The delivery of our transformation strategy this year has continued to be challenging, not least due to the ongoing uncertainty resulting from the Covid-19 pandemic. Nonetheless, we remain confident in the strength and relevance of our transformation programme and in our ability to accelerate this beyond the current crisis. This is in no small part due to the enthusiasm and vigour with which our colleagues have faced this crisis. The Board’s primary objective remains to drive our strategy of transformation, ensuring the long-term, sustainable success of the business. In doing so, it is essential for us to be highly engaged, able to support and challenge senior management and committed to making the hard decisions required to transform the business. We also continue to fulfil our other core duties to oversee M&S’s culture, governance, financial controls, risk and change management.

The Governance section that follows is by intention concise, in keeping with our approach in previous years. Further detail on the Board, its Committees and our governance framework are available at marksandspencer.com/thecompany.

A REFRESHED BOARD

Last year, we completed a substantial refresh of the Board’s structure; this year, our refreshed Board has worked cohesively in its duties to the Company, guiding senior management in the delivery of our strategic priorities.

For the year ahead and the challenges that this inevitably brings, we have reviewed the balance of the Board and believe we have put in place a strong non-executive team with a breadth of skills, experience and perspectives for 2020/21. Katie Bickerstaffe has taken on a new role within the Company as Chief Strategy and Transformation Director and steps down from the Board in July alongside Alison Brittain. Two new non-executives, Tamara Ingram and Sapna Sood, and our new Chief Financial Officer, Eoin Tonge, join us in June. Humphrey Singer resigned as Chief Finance Officer and left the Board in December, while David Surdeau joined as Interim Chief Finance Officer in January 2020.

Full details of these changes are provided in the Nomination Committee Report on pages 57 to 58.

BOARD ACTIVITIES

The Board’s focus during the year had been to increase the pace of the Company’s transformation. It has received updates from all areas of the business on each of the strategic components comprising this transformation in detailed ‘strategic deep dives’, which it has then considered, debated and challenged.

In recent months, this focus has shifted towards addressing the escalating Covid-19 crisis, and has seen the Board’s activities and meetings rapidly increase in frequency to address the constantly changing situation.

An overview of the range of matters that the Board discussed and debated at its meetings during the year can be found on pages 48 to 49.

The reports of the Audit and Remuneration Committees for 2019/20 are available on pages 59 to 65 and 66 to 92 respectively.

COVID-19 RESPONSE

The Board has met at least weekly, by phone or online, since the World Health Organization declared the Covid-19 virus a pandemic, ensuring it was well placed to respond when the UK government later began its daily press briefings. It has worked with leadership to review in-depth scenario planning, and engaged teams throughout the business, while setting its expectations for M&S’s approach to each of its stakeholder groups, mindful of their respective needs.

The scale and pace with which the Company’s response has been coordinated by the Board is significant, and provides a valuable snapshot of M&S’s governance in action. A detailed overview of this governance, the teams involved and the individual decisions comprising our overall response to the Covid-19 pandemic can be found on pages 50 to 53.

INVESTMENT IN OCADO

In the early part of the year we worked until the execution to purchase 50% of the share capital of Ocado Retail Limited, combining 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.

From the outset of the transaction, we strongly believed that this investment would create significant, sustainable shareholder value over the long term, and would be a key component in our drive to become a truly digital retailer. Our belief in this is now stronger than ever in the wake of Covid-19. The successful launch of M&S products on the Ocado platform in September 2020 has therefore been a key priority for the Board during the year, and continues to be moving into the next.

DIVIDEND

In March, as part of our update on the impact of Covid-19, we announced that we did not anticipate making a final dividend payment for the 2019/20 financial year. We later announced in April that we also did not anticipate paying a dividend for the 2020/21 financial year. While this was a difficult decision, this is one of the proactive steps we have taken to strengthen our balance sheet and maximise liquidity for the likely duration of the crisis and recovery period beyond.

“The Board’s primary objective remains to drive and accelerate our strategy of transformation.”

Archie Norman, Chairman
Further information on our stakeholder considerations and activities during the Covid-19 pandemic can be found on pages 50 to 53.

Prior to the Covid-19 outbreak, 2019/20 had already been a year of proactive engagement with our investors. Our rights issue in June 2019, funding our acquisition of 50% of Ocado Retail, was delivered in line with our Digital First strategy. This was the first substantial UