the Company's operations.

Annual General Meeting (AGM)

- Reviewed specific issues raised by shareholders throughout the year to be addressed in the Chairman's AGM statement.
- Agreed to deliver a hybrid AGM in 2019, introducing the ability for shareholders to participate by electronic means for the first time without having to be physically present.

STRATEGIC DEEP DIVES

At each meeting, the Board received presentations on and discussed selected strategically significant matters in greater depth to evaluate progress, provide insight and, where necessary, decide on appropriate action. These included:

Brexit

- Discussed preparations, scenario planning and impact assessments covering tariffs, import and export compliance and continuity of product supply, and the options for potential mitigating actions.
- Considered the potential impact on our international partners and the ways in which the business was able to support them in a range of scenarios.

Culture and organisation

- Reviewed the results of the annual Your Say colleague feedback survey, identified areas for improvement and appropriate courses of action.
- Received an update from the Chair of our employee representative body, the Business Involvement Group (BIG), and discussed with her the Company's strategy and future plans from the perspective of colleagues.
- Discussed gender pay in the context of the wider market, the development of women into senior roles and driving greater diversity and inclusion in terms of gender, ethnicity and social background.

For more detail, see p15-17

Clothing & Home

- Discussions covered team structure, talent pipeline, store closure impact, marketing structure, range planning and phasing changes, customer experience and logistics.
- Reviewed progress in the project to modernise the Clothing & Home end-to-end supply chain and the impact on availability, waste and costs.
- Considered market positioning and strategic priorities in Womenswear, and discussed potential opportunities to drive growth.

For more detail, see p10-11

Food

- Discussed the key strategic priorities of availability, store standards, price investment and promotions, organisation and people.
- Discussed product innovation, development, supplier relationships, customer quality perception and the key areas of focus for the Food business over the next three years.

For more detail, see p8-9

International

- Discussed the Company's international operating model and opportunities for profitable growth.
- Discussed pricing strategy and brand positioning to improve competitiveness in key markets.
- Considered relationships with international partners and the opportunities to develop these further.

For more detail, see p14

Supply chain

- Discussed the end-to-end supply chain in Clothing & Home and Food from design to customer, noting impact on availability and waste and relationships with our suppliers, and reviewed progress towards resolving the key challenges.

Joint venture with Ocado

- Evaluated the success of the limited Food Online trial and potential solutions for a wider roll-out, discussed options, agreed the preferred course of action and approved the final deal.
- Agreed the Audit Committee's recommendation to partially fund the deal through a rights issue and considered the impact of this on the Company's shareholders.
- Considered the colleague perspective on the joint venture with the assistance of BIG, and reviewed and approved the shareholder communications plan.

For more detail, see p42-43

CREATING A JOINT VENTURE

In February 2019, we announced that we would be creating a new 50/50 joint venture (JV) with Ocado Group plc ("Ocado"). The JV will transform online grocery shopping for our customers in the UK and represents one of the most significant strategic initiatives undertaken by M&S for many years.

Good governance is vital in ensuring that projects of this type are delivered in an efficient, effective and legally compliant way. It provides a framework for challenge, external input and leadership. The timeline below provides an overview of the governance of each of the key stages of this complex project, from its early conceptual stages to date.

OUR AMBITION: To deliver a market-leading online food offer for our customers by no later than September 2020.

PLANNING PHASE

TO DECEMBER 2018

CONSIDERING OPTIONS

Having closely monitored the development of the online food market for some time, in 2018 the Board determined that securing access to online as the UK's fastest-growing retail channel was crucial for delivering the Food strategy.

The Board tasked the business to assess the successes and limitations of the limited food online trial launched in 2017 and to investigate other viable options, including mergers and acquisitions (M&A), and to report its findings back to the Board.

GROUP BOARD GB

- **Identified food online as a key strategic priority under the transformation programme.**
- **Considered online food market and approved limited online trial to test viability.**
- **Instructed Food and M&S.com departments to assess trial findings.**

RESEARCH AND FEEDBACK

A Board sub-committee was formed, comprising the Chairman, CEO and at least one non-executive director, to review market context, consider potential next steps and identify targets.

It was concluded that M&A was the approach most likely to deliver the best results within an appropriate timeframe. The food online project was formally launched, with Ocado identified as a preferred partner.

GROUP BOARD GB

- **Agreed the creation of a Board sub-Committee to review options.**
- **Identified Ocado as the preferred partner with which to explore the potential for a deal.**

NEGOTIATION PHASE

DECEMBER 2018 TO JANUARY 2019

NEGOTIATION AND DUE DILIGENCE

The Board appointed a Deal Team comprising key personnel to take the deal forward with Ocado, with clear negotiating parameters established and instructions to report back as necessary.

The Board considered the market sensitivity of the project and instructed the Disclosure Committee to convene as often as necessary to ensure that the Company's ongoing obligations under the Market Abuse Regulation (MAR) could be met.

GROUP BOARD GB

- **Appointed, set the negotiating parameters for and received weekly updates from the Deal Team.**

DEAL TEAM DT

- **Initiated and progressed discussions with Ocado.**

DISCLOSURE COMMITTEE DC

- **Held regular meetings to ensure MAR compliance.**
- **Assessed whether the Company could at all times ensure confidentiality of relevant information.**

CHECKING COMMERCIAL ASSUMPTIONS

During the progression of talks with Ocado, the Deal Team engaged a Review Team of individuals who had not had any prior involvement in the project and whose purpose was to provide an entirely fresh perspective, with particular emphasis on the pricing of the proposals.

Feedback was provided to the Deal Team, which retained responsibility for formulating a commercial view of the viability of the project.

REVIEW TEAM RT

- **Provided a cold review of the commercial rationale and structure of the deal.**
- **Reviewed the pricing of the deal and fed back directly to the Deal Team.**

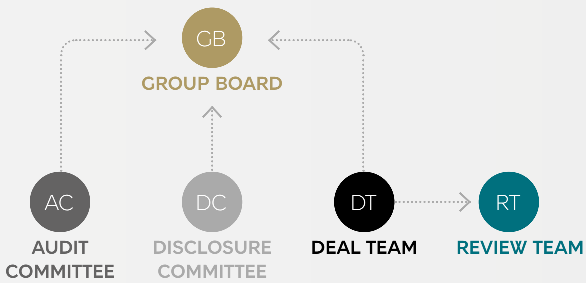
GOVERNANCE STRUCTURE

The chart to the right illustrates the committees and teams involved in the negotiation process and the flow of information to the Board so that decisions of a strategic nature could be taken at pace.

The Board instructed each of the Audit and Disclosure Committees and the Deal Team in their specific roles and ensured that a strict governance process was followed. This allowed for negotiation to progress efficiently and confidentially until such time as both parties were ready to announce an agreement.

In addition to receiving weekly progress updates from the Deal Team, the Board met a further seven times outside of its agreed meeting schedule between December 2018 and February 2019, when the deal was announced.

+ Read more about the role of the Board on p39 and its activities during the year on p40-41



COMPLETION PHASE

FEBRUARY 2019 ONWARDS

EVALUATING FUNDING OPTIONS

As talks progressed and gained pace, both parties considered and evaluated the appropriateness of different methods of funding the potential deal.

It was concluded that a rights issue was the method that most closely aligned with the Company's strategy to restore M&S to sustainable, profitable growth and maintain a strong balance sheet, and was therefore in the best interests of shareholders.

GROUP BOARD GB
- **Approved Audit Committee recommendation to fund via a rights issue.**

DEAL TEAM DT
- **Continued to progress talks and reported on key milestones and negotiation challenges to the Board.**

AUDIT COMMITTEE AC
- **Analysed funding options and formally recommended the Rights Issue to the Board as being most appropriate.**

OVERCOMING GOVERNANCE CHALLENGES

Outside of the challenges that could be expected for a deal of this complexity, the negotiation process was subject to two occurrences of press speculation.

In line with the clear requirements of MAR, the Company issued a public announcement addressing this speculation on 26 February 2019, confirming that talks were under way and that there was no certainty of an agreement being reached at that stage.

DISCLOSURE COMMITTEE DC
- **Considered press speculation in the context of the Company's MAR obligations.**
- **Approved the form of Regulatory News Service (RNS) announcement and authorised its release to the market.**

AGREEMENT AND DISCLOSURE

An agreement was reached and the deal concluded, with public announcements made to the London Stock Exchange. It was approved by Ocado's shareholders on 20 May 2019.

Finally, formal approval was granted to make arrangements to conduct a rights issue to raise up to £601.3m to fund the acquisition of 50% of the Ocado Retail business that forms the basis of the JV.

GROUP BOARD GB
- **Assessed the final proposal and formally approved the deal.**

DEAL TEAM DT
- **Concluded talks and brought a cohesive final proposal to the Board.**

DISCLOSURE COMMITTEE DC
- **Approved form of RNS announcement and authorised its release to the market.**

DELIVERING THE RIGHTS ISSUE

The Board intends to formally launch the Rights Issue, which will be fully underwritten on a standby basis by Morgan Stanley, in due course.

GROUP BOARD GB
- **Will formally approve the Rights Issue terms.**
- **Will agree the process by which shareholders will be invited to participate.**

AUDIT COMMITTEE AC
- **Will review the financial information to be contained in the Prospectus.**
- **Will meet to consider relevant matters when required.**

STRATEGIC REPORT
GOVERNANCE
FINANCIAL STATEMENTS

HOW WE ENGAGE, CONSIDER AND RESPOND

Our rich network of stakeholder relationships supports the values on which M&S was founded. These relationships are even more vital during this period of transformation.

OUR APPROACH

Engaging with our stakeholders is fundamental to the way we do business at M&S. We have over 150,000 registered shareholders, 80,000 colleagues, and 32 million customers. We source our products from suppliers worldwide. These individuals, businesses and communities are all integral to our business. We will only be able to transform M&S successfully with their input, cooperation and trust.

We have invested in the development and involvement of our stakeholder communities, as we believe it is the right thing to do, not only for our stakeholders but for our business. These pages provide a snapshot of just some of the ways in which we do this.

On these pages you will also find examples of how we considered our stakeholders when making key decisions during the year. As a Board, we have a duty to promote the success of M&S for the benefit of our members. In doing so, however, we must have regard for the interests of our colleagues, for the success of our relationships with suppliers and customers, for the impact of our operations on the community, and for the desirability of maintaining a reputation for high standards of business conduct. These stakeholder considerations are woven throughout all of our discussions and decisions. Like any business, sometimes we have to take decisions that adversely affect one or more of these groups and, in such cases, we always look to ensure that those impacted are treated fairly.

More information about how the directors have discharged their duty under s.172 of the Companies Act 2006 is available in the Strategic Report, on pages 2-33.

Key

A Link to Plan A

SHAREHOLDERS

BOARD CONSIDERATIONS

All Board decisions are made with M&S's success in mind, which is ultimately for the long-term benefit of our members. This year in particular though, we made the decision to reduce our dividend and proceed with a rights issue to finance our JV with Ocado. We considered the impact of this action on our shareholders in detail, and agreed that our Ocado partnership could have a transformational impact on our future success, and consequently increase value for shareholders in the long term.

ANNUAL GENERAL MEETING (AGM)

Our 2018 AGM was well attended and all our proposed resolutions were passed, with votes in favour ranging from 91.56% to 99.99%. We have also been providing live webcasts of our AGMs and preliminary and interim announcements for over a decade, bringing these events to thousands of shareholders all over the world.

ANNUAL REPORT AND ACCOUNTS

We go beyond our statutory obligations to provide what we hope is a holistic and engaging view of the business in a language that everybody can understand. Added to this is a wealth of online content which is publicly available on our corporate website.

ONGOING INVESTOR ENGAGEMENT

The Investor Relations team alongside management maintains a regular dialogue with key institutional investors. Over the course of the past year, the team met with over 270 investors, from over 170 institutions and participated in a dozen industry conferences and roadshows. In the course of their meetings, the team engaged with investors representing well over half of our issued share capital.

PRIVATE SHAREHOLDER PANEL

This year, we continued to hold regular meetings with groups of private shareholders. These are typically attended by either the CEO or a member of senior management and give our private shareholders the opportunity to share their views in an informal setting.

ASSET REUNIFICATION

Through our asset reunification programme, M&S proactively seeks to re-unite shareholders promptly with their shares and unclaimed dividend payments. Additionally, our move to mandatory direct credit as our only means of issuing dividend payments, which came into effect in July 2018, will assist us in substantially reducing the quantity of payments that go unclaimed each year and to ensure that more of our private shareholders receive their dividends as cleared funds on the payment date.

COLLEAGUES

BOARD CONSIDERATIONS

This year the chairman of BIG attended two Board meetings, providing us with the colleague perspective on key issues. We discussed our transformation programme, and how our colleagues feel about the improvements being made to the way we work. Our colleagues' positive feedback and enthusiasm for our transformation initiatives have spurred us on in driving to maintain our programme of changes throughout the business.

BUSINESS INVOLVEMENT GROUP (BIG)

Engagement with our colleagues is facilitated through BIG, a network of elected representatives from across all parts of the business. Local BIG teams regularly feed back to National BIG, whose chairman in turn represents the collective colleague voice through regular meetings with the Chairman and CEO and by attending Board and Remuneration Committee meetings during the year. Operating Committee members also attend National BIG meetings to understand the issues that are important to our colleagues.

COLLEAGUE UPDATES

Colleagues are kept informed of performance and strategy through regular business area "huddles" as well as email, Skype and social media updates from members of the Board and senior management, and we encourage colleagues to respond to all of these updates by sharing their views, ideas and work experiences. Dedicated information is also provided on our pension schemes.

A DIVERSITY & INCLUSION

This year we were recognised in The Times Top 50 Employers for Women for the ninth year running. We actively support employee-led networks on gender, ethnicity (BAME), sexual orientation (LGBT+) and disabilities and health conditions. These networks give a voice to under-represented groups, provide peer-to-peer support and help to influence the Company to become more inclusive. We also held our third Diversity & Inclusion festival, engaging thousands of colleagues across M&S.

TRAINING AND DEVELOPMENT

A range of learning offerings and development programmes are available to colleagues, including technical courses, inspirational talks and mentoring programmes, as well as coaching support on behavioural and leadership skills.

A VOLUNTEERING

During 2018/19, thousands of colleagues volunteered over 47,000 hours of work time to help hundreds of community projects. Our stores also used surplus food to distribute 2.8 million meals to local charities.

YOUR SAY SURVEY

Our annual Your Say Survey gives us an informed picture of how colleagues feel about the business. Over 63,000 of our colleagues chose to participate and share their feedback. The engagement score this year was strong at 81%.

CUSTOMERS

BOARD CONSIDERATIONS

The customer experience is crucial in our Board discussions. This year, we especially considered how our transformation programme has helped us to improve our operations and efficiency, and ultimately improve our customer experience. In doing so, we have agreed to continue our transformation at pace, and push on with our plans to make M&S special again for our customers.

DIRECT FEEDBACK

We get direct feedback from our customers through a variety of channels including surveys, interviews and online input. Customers also have the opportunity to feed back, either online or by phone, on every transaction using information from their online or store receipt. This information is collated centrally and allows us to spot common themes quickly. Insight is then routed to the relevant teams so that action can be taken.

A SPARKS CARD

7.2 million Sparks card holders currently receive tailored offers plus the chance to engage with a Plan A charity partner of their choice. Over £5m has been raised to date.

RETAILER CHOICE

Over 25,000 people took part in our study to find out what motivates customers to shop at a particular retailer, how important the drivers are and how M&S and our competitors perform against them.

A SUSTAINABILITY

3,000 people were asked about the areas of sustainability and Plan A that were of greatest importance to them, and how we and our competitors perform in these areas. Their feedback helped us identify a number of clear areas of focus for the future development of our Plan A strategy.

IRELAND PRICE INVESTMENT

We held 40 focus groups and directly engaged with over 900 customers in Ireland to understand the impact of our investment in everyday lower prices. The insights from this directly influenced changes made to the tone, emphasis and content of our campaign marketing materials.

TOP TIER

Quality is the reason people choose to shop at M&S for food; however, competition remains fierce and we are therefore reviewing our premium offer in each of our major food categories. This workstream, which includes an online study involving over 2,000 customers, will help us identify areas in which our premium offer can be developed further and will ensure that we continue to deliver in accordance with the high expectations of our customers.

HOME POSITIONING

500 customers were surveyed to find out what they thought of M&S Home, with the insights received helping to define our Home Marketing Strategy.

COMMUNITY

BOARD CONSIDERATIONS

The impact of our operations on the communities in which we work is an important consideration in our Board discussions. When we have decided to push forward with our stock improvement initiatives, we have considered how improving our efficiency has helped us to reduce our waste and our impact on the environment. In continuing our store closure programme, we have considered the views of each of our store's communities, and how we can better address their needs with an improved store offering.

TAX CONTRIBUTION

M&S remains one of the UK's largest contributors of taxes to the UK exchequer and we are committed to paying our fair share of tax. We were identified in PwC's annual survey of the total tax contribution of FTSE 100 constituents as the 27th highest payer of tax and the 4th highest payer of business rates in the UK in 2018. While this illustrates our commitment to paying our way, it also highlights the burden placed on "bricks and mortar" retailers relative to other industries.

A COMMUNITY TRANSFORMATION

We aim to secure meaningful economic, social and environmental benefits to 1,000 communities around our stores and beyond by 2025. This year we completed the first phase of our programme and engaged 10 communities benefiting over 2,800 participants.

A CHARITABLE GIVING

With the help of our customers, this year we raised a total of £11.5m for a range of charities including Macmillan Cancer Support, Breast Cancer Now and the Royal British Legion.

A WORK EXPERIENCE

Through Marks & Start we provide work experience for thousands of disadvantaged people across the UK and internationally. This year we offered over 3,200 work placements worldwide, with over 63% of those completing a placement in the UK or Republic of Ireland going on to find work.

A LOCAL FUNDRAISING

This year 630 of our stores in the UK and the Republic of Ireland adopted a charity of the year and helped to raise £1m. M&S stores in India also raised in excess of £40,000 in aid of two Indian charities.

M&S COMPANY ARCHIVE

16,700 people visited the Marks in Time Exhibition during the year to learn more about our long history and rich heritage. The Archive also continued to drive a range of engagement initiatives in 2018/19 through its schools, events and community outreach programmes. Visit **marksintime.marksandspencer.com** for more details.

SUPPLIERS

BOARD CONSIDERATIONS

Our supplier relationships are vital to our overall success, so as a Board we carefully consider the selection of, and engagement and continued relationship with, our key suppliers. This year, in line with our transformation programme, we reviewed our major suppliers and engaged new suppliers that represent our ideals and are equipped to assist us on our transformation.

PREVENTING MODERN SLAVERY

We have continued to increase the depth and breadth of our work in the area of preventing modern slavery, ensuring that we have in place the most effective responses to potential risk. Further details of our efforts to eradicate modern slavery throughout our supply chains and operations are available in our 2019 Modern Slavery Statement, which is available online.

A GLOBAL COMMUNITY PROGRAMME

The M&S Global Community Programme aims to improve the lives of one million people in our suppliers' communities by 2025. Between April 2017 and March 2019 over 190,000 people were helped either directly or indirectly.

GLOBAL SOURCING PRINCIPLES

All our suppliers of goods and services are required to comply with our Global Sourcing Principles, which require them to provide good working conditions, respect workers' human rights, and be subject to appropriate ethical monitoring. Food suppliers are also considered as part of our annual Grocery Supplier Code of Practice (GSCOP) report.

SUPPLIER COLLABORATION

We work with our suppliers to streamline processes and optimise volumes through collaborative workshops and toolkits. The resultant savings are reinvested in price and quality and shared with suppliers to help them create further efficiencies.

TRAINING AND SUPPORT

We offer our suppliers and partners a range of training and development opportunities, including conferences and practical workshops. These cover a range of topics including local laws and sharing best practice examples to accelerate embedding respect for human rights into their businesses.

DAIRY FARM INITIATIVES

We continue to guarantee our pool of dedicated dairy farmers a set price for fresh milk under our Milk Pledge Plus programme. We were also the first major food retailer to have all its milk-producing dairy farms assured by the RSPCA for animal welfare.

SUPPLIER SATISFACTION

Measuring supplier satisfaction is critical to our understanding of how well we are engaging with them. We use the independent Advantage Report Mirror to survey a proportion of our supplier base each year. In 2018, we were again ranked second overall out of the seven participating retailers.

NOMINATION COMMITTEE REPORT

“We have in place a strong non-executive team with a breadth of skills, experience and perspectives that are relevant to our transformation.”

ARCHIE NORMAN CHAIRMAN OF THE NOMINATION COMMITTEE

INTRODUCTION

In the Chairman’s governance overview, I noted that this year saw the completion of a substantial, but necessary, refresh of the Board. This work, undertaken by the Nomination Committee (the “Committee”) during the year, has ensured that we have in place a strong non-executive team with a breadth of skills, experience and perspectives that are relevant to the transformation we are in the midst of at M&S.

During the year, the Committee continued to focus on the combined skillset and capabilities of the directors to ensure their effectiveness in driving our transformation strategy forward. It also continued to fulfil its core responsibilities of reviewing the structure of the Board and committees, recommending new Board appointments and ensuring adherence to formal appointment and induction processes.

In July, we welcomed Humphrey Singer as Chief Finance Officer and Katie Bickerstaffe and Pip McCrostie as non-executive directors. Richard Solomons stepped down at the 2018 AGM while Vindi Banga, Senior Independent Director (SID) and Chair of the Remuneration Committee, retired as a director in October after seven years of dedicated service. Vindi was succeeded as SID by Andy Halford and by Andrew Fisher as Chair of the Remuneration Committee. As a result of this, Andrew stepped down from the Audit Committee.

Most recently, in January we welcomed Justin King to the Board. In February, Nick Folland joined as Group General Counsel and Company Secretary, while Amanda Mellor, our Group Secretary and Head of Corporate Governance since 2009, left the business with our sincere thanks.

NOMINATION COMMITTEE GOVERNANCE SNAPSHOT

COMMITTEE ROLE

The Committee reviews the leadership and succession needs of the organisation and ensures that appropriate procedures are in place for nominating, training and evaluating directors. Due regard is given to the benefits of diverse senior leadership, including gender, social background and ethnicity.

In addition, the Committee ensures that the Group’s governance facilitates efficient, effective and entrepreneurial management that can deliver shareholder value over the longer term.

ACTIVITIES AND EVALUATION

During the year, the Committee recommended the appointment of Justin King as a non-executive director and continued to support the search for senior appointments and the development of our senior talent.

The Committee’s performance was reviewed as part of the 2018/19 Board Evaluation (see page 39). It was regarded as maintaining an effective oversight of senior management changes and succession during the year.

COMMITTEE MEMBERSHIP

The Committee comprises the non-executive directors and is chaired by Archie Norman, with members of executive management invited to attend meetings as appropriate.

Details of individual attendance at the meetings held during the year are set out below. More information on the skills and experience of all Committee members can be found on pages 36 and 37.

More information on the Nomination Committee is available in our full response to the UK Corporate Governance Code at marksandspencer.com/thecompany.

MEETINGS HELD IN 2018/19

	MEMBER SINCE	NUMBER OF MEETINGS ATTENDED	MAXIMUM POSSIBLE MEETINGS
Archie Norman	1 Sept 2017	3	3
Vindi Banga	3 Sept 2011	2	2
Katie Bickerstaffe	10 Jul 2018	2	2
Alison Brittain[1]	1 Jan 2014	2	3
Andrew Fisher	1 Dec 2015	3	3
Andy Halford	1 Jan 2013	3	3
Justin King[2]	1 Jan 2019	0	1
Pip McCrostie	10 Jul 2018	2	2
Richard Solomons	13 Apr 2015	1	1

1. Alison Brittain was unable to attend the meeting on 17 May 2018 due to a prior business commitment.
2. Justin King was unable to attend the meeting on 13 March 2019 due to a prior business commitment.

BOARD DIVERSITY POLICY

Our objective of driving the benefits of a diverse board, senior management team and wider workforce is underpinned by our Board Diversity Policy (the "Policy"), which can be viewed on our corporate website. The Board keeps the Policy under review to ensure that it remains an effective driver of diversity in its broadest sense, having due regard to gender, ethnicity, social background, skillset and breadth of experience.

PROGRESS UPDATE

Maintain a level of at least 30% female directors on the Board over the short to medium term.
Following the appointments of Katie Bickerstaffe and Pip McCrostie to the Board in July 2018, three of our nine Board directors are women (33%). As such, the Board's minimum target has been met as at the date of this report.

The Board remains committed to its minimum 30% target for female representation and is also pleased to have now met the target set out in the Hampton-Alexander Review of 33% female representation by 2020. Setting these targets aside, the Committee will continue to make recommendations for new appointments to the Board based on merit, with candidates measured against objective criteria and with regard to the skills and experience they offer.

Our principles for Board diversity also apply to our Operating Committee, three of whom are women from a total membership of 11 (27%). The Board continues to strengthen the pipeline of senior female executives within the business, and to ensure that there are no barriers to women succeeding at the highest levels within M&S. We are pleased that M&S was again listed in The Times Top 50 Employers for Women in 2019 for the ninth year running. More information on the gender balance of our senior management can be found on page 17.

Ensure long lists of potential non-executive directors include 50% female candidates.
All long lists of potential appointments include at least 50% female candidates.

Consider candidates for appointment as non-executive directors from a wider pool, including those with experience outside of traditional listed boards.
During the year, the Nomination Committee discussed non-executive director appointments and succession. It worked closely with executive search agencies in compiling long and short lists of candidates from various backgrounds and industries. Candidates were identified, interviewed and measured against pre-determined criteria. Although we do not currently openly advertise our non-executive director positions, we keep this under review.

Only engage executive search firms who have signed up to the Voluntary Code of Conduct for Executive Search Firms on gender diversity and best practice.
The Board supports the provisions of the Voluntary Code of Conduct for Executive Search Firms and only engages executive search firms who are signatories to this code. During the year, our work on succession was supported by Russell Reynolds and JCA Group. Neither firm has any other connection with the Company aside from the provision of recruitment services.

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.
The Board supports and encourages initiatives that strengthen the pipeline of executive talent in the Company. It continues to learn from existing programmes, while introducing new initiatives to provide development opportunities to drive the quality of talent throughout the business. Key activities include:

- → A comprehensive talent review presented to the Board, mapping successional candidates and opportunities across all senior roles.
- → Initiatives for high-potential talent to broaden their skillsets and experience to prepare them for future senior roles; for example, through boardroom exposure, non-executive and trustee roles outside of M&S and involvement in our Leadership Programme.
- → Providing access to business school training as appropriate.
- → Senior management mentoring schemes and engagement forums sponsored by Board directors and Operating Committee members.

Report annually against these objectives and other initiatives taking place within the Company which promote gender and other forms of diversity.
Diversity and inclusion have continued to be promoted across the business with a number of initiatives, including:

- → Employee-led networks on gender, ethnicity (BAME), sexual orientation (LGBT+), and disabilities and health conditions. This year, we held our third Diversity & Inclusion festival, engaging thousands of colleagues across M&S.
- → Continued involvement in the 30% Club, an organisation committed to increasing female representation on UK boards.
- → Signing up to Business in the Community's (BITC) Race at Work Charter, affirming our commitment to removing barriers that ethnic minorities experience in the workplace.
- → Launching the Breakthrough Leaders programme – a pilot leadership and development programme targeting women and BAME talent and providing inclusive leadership training for delegates and their line managers.
- → Active involvement in key campaigns including LGBT+ Pride celebrations, International Women's Day, Black History Month, National Inclusion Week, Mental Health Awareness Week and World International Day of Disability, raising awareness and our profile as an inclusive place to work.
- → Our Marks & Start and Marks & Start International programmes continue to support young people, the homeless, lone parents and those with disabilities in finding work in our stores and distribution centres.

See p19 of our Plan A Review for further information on diversity across M&S.

AUDIT COMMITTEE REPORT

"The Committee provides valuable independent challenge and oversight, ensuring shareholder interests are protected, and the Company's strategy is supported."

ANDY HALFORD CHAIRMAN OF THE AUDIT COMMITTEE

INTRODUCTION

As Chairman of the Audit Committee (the "Committee"), I am pleased to present the Committee's report for the year ended 30 March 2019. The following pages offer insight into how the Committee discharged the responsibilities delegated to it by the Board over the course of the year, as well as the key topics it considered in doing so.

The Committee's primary functions were unchanged this year, and included monitoring the integrity of the Company's financial statements and the effectiveness of its Internal Audit function, maintaining an appropriate relationship with and reviewing the independence and effectiveness of the Company's external auditor, Deloitte, and reviewing the Company's systems of internal control and risk management.

In addition to these principal activities, the Committee continued to assess the progress being made to maintain and improve the Company's data governance, cyber security systems, business continuity procedures and financial controls, and monitored the pace with which its recommendations in respect of internal controls were remediated. It also considered property valuations, including carrying values and disclosures relating to the M&S Scottish Limited Partnership. Additionally, it assessed the implementation of IFRS 16, the new accounting standard relating to the presentation of leases, particularly reviewing its impact on the Company's balance sheet and the appropriateness of disclosures to be made. In addition to its scheduled meetings, the Committee convened as and when required to evaluate the various potential financing options for the Ocado joint venture ('JV'), ensuring that any underlying assumptions were robustly challenged. This ultimately led to the Committee's recommendation to the Board that a Rights Issue was the appropriate funding model for this transaction.

In exercising its duties, the Committee undertakes a vital role in the Company's governance framework, providing valuable independent challenge and oversight across the Company's financial reporting and internal control procedures. Ultimately, it ensures that shareholder interests are protected and the Company's long-term strategy is supported.

AUDIT COMMITTEE GOVERNANCE SNAPSHOT

COMMITTEE MEMBERSHIP

The Committee solely comprises independent non-executive directors. Pip McCrostie joined the Committee upon her appointment to the Board in July 2018, and Andrew Fisher stood down from the Committee on 1 October 2018 as a result of his appointment as Chair of the Remuneration Committee. Detailed information on the experience, skills and qualifications of all Committee members can be found on pages 36 and 37.

INDEPENDENCE AND EXPERIENCE

The Board has confirmed that it is satisfied that Committee members possess an appropriate level of independence and offer a depth of financial and commercial experience across various industries, including the retail sector.

The Board has also confirmed that it is satisfied that both Andy Halford and Pip McCrostie possess recent and relevant financial experience.

	MEMBER SINCE	NUMBER OF MEETINGS ATTENDED	MAXIMUM POSSIBLE MEETINGS
Andy Halford	1 Jan 2013	5	5
Alison Brittain	11 Mar 2014	5	5
Andrew Fisher[1]	3 Feb 2016	2	2
Pip McCrostie[2]	10 Jul 2018	4	4

1. Andrew Fisher stood down from the Committee on 1 October 2018.
2. Pip McCrostie joined the Committee on her appointment to the Board on 10 July 2018.

MEETINGS HELD IN 2018/19

The Committee held five meetings during the year, with members of senior management invited to attend as and when specialist technical knowledge was required.

The Committee met without management present before each full meeting. It also met privately with the lead audit partners, and separately with the Head of Internal Audit & Risk, after each meeting.

It is important for the Committee Chairman to fully understand any topics of particular concern in order to facilitate meaningful dialogue during Committee meetings. To support this, Andy Halford meets regularly, on a one-to-one basis, with the Chief Finance Officer, Director of Group Finance, Head of Internal Audit & Risk, members of senior management and the lead audit partners.

More information about the Audit Committee is available in our full response to the UK Corporate Governance Code at marksandspencer.com/thecompany.

AUDIT COMMITTEE EFFECTIVENESS REVIEW

The Committee's performance was reviewed within the framework of the 2018/19 internal Board Evaluation (discussed on page 39). Feedback on the level of challenge and quality of updates provided by the Committee to the Board was positive.

The Committee was considered to function well in terms of meeting structure and the levels of engagement and challenge provided by its members. It continues to be regarded as thorough and effective, with demands on members' time viewed as extensive but not problematic. Additionally, it was noted that the Committee considered that the key strategic concerns facing the business, such as IT and systems, would benefit from greater focus in the year ahead. The range of assurance provided to the Board by the Committee was deemed appropriate. However, improvements could be made in respect of the pace with which the business actions certain matters following discussions with the Committee.

The Committee made good progress on the 2018/19 action plan, particularly in relation to the Internal Audit effectiveness review and implementation of its findings.

2019/20 ACTION PLAN

→ Monitor the recommendations of the Internal Audit effectiveness review undertaken in 2018/19.

→ Increase focus on risk reporting and emphasising accountability for risk at business unit level.

→ Monitor the progress and pace of delivery of the Company's wider technology and cyber security transformation.

WHAT WAS ON THE COMMITTEE'S AGENDA IN 2018/19

CORE DUTIES

The Committee undertook the following core activities during the year:

→ Monitored the integrity of the annual and interim financial statements and any formal announcements relating to the Company's financial performance, with a focus on reviewing the significant financial reporting policies and judgements within them.

→ Reviewed the implementation of the new IFRS 16 accounting standard.

→ Reviewed internal controls and risk management processes.

→ Maintained the relationship with the external auditor, including monitoring their independence and effectiveness.

→ Reviewed the effectiveness and independence of the Internal Audit & Risk function.

→ Reviewed the effectiveness of the Company's whistleblowing procedures.

→ Reviewed and approved the Company's statement of compliance with the Groceries Supply Code of Practice.

→ Reviewed the Board's approach to assessing the Company's long-term viability.

→ Assessed whether the Annual Report, taken as a whole, was fair, balanced and understandable.

INTERNAL CONTROL UPDATES

The Committee receives updates on internal control matters at each meeting. This regular monitoring of the internal control framework allows timely identification of issues and formal tracking of remediation plans. Instances where the effectiveness of internal controls were considered insufficient were discussed during the year, either by the Audit Committee or the full Board. These have included controls in relation to IT systems access and management, the Three-Year Plan and UK store estate strategy. The Committee provided robust challenge in respect of the speed of change as well encouraging clearer accountability for and measurement of progress.

The Committee also monitors those elements of the control framework that, by necessity, are subject to regular review, challenge and update, most notably in relation to cyber security. As part of the annual review of internal control, the Committee revisits these matters to ensure that agreed actions are being implemented to support a programme of maintaining and improving internal control.

The Committee noted the findings highlighted in the external auditor's report and confirms that it is satisfied that there is no material misstatement and that relevant actions are being taken to resolve the control matters raised.

MANAGEMENT UPDATES

The Committee received detailed updates from one or more business areas at each of its meetings. These presentations are scheduled on a rolling 12-month basis, with additional matters identified by Internal Audit added throughout the year as they arise. The following is an overview of some of the key activities undertaken during 2018/19.

Data governance

→ Reviewed the findings of a GDPR Embedded Controls review undertaken by the Internal Audit function.

→ Discussed initiatives to drive data awareness and cultural change across the business.

Cyber security

→ Received regular updates on the work undertaken to ensure that adequate cyber security systems were maintained.

→ Considered data breaches within the market, and reviewed the results of cyber-attack simulation scenarios initiated in response.

→ Discussed and challenged the processes in place to deal with internal security breaches.

Business continuity

→ Received updates on the crisis management and business recovery capability across all retail and distribution operations.

→ Discussed key initiatives undertaken during the year, including a number of wide-reaching crisis management exercises, improvements to incident reporting capability, and a full review of our approach to critical suppliers.

→ Endorsed the business continuity priorities for 2019/20, including reviewing Castle Donington's disaster recovery plan, ongoing assessment and testing of global terrorism and cyber security preparedness, and enhancements to the My Safety app and communications channel with our colleagues.

Ocado JV

→ Evaluated the financing options for the deal and ultimately recommended a Rights Issue to the Board.

Brexit

→ Discussed the key risks associated with a potential "no deal" Brexit, with a focus on financial implications, including increases in import duties, increases in supplier costs and additional administration and delays at ports.

→ Reviewed and challenged the steps being taken and potential actions to mitigate the risks of "no deal".

Clothing & Home risk management

→ Received an update on the improving systems of risk management and accountability in Clothing & Home.

→ Reviewed the business' assessments of its major risks, and challenged the assumptions used in evaluating them.

→ Discussed the ongoing management and mitigation of the business' primary risks, relating to e-commerce site recovery and disaster recovery at Castle Donington.

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

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

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

PRESENTATION OF THE FINANCIAL STATEMENTS

The Committee gave consideration to the presentation of the financial statements and, in particular, the use of alternative performance measures and the presentation of adjusting items in accordance with the Group accounting policy. This policy states that adjustments are only made to reported profit before tax where income and charges are significant in value and/or nature. The Committee received detailed reports from management outlining the judgements applied in relation to the disclosure of adjusting items. In the current year, management has included in this category: net costs associated with the implementation of strategic programmes in relation to UK store estate, organisation, operational transformation, IT restructure, UK logistics, charges arising in relation to changes to pay and pensions and International store closures and impairments (the closure of International-owned businesses); impairments and write-off of the carrying value of UK stores and other property charges; the reduction in M&S Bank charges incurred in relation to the insurance mis-selling provision; guaranteed minimum pension and other pension equalisation; and charges relating to establishing the Ocado JV.

This was an area of major focus for the Committee, which was cognisant of the need to ensure external disclosures are fulsome given the significance of the aggregate values (£438.6m charge) and the guidelines on the use of alternative performance measures issued by the European Securities and Markets Authority.

See note 5 on p105

PROPERTY MATTERS (INCLUDING ASSET WRITE-OFFS, ONEROUS LEASE CHARGES AND USEFUL ECONOMIC LIVES)

The Committee has considered the assessments made in relation to the accounting associated with the Group's UK store estate strategy. The Committee received detailed reports from management outlining the accounting treatment of the relevant charges including impairment, accelerated depreciation, dilapidations, redundancy and onerous lease costs (including void periods). The Committee has reviewed the basis for the key assumptions used in the estimation of charges (most notably in relation to the costs associated with property exit/sub-let costs, the sale proceeds expected to be recovered on exit, where relevant, and the cash flows to be generated by each cash-generating unit in the period to closure). The Committee has challenged management and is satisfied that the assumptions made are appropriate. The Committee is also satisfied that appropriate costs and associated provisions have been recognised in the current financial year.

See notes 1, 5, 15 and 22 on p101, p105, p118 and p131

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 of impairments, valuation methodology, the basis for key assumptions (e.g. discount rate and long-term growth rate) and the key drivers of the cash flow forecasts. The Committee has challenged management and is satisfied that these are appropriate.

The Committee has also understood the sensitivity analysis used by management in its review of impairments. In addition, the business plans detailing management's expectations of future performance of the business are Board approved. The Committee is satisfied that appropriate impairment of tangible and intangible assets has been recognised.

See notes 1, 5, 14 and 15 on p101-102, p105 and p116-119

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 p110-113

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 the analysis of historical returns and redemption rates and has agreed with the judgements reached by management.

See note 1 on p97

SUPPLIER INCOME

The Committee is satisfied that this continues to be monitored closely by management and controls are in place to ensure appropriate recognition in the correct period. Further control improvements are planned in the coming year. The financial statements include specific disclosures in relation to the accounting policy and of the effect of supplier income on certain balance sheet accounts.

See note 1 on p97

SIGNIFICANT ISSUES CONTINUED

IFRS 16

IFRS 16 Leases is effective for periods beginning on or after 1 January 2019. The Group will adopt the new financial reporting standard from 31 March 2019 and the financial statements for the 52 weeks ended 28 March 2020 will be the first prepared under the new standard. The Group has decided to adopt using the fully retrospective transition approach, meaning the comparative period will also be restated at this time. As a lessee, IFRS 16 removes distinctions between operating and finance leases and requires the recognition of a right of use asset and corresponding liability for future lease payables. For further details, see the Accounting policies section of the financial statements. The Committee has received regular updates from management outlining the impact of the new accounting standard, including the judgements and key assumptions used in the estimation of the impact. The Committee has reviewed with management and is satisfied that these are appropriate.

See note 1 on p96

VALUATION OF MARKS AND SPENCER GROUP PLC COMPANY ONLY INVESTMENT

Marks and Spencer Group plc holds investments in Group companies which are reviewed annually for impairment. Management has prepared an impairment review based on estimated value in use of the Group. While the headroom is reduced from the prior year, management has concluded that no impairment should be recognised in the year (see note C6 Investments on page 139). The Committee has reviewed management papers outlining the key assumptions used in calculating the value in use and is satisfied that these are appropriate.

FAIR, BALANCED AND UNDERSTANDABLE

At the request of the Board, the Committee has considered whether, in its opinion, the 2019 Annual Report and Financial Statements are fair, balanced and understandable, and whether they provide the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

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

The Committee received a full draft of the report. Feedback was provided by the Committee, highlighting the areas that would benefit from further clarity. The draft report was then amended to incorporate this feedback ahead of final approval.

The Committee was provided with a list of the key messages included in the Annual Report, highlighting those that were positive and those that 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 reporting on the business performance in the narrative reporting consistent with that used for the financial reporting in the financial statements?
- → Are the key messages in the narrative reflected in the financial reporting?
- → Are the KPIs disclosed at an appropriate level based on the financial reporting?

IS THE REPORT BALANCED?

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

IS THE REPORT UNDERSTANDABLE?

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

CONCLUSION

Following its review, the Committee was of the opinion that the 2019 Annual Report and Financial Statements are representative of the year and present a fair, balanced and understandable overview, providing the necessary information for shareholders to assess the Group's position, performance, business model and strategy.

EXTERNAL AUDITOR

TENURE

Deloitte was appointed by shareholders as the Group's statutory auditor in 2014 following a formal tender process. The lead audit partner, Ian Waller, has been in post for five years. Following completion of the 2018/19 audit he will be replaced as lead audit partner by Richard Muschamp. The external audit contract will be put out to tender at least every 10 years. The Committee considers that it would be appropriate to conduct an external audit tender by no later than 2024.

The Committee recommends that Deloitte be reappointed as the Company's statutory auditor for the 2019/20 financial year. It believes the independence and objectivity of the external auditor and the effectiveness of the audit process are safeguarded and remain strong. The Company is in compliance with the requirements of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 and the Corporate Governance Code. There are no contractual obligations that restrict the Committee's choice of external auditor.

EFFECTIVENESS

The effectiveness of our external auditor is assessed in accordance with a process agreed by the Audit Committee, which involves gathering information through a series of questionnaires tailored to the following target groups:

1. **Heads of Finance for Food, Clothing & Home and International:**
Short questionnaire focusing on the audit team, planning, challenge and interaction with the business.

2. **Chief Finance Officer and Director of Group Finance:**
Longer questionnaire covering all areas of the audit process and taking into account the questionnaires completed by the Heads of Finance.

The Committee was provided with a summary of the Chief Finance Officer and Director of Group Finance responses and had access to copies of the completed management questionnaires (sections 1 and 2 above) to assist with its own considerations.

Feedback from each of the target groups was positive overall. It was agreed that the audit partners have a good understanding of our business as well as our values and culture.

It was agreed that the audit process and audit team have challenged management's thinking and contributed to improved standards. Areas of focus for the year ahead will be on driving challenge and insight around finance and internal controls.

NON-AUDIT FEES

To safeguard the independence and objectivity of the external auditor, the Committee has put in place a robust auditor engagement policy which it reviews annually. The policy is disclosed on marksandspencer.com/thecompany.

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

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

The non-audit fees to audit fees ratio for the financial year ended 30 March 2019 was 0.21:1, compared with the previous year's ratio of 0.11:1. The majority of the £0.42m in non-audit fees paid in total to Deloitte during 2018/19 was incurred for assurance services provided during the year. These comprised fees in respect of the Half Year review, Ocado joint venture synergy review, turnover certificates, the annual Euro Medium Term Note (EMTN) programme renewal, reviews of quarterly trading statements, aborted EMTN issuance relating to the Ocado joint venture and assurance services for overseas entities. It is normal practice for such assurance services to be provided by the Company's statutory auditor.

In addition, the Audit Committee has pre-approved fees of up to £480k in relation to the role of Deloitte as reporting accountant in the rights issue, which will be incurred and included in FY2019/20 non-audit fees.

No additional recurring or one-off non-audit services were provided during the year.

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 p29-33 of the Strategic Report for more information on our material risks

See p27-28 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.

SOURCES OF ASSURANCE

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.

The work completed by Internal Audit during the year has been directed towards key areas including IT, information and data security, core finance operations and key areas of risk such as food safety and GSCOP compliance.

2. Management updates
Management provides updates to the Committee on how risks are managed in individual business areas. These updates are complemented by the independent reviews conducted by Internal Audit.

3. Functional assurance
Responsible for maintaining control over critical areas of risk. A key improvement during the year has been the mobilisation of a dedicated Change & Control team. The processes and controls of these functions are tested by Internal Audit during periodic audits.

4. Committees
Relevant committees within the organisation provide regular updates to the Audit Committee, such as Fire, Health & Safety and Business Continuity.

GOVERNANCE

The Group was compliant throughout the year with the provisions of the UK Corporate Governance Code relating to internal controls and the FRC's revised Guidance on Audit Committees and Guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

The Committee has considered the controls findings raised in the independent auditor's report on pages 81-90. No other significant failings or weaknesses were identified during the Committee's review in respect of the year ended 30 March 2019 and up to the date of this Annual Report.

Where the Committee has 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 our website.

INTERNAL ASSURANCE FRAMEWORK

Source of information		Frequency/nature of reporting	
Internal Audit	– Internal Audit Plan – Regular reports against Plan – Follow-up of remediation – Updates on fraud, whistleblowing and other irregularity	**Formal updates presented to the Committee at each meeting** **Updates to Audit Committee Chairman**	**AUDIT COMMITTEE**
Management updates	Papers submitted on a range of issues including: – Information security – Bribery – Code of Ethics and Behaviours – GSCOP – Financial Control	**Formal updates presented to the Committee annually and as appropriate**	
Functional assurance	Functional audit activities undertaken, including: – Food safety and integrity – Ethical audits – Trading safely and legally	**Updates provided to the Committee as requested or appropriate**	
Committees	– Fire, Health & Safety Committee – Plan A Committee* – Business Continuity Committee	**Direct reporting lines to the Committee, with annual updates from the relevant executive**	

* Note: also reports directly to the Board.

REMUNERATION OVERVIEW

ANDREW FISHER CHAIR OF THE REMUNERATION COMMITTEE

"The Committee ensures that executive pay arrangements remain appropriate when considering M&S's overall remuneration framework and external regulatory environment."

ANDREW FISHER CHAIR OF THE REMUNERATION COMMITTEE

IN THIS SECTION

REMUNERATION

Full policy available at marksandspencer.com/thecompany in the 2017 annual report

ANNUAL REPORT ON REMUNERATION

INTRODUCTION

On behalf of the Board, I am pleased to present our 2018 Remuneration Report, my first as the Chairman of the Remuneration Committee. The Committee's report covers the required regulatory information, balanced against commercial sensitivities, and also provides further context and insight into our director pay arrangements.

The report provides a comprehensive picture of the structure and scale of our remuneration framework, its alignment with the business strategy and the rest of the workforce, as well as the decisions made by the Committee as a result of business performance for this year.

A summary of the approved Remuneration Policy for the year, the Committee's considerations and the intended arrangements for 2019/20 are set out on pages 63-75 of this report. The full Policy can be viewed on the Company's website at **marksandspencer.com/thecompany**.

BOARD CHANGES

Following the departure of Helen Weir at the end of the last financial year, in July 2018 we were delighted to welcome Humphrey Singer as CFO. As detailed in the 2018 report, the Committee was pleased that we not only secured the employment of Humphrey Singer under our normal framework, but that we were able to further simplify our pay structures, removing any additional allowances for pension or car from his arrangements.

Early 2018 also saw the departure of Patrick Bousquet-Chavanne. Details of his leaving arrangements, along with full recruitment details for Humphrey, can be found on page 72 of this report. Due to the principle of mitigation built into the executive director Termination Policy, the Company was only required to pay a small proportion of Patrick's potential contractual notice period that would have been required had this principle not been in place.

Reflecting on these arrangements, the Committee believes that our Remuneration Policy continues to provide appropriate flexibility in ensuring that any payments made in the implementation of the Policy are in the best interests of both the Company and our shareholders while being fair to the individual. As we look to the future, the Committee continues to be mindful of the ever-changing political and retail trading landscape and the need to ensure strategic alignment of the remuneration framework together with a motivational package for senior colleagues.

CONTEXT OF BUSINESS PERFORMANCE

As referenced earlier in this report, M&S remains in the first 'Restoring the Basics' phase of the transformation. In Clothing & Home, despite underlying progress this year, transformation is yet to be reflected in like-for-like sales. In Food, whilst encouraging signs of volume growth were seen in the final quarter, again like-for-like sales were down and small improvement gains continue to be offset by challenges with our supply chain. As demonstrated on page 55, and referenced throughout this Remuneration Report, there is a strong alignment between M&S's key performance indicators and the measures and targets of director incentive schemes. As described later, it is to be expected that payments under both the Annual Bonus Scheme and Performance Share Plan will be impacted by this challenging trading environment and the requirement of M&S to strengthen its ability to transform and adapt with pace.

STRATEGIC ALIGNMENT OF REMUNERATION FRAMEWORK WITH KPIS

KPI/Strategic Priority		As measured by	Performance Share Plan (PSP)	Annual Bonus Scheme (ABS)	Historic	Looking Forward
KPI	Adjusted Earnings Per Share (EPS)	Financial Results	●		●	●
See **KPIs** on p22	Return On Capital Employed (ROCE)		●		●	●
	Free Cash Flow		●		●	
	Group PBT Before Adjusting Items (PBT)			●	●	●
STRATEGIC PRIORITY	**1** Transforming Leadership Team	New management team		●	●	
See **Strategic Priorities** on p7		Talent review		●	●	
		Team development		●		●
	2 Building Greater Accountabilities	New management team		●	●	
		Team development		●		●
		Clear and consistent reporting		●		●
		Accelerate culture and organisation change		●		●
	3 Digital First Retailer	Sparks		●	●	
		Online capabilities		●	●	
		Technology enabled store portfolio and operations		●		●
		Accelerate Online Growth		●		●
	4 Reshaping the Ranges and Customer Profile in Clothing & Home	Range management		●		●
	8 Modernising the Supply Chain	Supply chain delivery		●	●	●
	9 Cost Savings	Operating costs and control of capital expenditure		●	●	●
		Cost Strategy Programme		●		●

2018/19 PERFORMANCE

ADJUSTED EARNINGS PER SHARE

25.4p

Adjusted EPS in 2018/19 was 25.4p. This was below the 28.9p threshold required for any vesting under this element of the 2016 PSP award.

RETURN ON CAPITAL EMPLOYED

14%

Average three-year ROCE performance was 14%. As a result, 9% out of a maximum of 20% of the 2016 PSP will vest under this element.

CUMULATIVE FREE CASH FLOW

£1,587m

Cumulative free cash flow performance for the three-year period ending in 2018/19 was £1,587m. As a result, 25% out of a maximum of 30% of the 2016 PSP will vest under this element.

GROUP PBT BEFORE ADJUSTING ITEMS

£523.2m

Group PBT was below the threshold for bonus payments to be made under the 2018/19 Annual Bonus Scheme.

STRATEGIC ALIGNMENT OF PAY

M&S is committed to transformation and, in order to support this, the Committee ensures alignment of the measures and targets used in M&S's incentive schemes, specifically those of the Performance Share Plan and Annual Bonus Scheme, with the KPIs and strategic priorities being used across the business. The illustration above demonstrates this strong linkage between the KPIs and strategic priorities, payments to directors, and business performance over the short- and long-term.

The Committee will continue to thoroughly review the pay structures and incentive arrangements for the senior leadership team to ensure strong alignment between the delivery of business performance and the associated remuneration arrangements as the business continues along this five-year transformation journey.

TERMS OF REFERENCE AND WIDER WORKFORCE PAY ARRANGEMENTS

This continues to be a time of significant activity within the world of executive remuneration. 2018 saw the Financial Reporting Council publish its much-anticipated revised 2018 UK Corporate Governance Code and we welcome the greater stakeholder focus and development of UK corporate governance in a way that supports existing good business practice.

I am pleased to be able to say that both wider colleague pay alignment and cultural context is woven throughout the remit and activities of M&S's Remuneration Committee. Throughout the year, the Committee debates and discusses oversight of key people policy areas such as performance management and diversity and inclusion, as well as gender pay reporting and reward framework and budgets. Furthermore, demonstrating the Committee's commitment to meaningful and transparent engagement on pay practices in the wider workforce, the chair of M&S's employee representative body is invited to attend and contribute to a Committee meeting each year to allow two-way feedback. As evidence of our commitment to transparent reporting, along with embracing the spirit of the new regulations, we have chosen to publish an early indication of the M&S CEO : employee pay ratio which can be found on page 58, alongside M&S's gender pay statistics, which are included in the Remuneration Report for the first time.

Within the principle of best practice, the Remuneration Committee reviews its Terms of Reference on an annual basis. In anticipation of the revised 2018 UK Corporate Governance Code, a thorough appraisal was

STRATEGIC REPORT
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REMUNERATION OVERVIEW CONTINUED

undertaken in 2017/18 during which the role and remit of the Remuneration Committee was reviewed and broadened to include a more formal and wider consideration of our reward framework and fairness across the organisation. After 12 months of working under these revised Terms of Reference, the emphasis of the 2018/19 review was a sharpening and focusing of activities of the Committee, while ensuring they capture all elements of the final published Code. More detail around the remit and activities of the Committee can be found on page 74 and the Company's website at **marksandspencer.com/thecompany**.

SINGLE FIGURE AND INCENTIVE SCHEME OUTCOMES

The graph below summarises the total payments made to executive directors in 2018/19, illustrating the figures detailed in the single figure chart set out later in this report on page 63.

Overall pay levels for the CEO were higher than last year. Cumulative free cash flow has driven an uplift in vesting under the 2016 Performance Share Plan (PSP) which will vest at 34.0% in December 2019 for the three-year performance period up to 30 March 2019. Page 67 of this report provides further detail on the specifics of the targets set and the respective achievement under each measure, which are also summarised in the illustration opposite. The remit of the Committee is to ensure that targets set are stretching yet achievable, rewarding the delivery of sustainable, ambitious long-term performance. While this vesting is higher than that seen in recent years under the Performance Share Plan, it remains low when reviewed in the context of the wider market. However, the Committee is satisfied that this vesting is reflective of the challenging business performance Steve Rowe and Archie Norman have both highlighted earlier in this Annual Report.

The 2018/19 Annual Bonus Scheme was designed on restoring the business to profitable growth. Annual performance for the year was again focused on Group PBT before adjusting items (PBT) with individual measures set against the key areas of delivery deemed most critical to the transformation journey. As with previous years, individual performance was measured independently of PBT performance, but, mirroring arrangements elsewhere in the business, no individual element could be earned until the threshold needed to secure payment under the PBT element was similarly achieved. For the 2018/19 financial year, the PBT achievement of £523.2m was below the threshold to trigger a bonus payment and no bonus was paid under the Annual Bonus Scheme to anyone within the organisation, including executive directors. However, in order to ensure continued strong governance and transparent reporting to shareholders, and in line with the normal processes, the Committee discussed each director's achievement against the relevant individual performance targets. Final achievement against these individual objectives is detailed on page 65 of this report.

The Committee is satisfied that incentive payments made to executive directors during the year are appropriate in the context of business performance for 2018/19 and payments made elsewhere in the business.

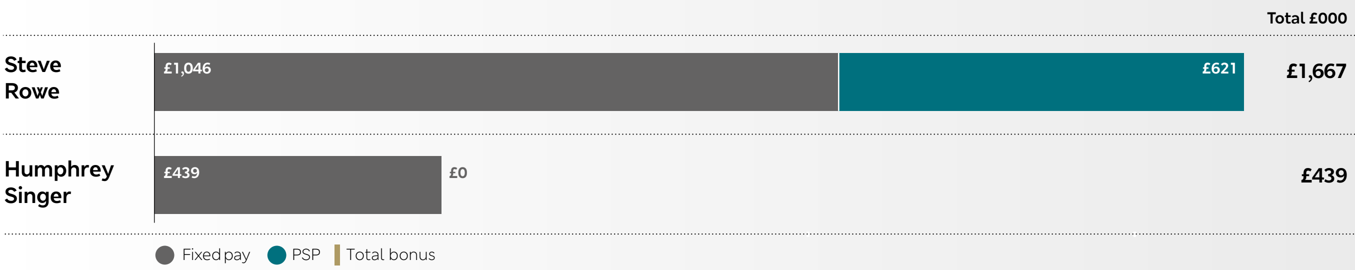
PAY ARRANGEMENTS FOR 2019/20

When reviewing salary levels, the Committee takes into account a number of internal and external factors, primarily the salary review principles applied to the rest of the organisation, but also Company performance during the year and external market data. Salary reviews being awarded across the wider organisation ranged from 2% to 4% and, to this extent, the Committee decided that it would be appropriate to award a salary increase of 3% to Steve Rowe and 2% to Humphrey Singer. The Committee felt that the salary increase awarded to Steve Rowe is appropriate given that he has not received a salary increase since his appointment to CEO in 2016, despite his salary being set significantly lower than that of his predecessor. Humphrey Singer's increase is in line with salary increases granted to the management population. As detailed within this report, the Committee made the recommendation, and Steve agreed, that this pay increase would not apply to Steve's pension supplement. During the coming year, the Committee will be considering the treatment of executive director pension supplements in M&S ahead of the 2020 Remuneration Policy renewal.

The Annual Bonus Scheme remains unchanged from 2018/19 and will continue to be based on corporate financial targets (currently 70%) and individual objectives (currently 30%). The maximum opportunity will remain at 200% of salary. As we continue our transformation the Committee believes that it remains appropriate for PBT to continue to represent the largest element of bonus potential. This focus on transformation is also reflected in the individual objectives for both the CEO and CFO which are further described on page 66.

The Committee continues to ensure that the remuneration framework for executives is aligned to shareholder interests. This means fully aligning performance measures used in the incentive schemes to the business strategy and setting targets which are both stretching and yet motivating for directors. While it is proposed that the 2019 Performance Share Plan (PSP) will maintain measures used by the 2017 and 2018 PSP awards, being equally split between Adjusted EPS (EPS), Average ROCE (ROCE) and Relative TSR (TSR), for the 2019 award we have reset EPS targets from those seen in awards from previous years. The intention to make such an adjustment to these targets was fully communicated to our main shareholders and their feedback was taken on board prior to any decisions being made. Overall, the Committee believes that these PSP targets are appropriately stretching in the context of the business and analyst expectations and remain as equally challenging as those set at the start of the performance period for previous awards. Full details can be found on page 68.

SINGLE FIGURE REMUNERATION FOR 2018/19



See **Single figure remuneration** on p63
See **PSP** on p67-68
See **Annual Bonus Scheme** on p65

PERFORMANCE SHARE PLAN (PSP) VESTING 2019

VESTING OUTCOMES

Cumulative Free cash flow

Maximum	**30%**
Actual	**25%**

Adjusted EPS

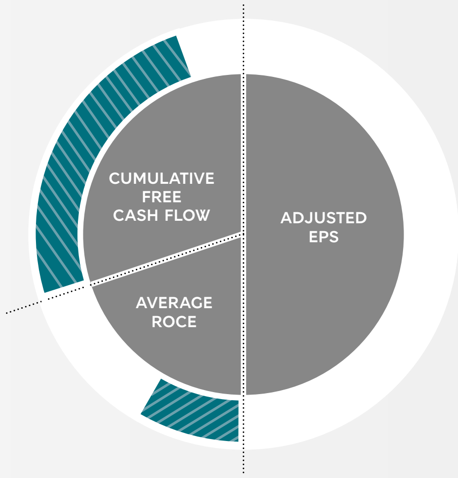
Maximum	**50%**
Actual	**0%**

Average ROCE

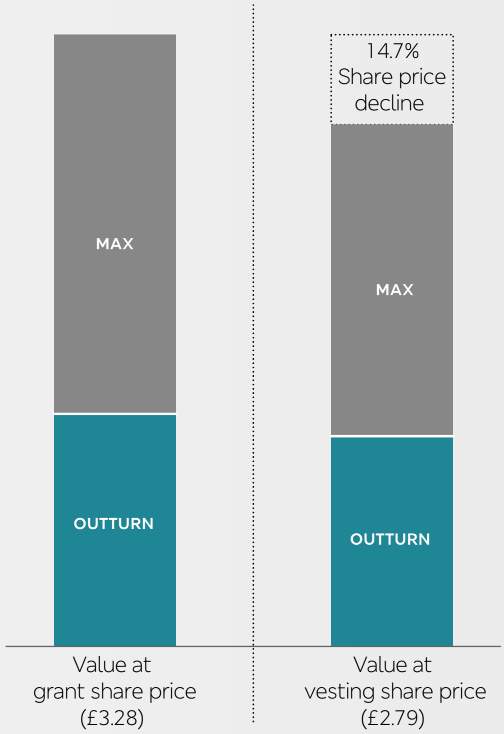
Maximum	**20%**
Actual	**9%**

Outturn

Maximum	**100%**
Actual	**34%**



IMPACT OF SHARE PRICE CHANGE ON PSP VESTING VALUES



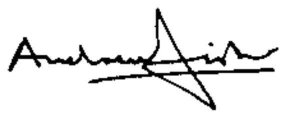
See Performance Share Plan on p66-68

LOOKING AHEAD

This will be the final year under the current remuneration framework, as at the 2020 AGM we will be seeking your support and approval for a new Remuneration Policy. Any new Policy put to our shareholders will remain steadfast in ensuring that executive director pay arrangements support and drive the business strategy while remaining appropriate when considered within the overall M&S remuneration framework and the external regulatory environment. A robust framework is especially crucial given the challenging environment in which we are operating. We will be supported by our Committee advisors when formulating the new Policy to ensure strong alignment with business objectives, in both the short- and long-term, with a view to delivering strong performance and sustainable shareholder returns. As ever, we will seek to engage with our major shareholders as part of this process to both reflect their views and to maintain open dialogue on director pay arrangements.

As we look to the future, the Committee will also need to take into consideration the impact of the joint venture between M&S and Ocado, a partnership we believe will bring substantial benefits and has transformative potential for our business. The Committee fully intends to review the extent to which the joint venture impacts structures, targets and applications of M&S's incentive arrangements in both the short- and long-term.

I would like to thank our shareholders for their continued support during the year. I will be available at the Company's Annual General Meeting on 9 July 2019 to answer any questions in relation to this Remuneration Report.



ANDREW FISHER
CHAIR OF THE REMUNERATION COMMITTEE

STRATEGIC REPORT
GOVERNANCE
FINANCIAL STATEMENTS

REMUNERATION IN CONTEXT

COLLEAGUE ENGAGEMENT

- **Share ownership across our colleagues** Across our UK and Irish colleagues, M&S has a significant number of participants in all employee share schemes. M&S is a proud advocate of employee share ownership, encouraging colleagues to share in M&S's success while aligning interests with our shareholders.
- **Direct engagement with our colleagues** The chair of the M&S colleague representative body is invited to attend a Remuneration Committee meeting each year to engage and contribute on both executive pay and pay across the wider workforce.
- **Pay Budgets** Under the remit of the Remuneration Committee, total budgeted salary expenditure across M&S for salary review is noted, ensuring principles for reward allocation are aligned across the full workforce, inclusive of senior leaders.

GENDER PAY GAP

The M&S median gender pay gap for the year to April 2018 is 4.2%, compared to a national average of 17.9%. The M&S mean gap for the same period is 12.5%.

In the last 12 months we've made several steps to further promote and enhance diversity and equality at M&S. This includes, but is by no means limited to, development of a formal female talent pipeline, ensuring gender balanced recruitment campaigns and building a clear diversity & inclusion strategy governed by an Inclusion Group made up of directors and our employee diversity network chairs.

We're proud that 75% of our Customer Assistants are women but we need to do more to encourage diversity in senior roles.

GENDER PAY GAP (MEDIAN)

4.2%

CONSIDERATION OF COLLEAGUE AND STAKEHOLDER VIEWS

The Committee monitors and reviews the effectiveness of the senior remuneration policy and its impact and compatibility with remuneration policies in the wider workforce. Throughout the year, the Committee reviews the frameworks and budgets for key components of colleague pay arrangements, together with broader structure of group bonus provisions which ensures appropriate alignment with senior pay arrangements.

The Committee receives updates on a variety of employee engagement initiatives including our annual 'Your Say' employee survey, which asks employees about engagement, empowerment and enablement. 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 polices at this time.

CHIEF EXECUTIVE'S PAY RATIO

The table below discloses the ratio of CEO pay for 2018, using the single total figure remuneration as disclosed in Figure 7 (page 63) to the comparable, indicative, full-time equivalent total reward of those colleagues whose pay is ranked at the 25th percentile., medium and 75th percentile in our UK workforce. Colleague pay was calculated based on actual pay and benefits for the 12 monthly payrolls within the full financial year.

We believe that the final figures detailed below are representative of the vast majority of our colleague base, being primarily customer assistants based in our stores. Formal figures and disclosures required under the updated regulation will be reported next year.

Year	25th percentile ratio	50th percentile ratio	75th percentile ratio
2019 Indicative Figures	92 : 1	88 : 1	79 : 1

PERCENTAGE CHANGE IN CEO'S REMUNERATION

The table below 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 colleagues' pay. This group has been chosen as the majority of our workforce is UK-based.

	% change 2017/18 – 2018/19		
	Base salary	Benefits	Annual bonus
CEO (Steve Rowe)	0%	1.4%	–
UK employees (average per FTE)	2.9%	-0.8%	–

The 2.9% percentage change in base salary for UK employees reflects the base pay increase awarded to store colleagues effective April 2018.

The change in colleague benefits is reflective of a shift in workforce structure rather than a change in benefit offering, which remains unchanged from 2017/18. The slight increase in Steve Rowe's benefits can be attributed to an increase in driver salary.

No award under the Annual Bonus Scheme was made to either the CEO or anyone else within the wider workforce in either 2017/18 or 2018/19.

SUMMARY REMUNERATION POLICY

This report sets out a summary of M&S's policy on remuneration for executive and non-executive directors. The full policy was approved by shareholders at the AGM on 11 July 2017 and can be found on our website at **marksandspencer.com/thecompany**. The policy took effect from this date and is designed to attract, retain and motivate our leaders within a framework designed to promote the long-term success of M&S and aligned with our shareholders' interests.

SUMMARY EXECUTIVE DIRECTORS' REMUNERATION POLICY (AS APPROVED ON 11 JULY 2017)

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 external market data, historic increases made to the individual and salary review principles applied to the rest of the organisation.	Normally in line with those in the wider workforce, although no maximum is set.
BENEFITS	In line with our policies, executive directors are eligible to receive benefits which may include: – A car or cash allowance and a driver. – Life assurance. – Relocation and tax equalisation allowances in line with our mobility policies. As with all employees, directors are also offered other benefits including: – Employee discount. – Salary sacrifice schemes. – Participation in our all-employee share schemes.	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	M&S may choose to offer: – Participation in our defined contribution pension scheme; or – Cash payments in lieu of pension contributions. The defined benefit pension scheme is closed to new members. Directors who are members of this scheme will continue to accrue benefits as a deferred member.	Cash payments are capped at 25% of salary for executive directors appointed prior to 11 July 2017. For directors appointed to the Board after 11 July 2017, the cash alternative will be capped at a maximum of 20% of salary.
ANNUAL BONUS SCHEME INCLUDING DEFERRED SHARE BONUS PLAN (DSBP)	All directors are eligible to participate in the discretionary, noncontractual Annual Bonus Scheme. Performance is measured against quantifiable one-year financial and individual performance targets linked with the sustainable delivery of our business plan. At least half of awards are measured against financial measures which typically includes Group PBT before adjusting items (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 after which up to 40% of maximum may be payable for the achievement of individual objectives. Not less than 50% of any bonus earned is paid in shares which are deferred for three years. The Committee retains the right to exercise discretion, both upwards and downwards, to ensure that the level of award payable is appropriate. Where exercised, the rationale for this discretion will be fully disclosed to shareholders in the subsequent Annual Report. 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.	Total maximum annual bonus opportunity is capped at 200% of salary for each executive director.
PERFORMANCE SHARE PLAN (PSP)	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 may be measured against appropriate financial, non-financial and/or strategic measures. Financial measures must comprise at least 50% of awards. The Committee can, in circumstances it believes appropriate, reduce to zero unvested PSP awards. In addition, the Committee can reclaim all or part of vested awards for up to two years after the vesting date in certain specified circumstances. Awards granted after 11 July 2017 will be subject to a further two-year holding period after the vesting date.	The maximum annual value of shares at grant is capped at 300% of salary for each executive director.

SUMMARY REMUNERATION POLICY CONTINUED

SUMMARY EXECUTIVE DIRECTORS' REMUNERATION POLICY (AS APPROVED ON 11 JULY 2017) CONTINUED

FIGURE 2: RECRUITMENT POLICY & 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.

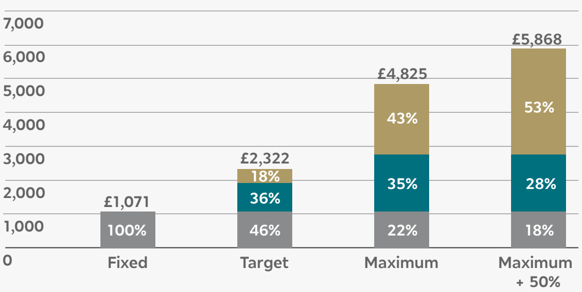
ELEMENT	APPROACH
SERVICE CONTRACT	– All executive directors have rolling contracts for service which may be terminated by M&S giving 12 months' notice and the individual giving six months' notice.
BASE SALARY	– Salaries are set by the Committee, taking into consideration a number of factors including the current pay for other executive directors, the experience, skill and current pay level of the individual and external market forces.
BENEFITS	– The Committee will offer a benefits package in line with our benefits policy for executive directors.
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. Any value awarded would be no greater than the value forfeited by the individual.

In addition, the Committee in exceptional circumstances has discretion to include any other remuneration component or award which it feels is appropriate subject to the limit on variable remuneration set out above. The rationale for any such component would be appropriately disclosed.

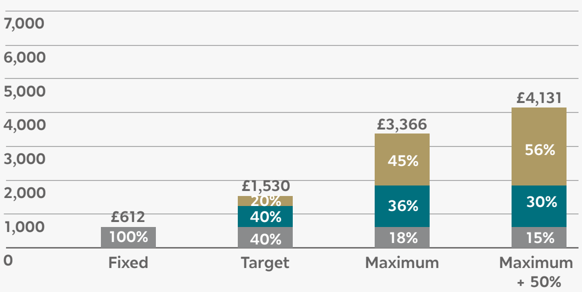
APPLICATION OF REMUNERATION POLICY

DIRECTORS

Steve Rowe
£000



Humphrey Singer
£000



BASIS OF CALCULATIONS AND KEY

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

Target Includes the following assumptions for the vesting of the incentive components of the package:
– ABS: 50% of maximum, assumes no share price growth.
– PSP: 20% of 250%, assumes no share price growth.

Maximum Includes the following assumptions for the vesting of the incentive components of the package:
– ABS: 100% of maximum, assumes no share price growth.
– PSP: 100% of 250%, assumes no share price growth.

Maximum +50% Share Price Growth Includes the following assumptions for the vesting of the incentive components of the package:
– ABS: 100% of maximum, assumes no share price growth.
– PSP: 100% of 250% with 50% share price growth.
– Grant share price for the purpose of demonstrating the 50% growth taken as closing share price at 2018/19 year end.

Fixed remuneration

Includes all elements of fixed remuneration:
– Base salary (effective 1 July 2019, as shown in the table on page 64).
– Pension benefits as detailed on page 64.
– Benefits (using the value for 2018/19 included in the single figure table on page 63.

Annual Bonus Scheme (ABS)

Represents the potential value of the annual bonus for 2019/20. Half of any bonus would be deferred into shares for three years and this is included in the value shown.

PSP

PSP represents the potential value of the PSP to be awarded in 2019, which would vest in 2022 subject to the performance against the targets disclosed on page 68. Awards would then be held for a further two years.

SUMMARY EXECUTIVE DIRECTORS' REMUNERATION POLICY (AS APPROVED ON 11 JULY 2017) CONTINUED

FIGURE 3: 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 subject to mitigation. Service agreements may be terminated without notice and, in certain circumstances such as gross misconduct, without payments.

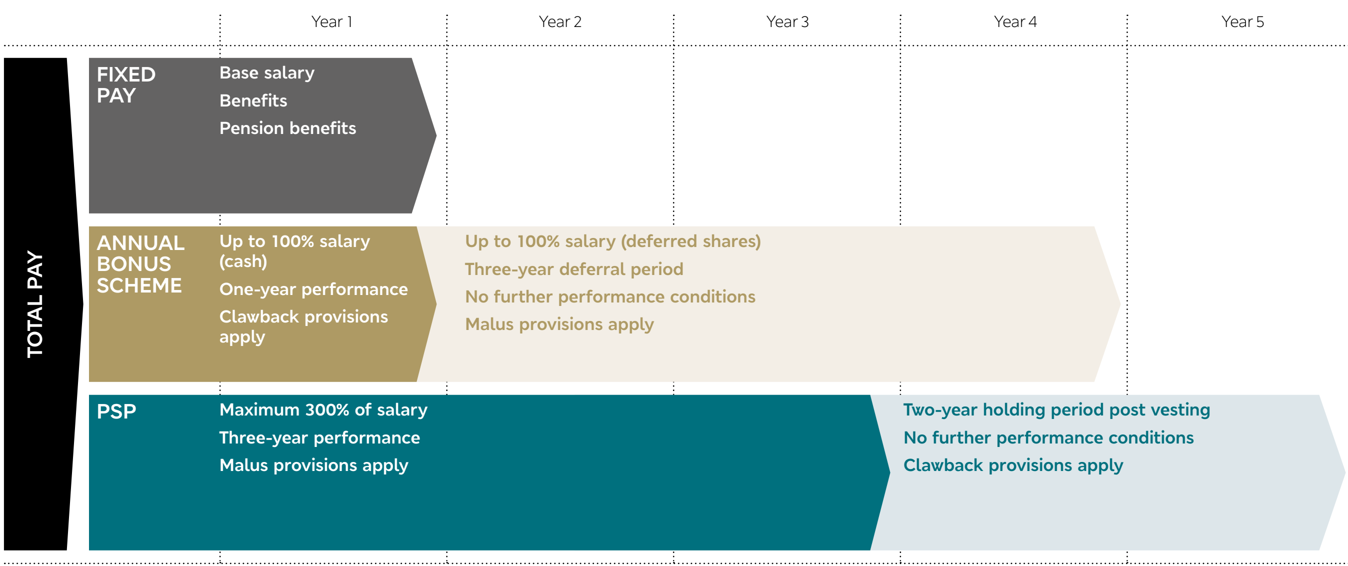
The table below summarises our termination policy for executive directors under their service agreement and the incentive plan rules.

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.
LONG-TERM INCENTIVE AWARDS	– The treatment of outstanding share awards is determined in accordance with the respective plan rules.
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.

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.

FIGURE 4: SUMMARY OF REMUNERATION POLICY

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



SUMMARY EXECUTIVE DIRECTORS' REMUNERATION POLICY (AS APPROVED ON 11 JULY 2017) CONTINUED

FIGURE 5: SUMMARY NON-EXECUTIVE DIRECTORS' REMUNERATION POLICY (AS APPROVED ON 11 JULY 2017)

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

ELEMENT	OPERATION AND OPPORTUNITY
SERVICE AGREEMENTS	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.
CHAIRMAN'S FEES	Fees are reviewed annually by the Committee: The maximum aggregate fees for the non-executive directors' basic fees, including the Chairman's basic fee, is £750,000 p.a. as set out in our Articles of Association.
NON-EXECUTIVE DIRECTOR'S BASIC FEE	Fees are reviewed annually by the executive directors taking into consideration: The maximum aggregate fees for the non-executive directors' basic fees, including the Chairman's basic fee, is £750,000 p.a. as set out in our Articles of Association.
ADDITIONAL FEES	Additional fees are paid for undertaking the extra responsibilities of: – Board Chairman. – Senior Independent Director. – Committee Chairman.
BENEFITS	In line with our other employees, the Chairman and non-executive directors are entitled to receive employee discount. The Chairman may also be entitled to the use of a car and driver.
RECRUITMENT	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. M&S may offer benefits to the Chairman in line with our policy.

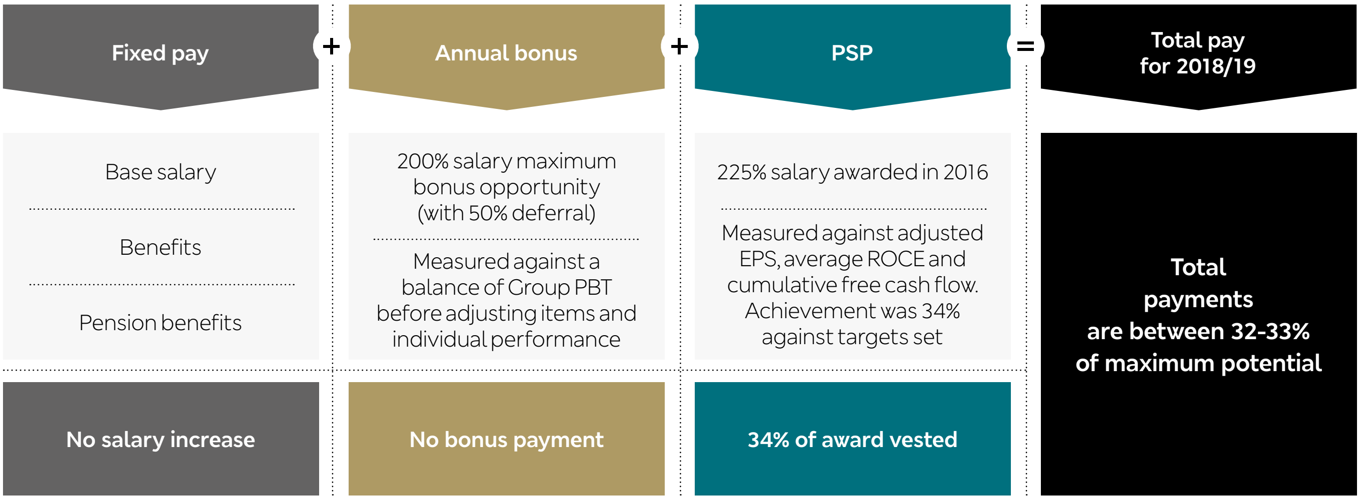
REMUNERATION REPORT

EXECUTIVE DIRECTORS' REMUNERATION

The Remuneration Committee annually reviews the senior remuneration framework and considers whether the existing incentive arrangements remain appropriately challenging in the context of the business strategy, current external guidelines and a range of internal factors including the pay arrangements and policies throughout the rest of the organisation. In its discussions, the Remuneration Committee aims to ensure that not only is the framework strategically aligned to the delivery of business priorities, but also that payments made during the year fairly reflect the performance of the business and individuals. As illustrated on page 55, a significant proportion of the performance measures used in the incentive schemes are integrated with M&S's key performance indicators (KPIs) and Strategic Priorities detailed in the Strategic Report.

The diagram below (Figure 6) details the achievement of each executive director under the Company's incentive schemes as a result of short- and long-term performance to the end of the reported financial year and summarises the main elements of the senior remuneration framework. Further details of payments made during the year are set out in the single figure table below (Figure 7) and later in this report.

FIGURE 6: REMUNERATION STRUCTURE 2018/19



For more information see p65
For more information see p67-68

FIGURE 7: TOTAL SINGLE FIGURE REMUNERATION (AUDITED)

Director	Year	Salary £000	Benefits £000	Total bonus £000	Total PSP vested £000	Pension benefits £000	Total £000
Steve Rowe	2018/19	810	33	0	621	203	**1,667**
	2017/18	810	31	0	79	203	**1,123**
Humphrey Singer (from 9 July 2018)	2018/19	439	0	0	0	0	**439**
	2017/18	–	–	–	–	–	**–**
Patrick Bousquet-Chavanne (to 18 April 2018)	2018/19	47	0	0	198	11	**256**
	2017/18	546	24	0	73	137	**780**

Patrick Bousquet-Chavanne retired from the Board on 18 April 2018. Further details of his leaving arrangements can be found on page 72. Note that the value of awards vesting in 2017/18 has been restated to reflect the actual share price at the point of vesting, being £3.09.

EXECUTIVE DIRECTORS' REMUNERATION CONTINUED

SALARIES

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, historic increases made to the individual and, to ensure a consistent approach, the salary review principles applied to the rest of the organisation.

As detailed in last year's report, for salaries effective July 2018, only Steve Rowe was eligible to be considered for a review as Humphrey Singer did not join the Company until July 2018. The Committee decided, and the CEO agreed, that no salary increase would be awarded to the CEO for July 2018, despite no increase in Steve Rowe's salary since his appointment to CEO in 2016.

For salaries effective July 2019, the Committee discussed the salary review being awarded to other colleagues in M&S ranging from 2% to 4%. In line with these increases seen across the wider organisation, the Committee felt it was appropriate to grant a salary increase of 2% for Humphrey Singer and 3% for Steve Rowe. As detailed below, the salary increase for Steve Rowe will not apply to his pension supplement.

The next annual salary review for the CEO and CFO will be effective in July 2020.

The table below details the executive directors' salaries as at 30 March 2019 and salaries which will take effect from 1 July 2019.

FIGURE 8: SALARIES

	Annual salary as of 30 March 2019 £000	Annual salary as of 1 July 2019 £000	Change in salary % increase
Steve Rowe	810.0	834.5	3%
Humphrey Singer	600.0	612.0	2%

BENEFITS (AUDITED)

The Remuneration Policy permits that each executive director may receive a car or cash allowance as well as being offered the benefit of a driver. During the year, in lieu of a car allowance, Steve Rowe received a car and the benefit of a driver, as did Patrick Bousquet-Chavanne until he left the Company. Humphrey Singer receives neither a car nor cash allowance and does not have the benefit of a driver.

In line with all other colleagues, executive directors receive life assurance, employee discount and are eligible to participate in salary sacrifice schemes such as Cycle2Work.

PENSION BENEFITS (AUDITED)

During the year Steve Rowe and Patrick Bousquet-Chavanne received a cash payment in lieu of participation in an M&S pension scheme. The Committee is mindful of the external sentiment of executive pension arrangements and will be undertaking a thorough review of pension practices as part of the overall Remuneration Policy review ahead of next year's policy renewal.

With this in mind, in awarding Steve Rowe's salary increase outlined above, the Committee decided, and Steve agreed, that whilst policy around pension is under review, this salary increase would not apply to his pension supplement.

Steve Rowe is a deferred member of the Marks & Spencer UK Pension Scheme. Details of the pension accrued during the year ended 30 March 2019 are shown below.

Whilst Humphrey Singer is eligible to join the M&S pension scheme, he does not currently participate. He does not receive any additional payments in lieu of participation.

FIGURE 9: PENSION BENEFITS (AUDITED)

	Normal retirement age	Accrued pension entitlement as at year end £000	Additional value on early retirement £000	Increase in accrued value £000	Increase in accrued value (net of inflation) £000	Transfer value of total accrued pension £000
Steve Rowe	60	156	0	4	0	4,639

The accrued pension entitlement is the deferred pension amount that Steve Rowe would receive at age 60 if he left the Company on 30 March 2019. All transfer values have been calculated on the basis of actuarial advice in accordance with the current Transfer Value Regulations. The transfer value of the accrued entitlement represents the value of the assets that the pension scheme would transfer to another pension provider on transferring the scheme's liability in respect of a director's pension benefits. It does not represent sums payable to a director and therefore cannot be added meaningfully to annual remuneration.

ANNUAL BONUS SCHEME

ANNUAL BONUS SCHEME 2018/19 (AUDITED)

Annual performance for the year was again primarily measured against Group PBT before adjusting items (PBT) (70%) and individual performance (30%). PBT is used as a core bonus measure as it is considered to be an important measure of overall performance and is consistent with how business performance is assessed internally by the Board and Operating Committee.

As was disclosed last year, individual performance was measured against a scorecard of individual measures set against key areas of delivery of the transformation plan deemed most critical to the future sustainable success of M&S. As with previous years, individual performance was measured independently of PBT performance but for the first time under the current remuneration framework, and mirroring arrangements elsewhere in the business, no individual element could be earned until the threshold needed to secure payment under the corporate element was similarly achieved.

PBT outturn for the year was £523.2m which was below the threshold set to trigger payments under either the corporate element or the individual element of the Scheme. Therefore, no bonuses under the 2018/19 Annual Bonus Scheme will be paid to anyone in the organisation, including executive directors. This is reflected in the total bonus paid column in Figure 10 and directly corresponds to the value shown in the single figure table on page 63.

Despite there being no bonus payment under the 2018/19 Scheme, the Committee continued to review the achievement of the individual objectives set at the start of the financial year to fulfil its remit and to enable transparent disclosure to shareholders. For completeness, the table below shows the achievement against each director's individual objectives, as noted by the Committee. In noting this performance, the Committee considered not only the achievement against the predetermined targets, but also the wider performance within these specific areas to ensure that any achievement noted was representative of overall performance.

The Committee ensures that targets set are the relevant drivers of required annual performance, recognising that it operates in the context of a highly competitive market and uncertain market conditions. Some of the specific targets set for 2018/19 remain too commercially sensitive to disclose as they are not disclosed elsewhere in this report. To the extent these targets are not able to be fully reported, they have been described. The Committee will continue to assess the commercial sensitivity of targets with the aim of disclosure wherever possible, while ensuring that any measures set are those most appropriate to restore the business to profitable growth.

FIGURE 10: ANNUAL BONUS SCHEME OUTTURN 2018/19 (AUDITED)

Director	Corporate (70%)	Individual (30%)				Total bonus
Steve Rowe **PBT** Threshold £540m **£523m**	Stretch £620m **0%**	**New management team** Successful recruitment and onboarding of high calibre senior leaders building a strong new management team. Continued devolvement of profit and loss responsibility to further drive accountability and autonomy within new family of businesses structure.	**Online capabilities** Significant improvement of website search speed and experience, along with enhanced checkout performance. Donington successfully delivering through Christmas peak trading as per plan.	**Supply chain** Some success through the roll out of new initiatives in Food such as our "Fuse" programme but limited improvements in core metrics as yet, and slow progress in Clothing & Home.	**Evolution of Sparks** Limited progress on Evolution of Sparks. Planning for integrated data use and personalised marketing at early stage.	£0k **/ £1.62m** Overall % of Salary (200% max) 0%
Humphrey Singer **PBT** Threshold £540m **£523m**	Stretch £620m **0%**	**Operating costs** Operating costs lower than plan with further savings identified.	**Control of capital costs and expenditure** Capital spending below target with improvements made to Investment Committee process.	**Talent review** Review of capabilities and controls undertaken, including the recruitment and onboarding of new senior leadership team and talent elsewhere in the Finance group.	**Review control environment** While a thorough review of the control environment was initiated, not all project milestones and deliverables were achieved within the agreed timelines.	£0k **/ £1.2m** Overall % of Salary (200% max) 0%

ANNUAL BONUS SCHEME CONTINUED

DEFERRED SHARE BONUS PLAN (AUDITED)

Currently 50% of any bonus payment is compulsorily deferred into shares. These awards vest after three years subject to continued employment as well as malus provisions. As no bonus was awarded in respect of performance year 2017/18, no share awards under the Deferred Share Bonus Plan (DSBP) were made during the year. In relation to the 2018/19 performance year, as no bonus awards under the Annual Bonus Scheme have been made, there will be no awards under the DSBP made in June 2019.

ANNUAL BONUS SCHEME FOR 2019/20

During the year, the Committee reviewed the 2019/20 Scheme, considering the five-year transformation programme, 'Making M&S Special Again' and bonus arrangements elsewhere in the business. It determined that the structure of the existing Scheme remained appropriate and was aligned with bonus arrangements seen elsewhere in the organisation.

As with the existing Scheme, the 2019/20 Bonus Scheme is designed to focus on restoring the business to profitable growth with an emphasis not only on profits but also other key areas which will drive this transformation journey. Performance will be again focused on Group PBT before adjusting items (PBT) (70%) with individual measures set against key areas of delivery of the transformation plan which are deemed most critical to the future sustainable success of M&S. For 2019/20, individual performance will again be measured independently of PBT performance and, mirroring arrangements elsewhere in the business, no individual element may be earned until the threshold needed to secure payment under the corporate element for all participating colleagues is similarly achieved.

The remaining 30% of the bonus will be measured against a scorecard of individual objectives, identified as the measurable key priorities required to drive the continued transformation of M&S. For the CEO, the measures within the individual scorecard will focus on the acceleration of the transformation programme, including improvements in supply chain and range management, along with digital capabilities both online and instore. In addition, a key focus for the year will be the successful establishment of the Ocado joint venture and the transformation of M&S's organisation and culture.

For the CFO, the scorecard measures will focus on the delivery of the financial plan with an emphasis on Group PBT, cash flow and operating cost budgets, alongside the establishment of a cost strategy programme. From a commercial perspective, there will be a focus on the delivery of faster and more effective governance, controls and reporting within a strong, happy and commercially focused team.

The performance targets for the 2019/20 Scheme are deemed by the Board to be too commercially sensitive to disclose at this time as they are not disclosed elsewhere in this report. Where possible, they will be disclosed in next year's report. The Committee, in its absolute discretion, may use its judgement to adjust outcomes to ensure that any payments made reflect overall business and individual performance during the year.

FIGURE 11: ANNUAL BONUS SCHEME TARGETS 2019/20

	CORPORATE TARGETS	INDIVIDUAL OBJECTIVES	
	Group PBT before adjusting items (PBT)	Scorecard of Individual Measures	
Director	% bonus	% bonus	Measure
Steve Rowe	70%	30%	– Accelerate the transformation in culture, organisation and capability across the business. – Oversee the improvements in supply chain and range management in both Clothing & Home and Food businesses. – Accelerate growth online and exploitation of digital capabilities. – Drive the transition towards a more modern technology enabled store operation and store portfolio. – Successfully establish the Ocado joint venture including leadership, operations and financing.
Humphrey Singer	70%	30%	– Establish a cost strategy programme, including the delivery of UK operating cost budget. – Deliver faster, more effective governance and controls. – Drive a focus on clear and consistent internal reporting regimes to support and drive greater accountabilities across the business. – Continued team development to support M&S's commercial success.

PERFORMANCE SHARE PLAN (PSP)

PSP AWARDS MADE IN 2018/19 (AUDITED)

As reported last year, having considered the extent to which the long-term incentive framework remained relevant, the Committee determined that the existing structural arrangements remained aligned with the focus on maximising shareholder value by restoring the business to profitable growth. The three performance measures used in the 2017 PSP award, Adjusted EPS (EPS), Average ROCE (ROCE) and Relative TSR (TSR), were still considered to be the key drivers to deliver these core priorities. In line with the 2017/18 award, measures used in 2018/19 were equally balanced to ensure an appropriate focus on all three metrics.

TSR is once again measured against the bespoke group of 15 companies taken from the FTSE 350 General and Food & Drug Retailers indices, reviewed prior to grant to ensure the constituents remained appropriately aligned to M&S's business operations to best reflect the value of shareholder's investment in M&S over the respective performance period. These companies are listed in Figure 13.

The remainder of the award is measured equally against EPS and ROCE ensuring a balanced focus on all three performance metrics.

As was reported last year, each executive director was granted an award of conditional shares of 250% of salary. The grant was made on 27 July 2018. In line with Policy, awards will vest three years after the date of grant, to the extent that the performance conditions are met, and must then be held for a further two years. Clawback provisions apply during this holding period.

Consistent with previous years, 20% of awards will vest for threshold performance increasing to 100% on a straight-line basis between threshold and maximum performance. Detailed targets can be seen in Figure 12.

PERFORMANCE SHARE PLAN (PSP) CONTINUED

FIGURE 12: PERFORMANCE CONDITIONS FOR PSP AWARDS MADE IN 2018/19 (AUDITED)

2018/19 award	Adjusted EPS in 2020/21 (p)	Average ROCE (2018/19 – 2020/21) (%)	Relative TSR
	1/3 of award	1/3 of award	1/3 of award
Threshold performance	31.7p	13.0%	Median
Maximum performance	38.7p	17.0%	Upper quartile

FIGURE 13: TSR COMPARATOR GROUP 2018/19 AWARD

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

Targets outlined above are stated on a pre-IFRS16 basis and before any adjustments have been made for the impact of the recently announced M&S joint venture with Ocado, be that either the joint venture itself, or associated Rights Issue. The Committee will review the targets and TSR comparator group at an appropriate time and will fully disclose any adjustments required. Pre-vesting deliberations will also take into consideration the impact of the de-listing of Debenhams.

FIGURE 14: PSP AWARDS MADE IN 2018/19 (AUDITED)

	Basis of award % of salary	Face value of award £000	End of performance period	Vesting date
Steve Rowe	250%	2,025	03/04/2021	27/07/2021
Humphrey Singer	250%	1,500	03/04/2021	27/07/2021

PSP grants were made as a conditional share award. When calculating the face value of awards to be granted, the number of shares awarded was multiplied by the average mid-market share price on the five dealing days prior to the date of grant. For the 2018 award, the share price was calculated as £3.093, being the average share price between 20 July 2018 and 26 July 2018.

FIGURE 15: PSP AWARDS VESTING IN 2018/19 (AUDITED)

For directors in receipt of PSP awards granted in 2016, the awards will vest in December 2019 based on three-year performance over the period to 30 March 2019. Performance has been assessed and it has been determined that 34% of the total award will vest. The Committee reviewed this level of vesting against the wider business performance of the period and determined this level of payment was appropriate.

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

The total vesting values shown in Figure 16 directly correspond to the figure included in the single figure table on page 63.

2016/17 award	Adjusted EPS in 2018/19 (p)	Average ROCE (2016/17-2018/19) (%)	Cumulative free cash flow (2016/17-2018/19)	Total vesting % of award
	50% of award	20% of award	30% of award	
Threshold performance	28.9p	13%	£1,350	
Maximum performance	35.8p	16%	£1,650	
Actual performance achieved	25.4p	14%	£1,587	
Percentage of maximum achieved	0%	9%	25%	**34%**

REMUNERATION REPORT CONTINUED

PERFORMANCE SHARE PLAN (PSP) CONTINUED

FIGURE 16: VESTING VALUE OF AWARDS VESTING IN 2018/19 (AUDITED)

	On grant		At the end of performance period (30 March 2019)			
	Number of shares granted	% of salary granted	Number of shares vesting	Number of shares lapsing	Impact of share price performance	Total vesting of award £000
Steve Rowe	555,640	225%	188,918	366,722	-14.7%	**£621**
Patrick Bousquet-Chavanne	374,542	225%	60,135	314,407		**£198**

Total vesting values are based on a share price of £2.79 (the average share price from 2 January 2019 to 29 March 2019) plus a dividend equivalent of £0.49 per share. To provide an accurate indication of the total vesting value for Patrick Bousquet-Chavanne, the column detailing the number of shares lapsing takes into consideration shares lapsing due to the pro-ration applied to his award on leaving M&S. Further details on the treatment of share awards upon leaving can be found on page 72.

The final vesting values also reflect a 14.7% decline in share price between grant and vesting, as illustrated on page 57 of this report.

PSP AWARDS TO BE MADE IN 2019/20

During the year, the Committee reviewed the long-term incentive framework at M&S, assessing the extent to which it remained suitable. Whilst the 2019 PSP maintains the measures used by the 2017 and 2018 PSP awards, being equally split between Adjusted EPS (EPS), Average ROCE (ROCE) and Relative TSR (TSR), following careful consideration and shareholder consultation, EPS targets have been reset from those seen in awards from previous years. In making this decision, the Committee was mindful of the need to ensure that M&S's performance share plan motivates senior leaders to drive the required transformation to secure M&S's long-term success whilst balancing shareholder interests. As detailed in the Remuneration Committee Chairman's letter, the intention to make such an adjustment to these targets was fully communicated to our main shareholders and their feedback was taken on board prior to any decisions being made. Overall, the Committee believes that these PSP targets are appropriately stretching in the context of the business and analyst expectations and remain as equally challenging as those set at the start of the performance period for previous awards.

TSR will once again be measured against a bespoke group of companies taken from the FTSE 350 General and Food & Drug Retailers indices. The existing group of 15 companies, as detailed in Figure 13, was thoroughly reviewed to ensure the constituents remained appropriate and aligned to M&S's business operations. This review resulted in the removal of Debenhams, as they are no longer listed on the FTSE, and Ocado, who were removed due to the recently announced M&S and Ocado joint venture. The revised TSR comparator group of 13 companies can be found in Figure 18.

All targets for the 2019 PSP have been set on a pre-IFRS 16 basis and before any adjustments have been made for the impact that the recently announced M&S joint venture with Ocado, be that either the joint venture itself, or associated rights issue. The Remuneration Committee will review the targets at an appropriate time and will fully disclose any adjustments required at that point. Any changes to targets will ensure the performance conditions remain representative of corresponding business performance on a pre-adjustment basis.

For the 2019 PSP a grant of 250% of salary was approved. It was agreed that this award level would represent a clear signal to the executive directors that whilst there is hard work ahead as we move along the transformation journey to make M&S special again, truly exceptional performance will be rewarded.

FIGURE 17: PERFORMANCE CONDITIONS FOR PSP AWARDS TO BE MADE IN 2019/20

	Adjusted EPS in 2021/22 (p)	Average ROCE (2019/20 – 2021/22) (%)	Relative TSR
2019/20 award	1/3 of award	1/3 of award	1/3 of award
Threshold performance	24.0p	13.0%	Median
Maximum performance	31.0p	17.0%	Upper Quartile

FIGURE 18: TSR COMPARATOR GROUP 2019/20 AWARD

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

EXECUTIVE DIRECTORS' REMUNERATION

FIGURE 19: DIRECTORS' SHAREHOLDINGS (AUDITED)

The table below sets out the total number of shares held by each executive director serving on the Board during the period to 30 March 2019, or at their date of retirement from the Board. Shares owned outright include those held by connected persons.

There have been no changes in the current directors' interests in shares or options granted by the Company and its subsidiaries between the end of the financial year and 21 May 2019. No director had an interest in any of the Company's subsidiaries at the statutory end of the year.

		Unvested		
		With performance conditions	Without performance conditions	
	Shares owned outright	Performance Share Plan	Deferred Share Bonus Plan	Vested but unexercised shares
Steve Rowe	296,173	1,824,538	119,675	0
Humphrey Singer	0	484,966	0	0
Patrick Bousquet-Chavanne (to 18 April 2018)	123,098	176,876	0	0

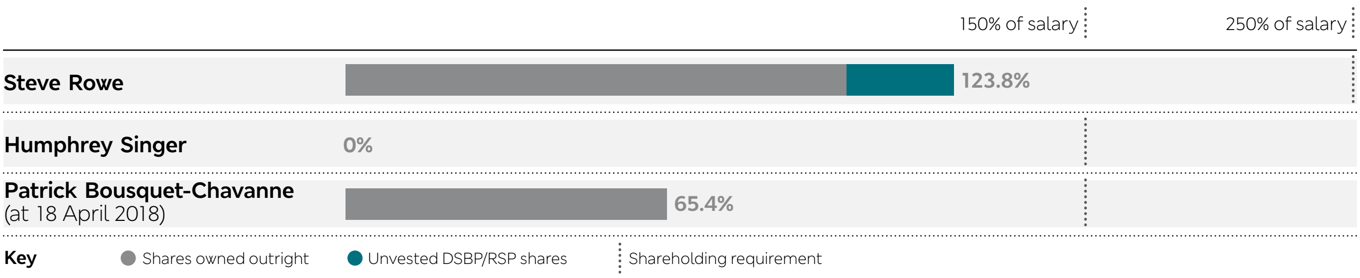
FIGURE 20: SHAREHOLDING REQUIREMENTS (AUDITED)

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 executive directors the requirement is 150% of salary. Similar guidelines of 100% of salary currently apply to all directors below Board level.

The chart below shows the extent to which each executive director has met their target shareholding as at 30 March 2019, or date of retirement from the board. For Steve Rowe, his 250% shareholding requirement is measured from the date he was appointed CEO.

For the purposes of the requirements, the net number of unvested share awards not subject to performance conditions is included and is reflected in the chart below. The Committee continues to keep both shareholding requirement guidelines and actual director shareholdings under review and will take appropriate action should they feel it to be necessary.

The Committee is aware of post-cessation shareholder requirements introduced under the 2018 Corporate Governance Code. Our existing share restrictions of a three-year deferral and two-year further holding period continue to apply post cessation of employment, resulting in a potential significant holding of shares following a director's departure. The approach towards shareholding requirements at M&S will be considered ahead of the in 2020 Remuneration Policy renewal and will take into account new shareholder guidance in this area.



EMPLOYEE SHARE SCHEMES

ALL-EMPLOYEE SHARE SCHEMES (AUDITED)

Executive directors may participate in both ShareSave, the Company's Save As You Earn Scheme, and ShareBuy, the Company's Share Incentive Plan, on the same basis as all other eligible colleagues. Further details of the schemes are set out in note 13 to the financial statements on pages 114 to 116.

DILUTION OF SHARE CAPITAL BY EMPLOYEE SHARE PLANS

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

All other share plans are currently met by market purchase shares. The Company monitors the number of shares issued under these schemes and their impact on dilution limits. The Company's usage of shares compared to the dilution limits set by The Investment Association in respect of all share plans (10% in any rolling ten-year period) and executive share plans (5% in any rolling ten-year period) as at 30 March 2019 is as follows:

FIGURE 20: ALL SHARE PLANS

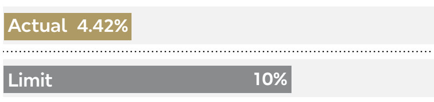


FIGURE 21: EXECUTIVE SHARE PLANS

EXECUTIVE DIRECTORS' REMUNERATION CONTINUED

FIGURE 21: EXECUTIVE DIRECTORS' INTERESTS IN THE COMPANY'S SHARE SCHEMES (AUDITED)

	Maximum receivable at 1 April 2018	Awarded during the year	Exercised during the year	Lapsed during the year	Maximum receivable at 30 March 2019 (or date of retirement)
Steve Rowe					
Performance Share Plan	1,430,660	654,704	21,387	239,439	**1,824,538**
Deferred Share Bonus Plan	179,231	0	59,556	0	**119,675**
SAYE	3,461	0	0	0	**3,461**
Total	1,613,352	654,704	80,943	239,439	**1,947,674**
Humphrey Singer					
Performance Share Plan	0	484,966	0	0	**484,966**
Deferred Share Bonus Plan	0	0	0	0	**0**
SAYE	0	0	0	0	**0**
Total	0	484,966	0	0	**484,966**
Patrick Bousquet-Chavanne					
Performance Share Plan	1,044,459	0	19,819	847,773	**176,867**
Deferred Share Bonus Plan	138,459	0	138,459	0	**0**
SAYE	3,448	0	0	3,448	**0**
Total	1,186,366	0	158,278	851,221	**176,867**

The aggregate gains of directors arising in the year from the exercise of awards granted under the PSP and DSBP totalled £707,782. The market price of the shares at the end of the financial year was 278.9p; the highest and lowest share price during the financial year were 314.5p and 242.4p respectively.

Patrick Bousquet-Chavanne retired from the Board on 18 April 2018 and left the Company on 31 May 2018. Details of his leaving arrangements are set out on page 72. His outstanding Deferred Share Bonus awards vested in full upon leaving, as reflected in the 'Exercised during the year' column. His outstanding Performance Share Plan awards were pro-rated for time held on leaving as shown in the 'Lapsed during the year' column.

Figure 22 shows the time horizons of outstanding discretionary share awards for all directors serving on the Board during the year.

FIGURE 22: VESTING SCHEDULE OF EXECUTIVE DIRECTORS' OUTSTANDING DISCRETIONARY SHARE AWARDS

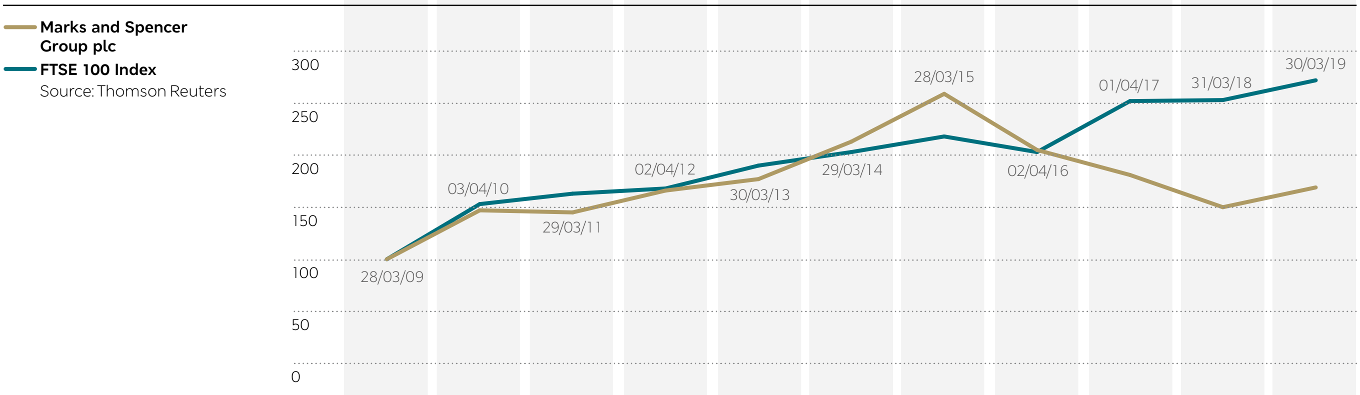
		Maximum receivable at 30 March 2019 (all discretionary schemes)	2019/20		2020/21		2021/22	
			Maximum Receivable	Lapsed	Maximum Receivable	Lapsed	Maximum Receivable	Lapsed
Steve Rowe	Performance Share Plan	1,824,538	188,918	(366,722)	614,194	–	654,704	–
	Deferred Share Bonus Plan	119,675	32,376	–	87,299	–	–	–
Humphrey Singer	Performance Share Plan	484,966	–	–	–	–	484,966	–
	Deferred Share Bonus Plan	–	–	–	–	–	–	–
Patrick Bousquet-Chavanne	Performance Share Plan	176,867	60,135	(314,407)	0	(414,012)	–	–
	Deferred Share Bonus Plan	–	–	–	–	–	–	–

As reported on page 67, the 2016 PSP awards included within the totals shown in Figure 21 will vest at 34% in December 2019. This has been reflected above in the 2019/20 'Lapsed' column. In addition, and as detailed above, outstanding awards held by Patrick under the 2016 PSP were pro-rated for time held upon leaving. This is also reflected in the 2019/20 'Lapsed' column. In line with the Plan rules, upon leaving Patrick's PSP awards granted in 2017 lapsed in full. This is reflected above in the 2020/21 'Lapsed' column.

EXECUTIVE DIRECTORS' REMUNERATION CONTINUED

FIGURE 23: PERFORMANCE AND CEO REMUNERATION COMPARISON

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



CEO[1]		2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
CEO single figure of remuneration (£000)	Steve Rowe		–	–	–	–	–	–	–	1,642	1,123	1,667
	Marc Bolland		–	5,998	3,324	2,142	1,568	2,095	2,015	–	–	–
	Stuart Rose		4,294	269	–	–	–	–	–	–	–	–
Annual bonus payment (% of maximum)	Steve Rowe		–	–	–	–	–	–	–	36.98%	0.00%	0.00%
	Marc Bolland		–	45.80%	34.00%	42.50%	0.00%	30.55%	31.90%	–	–	–
	Stuart Rose		97.00%	57.40%	–	–	–	–	–	–	–	–
PSP vesting (% of maximum)	Steve Rowe		–	–	–	–	–	–	–	0.00%	8.20%	34.0%
	Marc Bolland		–	–	31.96%	0.00%	7.60%	4.70%	4.80%	–	–	–
	Stuart Rose		0.00%	0.00%	–	–	–	–	–	–	–	–

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 24: PERCENTAGE CHANGE IN CEO'S REMUNERATION

Read more on **p58**

FIGURE 25: 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 buy back.

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

	2017/18 £m	**2018/19 £m**	% change
Total employee pay	1,578.9	**1,511.0**	-4.3%
Total returns to shareholders	303.4	**303.5**	0.0%
Group PBT before adjusting items	580.9	**523.2**	-9.9%

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EXECUTIVE DIRECTORS' REMUNERATION CONTINUED

FIGURE 26: SERVICE AGREEMENTS

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

	Date of appointment	Notice period/ unexpired term
Steve Rowe	02/04/2016	12 months/6 months
Humphrey Singer	09/07/2018	12 months/6 months

CHANGES TO EXECUTIVE MEMBERSHIP OF THE BOARD DURING 2018/19

DIRECTORS APPOINTED TO THE BOARD
As reported in the 2017/18 report, **Humphrey Singer** was appointed to the Board on 9 July 2018 as Chief Finance Officer. His remuneration upon appointment was in line with the approved Recruitment Policy detailed on page 60 with a basic annual salary of £600,000. Humphrey receives neither a car allowance nor a pension cash allowance. The rest of Humphrey's incentive arrangements are aligned with that of an executive director. No share awards have been granted to Humphrey in relation to his appointment.

PAYMENTS FOR THE LOSS OF OFFICE (audited)
As reported in the 2017/18 report, **Patrick Bousquet-Chavanne** retired from the Board on 18 April 2018 and left M&S on 31 May 2018. Remuneration terms on leaving were in line with the approved Remuneration Policy. Patrick was entitled to receive salary and benefits, including pension, by way of phased monthly payments from 1 June 2018 for a maximum of 12 months, subject to mitigation. As per the terms of the Policy, these payments ceased upon the commencement of his new employment on 4 August 2018. The Committee determined good leaver treatment in line with the Plan rules and therefore his unvested conditional shares granted under the Deferred Share Bonus Plan vested in full on leaving. Unvested conditional shares awarded under the 2015 and 2016 PSP were time pro-rated to 31 May 2018. As reported last year, 8.2% of PSP awards granted in 2015 vested in July 2018 at a value of £73,418. As detailed earlier in the report, 34% of PSP awards granted in 2016 will vest in December 2019 at an estimated value of circa £197,556 based on the average share price between 2 January 2019 and 29 March 2019 plus a dividend equivalent of £0.49 per share. The PSP award made in 2017 lapsed in full on leaving in accordance with the Plan rules. Patrick has no further outstanding awards.

PAYMENTS TO PAST DIRECTORS (audited)
Helen Weir retired from the Board on 31 March 2018 and had two outstanding awards under the PSP. In accordance with the rules of the Performance Share Plan, 8.2% of her 2015 award vested in July 2018 at a value of £74,666. As detailed earlier in the report, 34% of PSP awards granted in 2016 will vest in December 2019 at an estimated value of circa £188,361 based on the average share price between 2 January 2019 and 29 March 2019 plus a dividend equivalent of £0.49 per share. Helen has no further outstanding awards.

FIGURE 27: 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 fees in the table opposite reflect those earned by Humphrey Singer from his appointment to the Board on 9 July 2018 to the end of the 2018/19 financial year.

Any fees Patrick Bousquet-Chavanne received for his external non-executive director role for the period from 1 April 2018 to 18 April 2018 were retained by him and have not been communicated to the Company.

Director	Period earned	Company	Fee 000
Humphrey Singer	09/07/2018 – 30/03/2019	Taylor Wimpey	£57

NON-EXECUTIVE DIRECTORS' REMUNERATION

FIGURE 28: NON-EXECUTIVE DIRECTORS' TOTAL SINGLE FIGURE REMUNERATION (AUDITED)

Non-executive directors receive fees reflecting the time commitment, demands and responsibilities of the role. Fees paid to the non-executive directors and Board Chairman for 2018/19 and 2017/18 are detailed in the table opposite.

During the year, these fees were reviewed. Taking into account relevant market data, and given fees have remained frozen since 2011 while responsibilities have increased, it was agreed that the basic non-executive and senior non-executive director fee will be increased by 2.5% to £71,500 and £102,500 respectively. The additional fee for chairing a committee will increase by 3.3% to £15,500. The total aggregate fee of the Board Chairman will be increased by 2% to £612,000. Increases will be effective from 1 July 2019 and are in line with increases seen across the wider workforce.

Fee levels will be reviewed again during 2019/20 as per the normal annual process.

Changes to the Board during the year are detailed below and are also reflected in the table opposite.

Director	Year	Basic fees £000	Additional fees £000	Benefits £000	Total £000
Archie Norman (from 1 September 2017)	2018/19	70	530	0	**600**
	2017/18	41	309	0	350
Andy Halford	2018/19	70	23	0	**93**
	2017/18	70	15	0	85
Alison Brittain	2018/19	70	0	0	**70**
	2017/18	70	0	0	70
Andrew Fisher	2018/19	70	8	0	**78**
	2017/18	70	0	0	70
Katie Bickerstaffe (from 10 July 2018)	2018/19	51	0	0	**51**
	2017/18	–	–	–	–
Pip McCrostie (from 10 July 2018)	2018/19	51	0	0	**51**
	2017/18	–	–	–	–
Justin King (from 1 January 2019)	2018/19	18	0	0	**18**
	2017/18	–	–	–	–
Vindi Banga (to 1 October 2018)	2018/19	35	15	0	**50**
	2017/18	70	30	0	100
Richard Solomons (to 10 July 2018)	2018/19	19	0	0	**19**
	2017/18	70	0	0	70

FIGURE 29: NON-EXECUTIVE DIRECTORS' SHAREHOLDINGS (AUDITED)

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

The table opposite details the shareholding of the non-executive directors who served on the Board during the year as at 30 March 2019 (or upon their date of retiring from the Board), including those held by connected persons.

There have been no changes in the current non-executive directors' interests in shares in the Company and its subsidiaries between the end of the financial year and 21 May 2019.

Director	Number of shares held
Archie Norman	78,000
Andy Halford	21,000
Alison Brittain	5,096
Andrew Fisher	3,536
Katie Bickerstaffe	2,000
Pip McCrostie	6,000
Justin King	20,000
Vindi Banga	93,700
Richard Solomons	5,000

FIGURE 30: 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
Archie Norman	01/09/2017	6 months/6 months
Andy Halford	01/01/2013	3 months/3 months
Alison Brittain	01/01/2014	3 months/3 months
Andrew Fisher	01/12/2015	3 months/3 months
Katie Bickerstaffe	10/07/2018	3 months/3 months
Pip McCrostie	10/07/2018	3 months/3 months
Justin King	01/01/2019	3 months/3 months

NON-EXECUTIVE DIRECTOR CHANGES TO THE BOARD DURING 2018/19

DIRECTORS APPOINTED TO THE BOARD

Katie Bickerstaffe and **Pip McCrostie** joined the Board as non-executive directors on 10 July 2018, as did **Justin King** on 1 January 2019. Katie, Pip and Justin receive the standard annual non-executive director fee of £70,000 and are members of the Nomination Committee. In addition to being appointed to the Nomination Committee, Katie is a member of the Remuneration Committee and Pip is a member of the Audit Committee.

ROLE CHANGES WITHIN THE BOARD

Upon Vindi Banga's retirement from the Board, **Andrew Fisher** became Chairman of the Remuneration Committee and **Andy Halford** was appointed to the role of Senior Independent Director. These appointments were effective on 1 October 2018 and from this date Andrew and Andy received additional fees in accordance with the increased responsibility of their roles as described in the Remuneration Policy on page 62.

DIRECTORS RETIRING FROM THE BOARD

Richard Solomons retired from the Board on 10 July 2018 and **Vindi Banga** retired from the Board on 1 October 2018. There were no payments for loss of office payable to Richard or Vindi.

REMUNERATION COMMITTEE

REMUNERATION COMMITTEE REMIT

During the year, the Remuneration Committee agreed that while the broader Terms of Reference implemented following the detailed review in 2017/18 were working well, the publication of the final revisions to the 2018 Corporate Governance Code, along with the appointment of Andrew Fisher to Chairman of the Remuneration Committee, provided an excellent opportunity to undertake a further light touch review. The 2018/19 review primarily involved a sharpening and focusing of Committee activities along with a refinement and clarity of language.

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

KEY RESPONSIBILITIES

The role of the Committee continues to have a strong focus on ensuring an appropriate alignment between executive directors' and Operating Committee directors' remuneration with that of colleagues across M&S, ensuring the senior remuneration strategy and framework is strategically aligned with the business but that it also attracts and recognises the talent required to drive transformation and cultural change within M&S. Broadly, the responsibilities are as follows:

- Setting remuneration policy and practices that are designed to support strategy and promote the long-term success of M&S whilst following the below principles:
  - **Clarity** – remuneration arrangements are transparent and promote effective engagement with shareholders and M&S colleagues;
  - **Simplicity** – remuneration structures are uncomplicated with easy to understand rationale and operation;
  - **Risk** – reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated;
  - **Predictability** – the range of possible values of rewards to executive directors are identified and explained at the time of approving the policy;
  - **Proportionality** – the link between individual awards, the delivery of strategy and the long-term performance of the Company is clear and that outcomes do not reward poor performance; and
  - **Alignment to culture** – incentive schemes drive behaviours consistent with M&S's purpose, values and strategy.
- Determining the terms of employment and remuneration for the executive directors and Operating Committee directors, including recruitment and termination arrangements.
- Considering the appropriateness of the senior remuneration framework and exercising independent judgement and discretion when authorising remuneration outcomes, taking account of Company and individual performance, and the context of the wider workforce.
- Noting the total pay budgets including salary, bonus and share scheme allocations across all of M&S together with the principles of allocation to ensure appropriate consistency with the senior pay frameworks.
- Approving the design, targets and total payments for all performance-related pay schemes operated by M&S, seeking shareholder approval where necessary.
- Assessing the appropriateness and subsequent achievement of performance targets relating to any share-based incentive plan for the executive and Operating Committee directors.
- Receiving direct feedback from the Group's employee representative body, employee engagement surveys and management reports to ensure colleague views on Group culture, including remuneration strategy and diversity & inclusion are considered.

REMUNERATION COMMITTEE AGENDA FOR 2018/19

REGULAR ITEMS

Pay arrangements
- Within the terms of the M&S Remuneration Policy, approval of the total individual remuneration packages for the executive directors and Operating Committee directors, and any termination payments where applicable.
- Consideration of the appropriateness of the senior remuneration framework in the context of the rest of the organisation and external governance.
- Noting of the total budgeted salary expenditure across M&S for salary review, ensuring principles for reward allocation are aligned across M&S.

Annual Bonus Scheme
- Review of achievements against 2018/19 performance objectives for executive directors and Operating Committee directors.
- Approval of target for the 2019/20 Annual Bonus Scheme ensuring the performance conditions are transparent, stretching and rigorously applied.
- Approval of the 2019/20 performance objectives for executive directors and Operating Committee directors.
- Noting of the total budgeted expenditure for the Annual Bonus Scheme across M&S.

Performance Share Plan (PSP)
- Approval of the measures and targets for the 2019 PSP awards for the executive directors and Operating Committee directors following engagement with shareholders and other applicable stakeholders.
- Approval of vesting level of the 2016 PSP awards across M&S.
- Regular review of all in-flight performance share plans against targets.

Governance and external market
- Approval of the Directors' Remuneration Report for 2018/19 and review of the AGM voting outcome for the 2017/18 Report.
- Review of the Committee's performance in 2018/19, including assurance that the principles of the revised Terms of Reference and broader remit of the Committee are embedded.
- Assessment of the external market when considering remuneration arrangements for executive directors and Operating Committee directors.
- Noting of direct feedback from the Business Involvement Group 'BIG' M&S's employee representative body to ensure all employee views are received and considered by the Board when making Remuneration and Reward decisions.

REMUNERATION COMMITTEE ACTION PLAN 2019/20

- Full review of the M&S Remuneration Policy in anticipation of the binding shareholder vote at the 2019 AGM, ensuring the Policy continues to support the long-term success of M&S and is aligned with the 2018 UK Corporate Governance Code, other external governance and emerging best practice.
- Ensure the continued strategic alignment of the directors' incentive arrangements to support and drive M&S's transformation.
- Review the appropriateness of the senior remuneration framework in the context of the rest of the organisation and external governance.
- Review the effectiveness and transparency of remuneration reporting.

FIGURE 31: REMUNERATION COMMITTEE MEETINGS

The table opposite details the independent non-executive directors that were members of the Committee during 2018/19.

MEMBER	Member since	Maximum possible meetings	Number of meetings attended	% of meetings attended
Andrew Fisher (Chairman)	1 October 2018	2	2	100%
Archie Norman	3 November 2017	5	5	100%
Katie Bickerstaffe	10 July 2018	3	3	100%
Vindi Banga (Chairman) (to 1 October 2018)	1 September 2011	3	3	100%
Richard Solomons (to 10 July 2018)	21 July 2015	2	2	100%

COMMITTEE ADVISERS

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

The Committee has not explicitly considered the independence of the advice it receives, although it regularly reflects on the quality and objectivity of this advice. The Committee is satisfied that any conflicts are appropriately managed. PwC was appointed by the Committee as its independent advisers in 2014 following a rigorous and competitive tender process. PwC provides independent commentary on matters under consideration by the Committee and updates on legislative requirements, best practice and market practice. PwC's fees are typically charged on an hourly basis with costs for work agreed in advance. During the year, PwC charged £56,500 for Remuneration Committee matters. This is based on an agreed fee for business as usual support with additional work charged at hourly rates. PwC has provided tax, consultancy and risk consulting services to the Group in the financial year.

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

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

REMUNERATION COMMITTEE STAKEHOLDER AND SHAREHOLDER ENGAGEMENT

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

The Committee is committed to a continuous, open and transparent dialogue with shareholders on the issue of executive remuneration, as demonstrated by recent engagement regarding 2019 Performance Share Plan targets.

SHAREHOLDER SUPPORT FOR THE REMUNERATION POLICY AND 2017/18 DIRECTORS' REMUNERATION REPORT

At the Annual General Meeting on 10 July 2018, 98.70% of shareholders voted in favour of approving the Directors' Remuneration Report for 2017/18. The Committee believes this illustrates the strong level of shareholder support for the senior remuneration framework. As this was a non-policy renewal year, there was no vote regarding the Remuneration Policy.

The table below shows full details of the voting outcomes for the 2017/18 Directors' Remuneration Report.

FIGURE 32: VOTING OUTCOMES FOR THE REMUNERATION POLICY AND 2017/18 REMUNERATION REPORT

	Votes for	% Votes for	Votes against	% Votes against	Votes withheld
Remuneration Policy (at the 2017 AGM)	1,020,561,621	99.08%	9,498,526	0.92%	2,368,960
2017/18 Remuneration Report (at the 2018 AGM)	1,009,866,132	98.70%	13,263,809	1.30%	19,095,928

APPROVED BY THE BOARD

ANDREW FISHER CHAIRMAN OF THE REMUNERATION COMMITTEE

London, 21 May 2019

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

OTHER DISCLOSURES

DIRECTORS' REPORT

Marks and Spencer Group plc (the "Company") is the holding company of the Marks & Spencer Group of companies (the "Group").

The Directors' Report for the year ended 30 March 2019 comprises pages 34 to 80 and pages 158 to 159 of this report, together with the sections of the Annual Report incorporated by reference. As permitted by legislation, some of the matters required to be included in the Directors' Report have instead been included in the Strategic Report on pages 1 to 33, as the Board considers them to be of strategic importance. Specifically, these are:

- →Future business developments (throughout the Strategic Report).
- →Risk management on pages 27 to 28.
- →Details of branches operated by the Company on pages 8 to 14.
- →Total global M&S greenhouse gas emissions 2018/19 on page 21.

The Strategic Report and the Directors' Report together form the Management Report for the purposes of the Disclosure Guidance and Transparency Rules (DTR) 4.1.8R.

Information relating to financial instruments can be found on pages 121-130 and is incorporated by reference.

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

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

The Directors' Report fulfils the requirements of the corporate governance statement for the purposes of DTR 7.2.3R. Further information is available online at **marksandspencer.com/thecompany**

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

INFORMATION TO BE DISCLOSED UNDER LR 9.8.4R

Listing Rule	Detail	Page reference
9.8.4R (1) (2) (5-14) (A) (B)	Not applicable	N/A
9.8.4R (4)	Long-term incentive schemes	55-57, 59-61 and 66-68

BOARD OF DIRECTORS

The membership of the Board and biographical details of the directors are provided on pages 36 and 37. 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 69 and 73. Options granted to directors under the Save As You Earn (SAYE) and Executive Share Option Schemes are shown on page 70. Further information regarding employee share option schemes is provided in note 13 to the financial statements on pages 114 to 116.

Name	Role	Effective date of departure/ appointment
Departures		
Patrick Bousquet-Chavanne	Executive Director	18 April 2018
Richard Solomons	Non-Executive Director	10 July 2018
Vindi Banga	Non-Executive Director	1 October 2018
Appointments		
Humphrey Singer	Executive Director	9 July 2018
Katie Bickerstaffe	Non-Executive Director	10 July 2018
Pip McCrostie	Non-Executive Director	10 July 2018
Justin King	Non-Executive Director	1 January 2019

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

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

The directors may from time to time appoint one or more directors. The Board may appoint any person to be a director (so long as the total number of directors does not exceed the limit prescribed in the Articles). Under the Articles, any such director shall hold office only until the next AGM where they will stand for annual election.

DIRECTORS' CONFLICTS OF INTEREST

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

DIRECTORS' INDEMNITIES

The Company maintains directors' and officers' liability insurance which provides 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 30 March 2019 and remain in force in relation to certain losses and liabilities which the directors (or Group Secretary) may incur to third parties in the course of acting as directors or Group Secretary or employees of the Company or of any associated company. 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 30 March 2019 for the benefit of the Trustees of the Marks & Spencer UK Pension Scheme, both in the UK and the Republic of Ireland.

PROFIT AND DIVIDENDS

The profit for the financial year, after taxation, amounts to £37.3m (last year £29.1m). The directors have declared dividends as follows:

Ordinary shares	£m
Paid interim dividend of 6.8p per share (last year 6.8p per share)	£110.3m
Proposed final dividend of 7.1p per share (last year 11.9p per share)	£115.4m
Total dividend of 13.9p per share for 2018/19 (last year 18.7p per share)	£225.7m

Subject to shareholder approval at this year's AGM, the final ordinary dividend will be paid on 12 July 2019 to shareholders whose names were on the Register of Members at the close of business on 31 May 2019.

SHARE CAPITAL

The Company's issued ordinary share capital as at 30 March 2019 comprised a single class of ordinary share. Each share carries the right to one vote at general meetings of the Company.

During the period, 242,884 ordinary shares in the Company were issued under the terms of the United Kingdom Employees' Save As You Earn Share Option Scheme at prices between 260p and 261p.

Details of movements in the Company's issued share capital can be found in note 24 to the financial statements on page 132.

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 may decide.

POWERS FOR THE COMPANY ISSUING OR BUYING BACK ITS OWN SHARES

The Company was authorised by shareholders at the 2018 AGM to purchase in the market up to 10% of the Company's issued share capital, as permitted under the Company's Articles. No shares were bought back under this authority during the year ended 30 March 2019 and up to the date of this report.

This standard authority is renewable annually; the directors will seek to renew this authority at the 2019 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 2018 AGM to allot relevant securities up to a nominal amount of £135,397,323. This authority will apply until the conclusion of the 2019 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 £162,504,984 and (ii) comprising equity securities up to a nominal amount of £325,009,968 (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 2020 or, if earlier, on 1 October 2020.

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 £24,375,748. In addition, this year a separate special resolution will be proposed, in line with institutional shareholder guidelines, to authorise the directors to make non pre-emptive issues for cash in connection with acquisitions/specified capital investments, up to a nominal amount of £24,375,748.

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 195 million ordinary shares and sets the minimum and maximum prices which will be paid.

The Company is currently conducting a rights issue to raise up to £601.3m, the terms of which were announced on 22 May 2019, using authorities granted at the 2018 AGM. Further details are in the Company's announcement made on that date.

INTERESTS IN VOTING RIGHTS

Information provided to the Company pursuant to the Financial Conduct Authority's (FCA) Disclosure Guidance and Transparency Rules (DTRs) is published on a Regulatory Information Service and on the Company's website. As at 30 March 2019, the following information has been received, in accordance with DTR 5, from holders of notifiable interests in the Company's issued share capital.

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

Notifiable interests	Ordinary shares	% of capital disclosed	Nature of holding as per disclosure
Schroders plc	90,130,249	5.549	Indirect interest (5.547%), CFD (0.001%)
Majedie Asset Management Limited	81,070,667	4.99	Direct interest
Blackrock, Inc.	77,449,103	7.78	Indirect interest (4.76%), securities lending (2.53%), CFD (0.48%)
Ameriprise Financial, Inc. and its group	82,524,463	5.079	Indirect interest (5.054%), direct interest (0.025%)
The Bank of Nova Scotia	2,578,006	3.15	Direct interest (0.15%), swap (2.99%)

In the period from 30 March 2019 to the date of this report, we received no further notifications.

STRATEGIC REPORT
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OTHER DISCLOSURES CONTINUED

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

COLLEAGUE INVOLVEMENT

We remain committed to colleague involvement throughout the business. Colleagues are kept well informed of the performance and strategy of the Group. Examples of colleague involvement and engagement, and information on our approach to our workforce, are highlighted throughout this Annual Report and specifically on pages 15 to 17 and on page 44.

Share schemes are a long-established and successful part of colleagues' total reward packages, encouraging and supporting employee share ownership. The Company operates both an all-employee Save As You Earn Scheme and Share Incentive Plan. Approximately 18,969 colleagues currently participate in ShareSave, the Company's Save As You Earn Scheme. Full details of all schemes are given on pages 114-116.

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

EQUAL OPPORTUNITIES

The Group is committed to an active equal opportunities policy from recruitment and selection, through training and development, performance reviews and promotion to retirement. The Company's policy is to promote an environment free from discrimination, harassment and victimisation, where everyone will receive equal treatment regardless of gender, colour, ethnic or national origin, health condition, age, marital or civil partner status, sexual orientation or religion. All decisions relating to employment practices will be objective, free from bias and based solely upon work criteria and individual merit.

The Company is responsive to the needs of its employees, customers and the community at large. M&S is an organisation which uses everyone's talents and abilities and where diversity is valued.

The directors support a business-wide inclusion strategy, with each member of the Operating Committee sponsoring an element of diversity, helping our employee-led diversity networks grow in numbers and strength and to embed a culture of inclusion across the organisation.

Further information on our diversity and inclusion initiatives can be found on page 47.

EMPLOYEES WITH DISABILITIES

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

M&S has continued to demonstrate its commitment to interviewing those people with disabilities who fulfil the minimum criteria, and endeavouring to retain employees in the workforce if they become disabled during employment. M&S will actively retrain and adjust employees' environments where possible to allow them to maximise their potential and will continue to work with external organisations to provide workplace opportunities through our innovative Marks & Start scheme and by working closely with Jobcentre Plus. The Marks & Start scheme was introduced into the distribution centre at Castle Donington in 2012/13, working with Remploy to support people with disabilities and health conditions into work, and this year marked 15 years since we launched the Marks & Start programme.

RESEARCH & DEVELOPMENT

Research and innovation remain key to our Food offer and the development of improved product and fabric in Clothing & Home. Further information is provided in the Plan A Report, available online.

GROCERIES SUPPLY CODE OF PRACTICE

The Groceries (Supply Chain Practices) Market Investigation Order 2009 (the "Order") and The Groceries Supply Code of Practice (the "Code") impose obligations on M&S regarding its relationships with its suppliers of groceries. Under the Order and Code, 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 (GCA).

M&S submitted its report, covering the period from 1 April 2018 to 30 March 2019, to the Audit Committee on 16 May 2019.

In accordance with the Order, a summary of that compliance report is set out below.

M&S believes that it has materially complied with the Code and the Order during the relevant period. No formal disputes under the Code have arisen during the reporting period. There have been seven instances during the reporting period in which suppliers have either alleged a breach or made a reference to potential non-compliance with the Code. M&S has worked with the suppliers to address the issues raised and they have all now been resolved or closed. One additional Code reference made by a supplier before 1 April 2018 was also resolved during the reporting period.

A detailed summary of the compliance report is available on our website.

POLITICAL DONATIONS

The Company did not make any political donations or incur any political expenditure during the year ended 30 March 2019. M&S has a policy of not making donations to political organisations or independent election candidates or incurring political expenditure anywhere in the world as defined in the Political Parties, Elections and Referendums Act 2000.

GOING CONCERN

In adopting the going concern basis for preparing the financial statements, the directors have considered the business activities as set out on pages 2 to 22 as well as the Group's principal risks and uncertainties as set out on pages 29 to 33.

Based on the Group's cash flow forecasts and projections, the Board is satisfied that the Group will be able to operate within the level of its facilities for the foreseeable future. For this reason, the Board considers it appropriate for the Group to adopt the going concern basis in preparing its financial statements.

See note 20 to the financial statements for more information on our facilities

LONG-TERM VIABILITY STATEMENT

The directors have assessed the prospects of the Company over a three-year period to March 2022. 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 p28

AUDITOR

Resolutions to reappoint Deloitte LLP as auditor of the Company and to authorise the Audit Committee to determine its remuneration will be proposed at the 2019 AGM.

ANNUAL GENERAL MEETING

The AGM of Marks and Spencer Group plc will be held at Wembley Stadium, Wembley, London on 9 July 2019 at 11am. The Notice of Meeting is given, together with explanatory notes, on pages 146-157.

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.

The Board requested that the Audit Committee review the Annual Report and provide its opinion on whether the report is fair, balanced and understandable. The Audit Committee's opinion is on page 51.

The directors are also responsible for preparing the Annual Report, the Remuneration Report and Policy and the financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have prepared the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRS) 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 IFRS (as adopted by the EU) have been followed, subject to any material departures disclosed and explained in the financial statements.
- Prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

OTHER DISCLOSURES CONTINUED

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

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

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

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

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

DISCLOSURE OF INFORMATION TO AUDITOR

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

The Directors' Report was approved by a duly authorised committee of the Board of Directors on 21 May 2019 and signed on its behalf by

Nick Folland

NICK FOLLAND GROUP GENERAL COUNSEL AND COMPANY SECRETARY
London, 21 May 2019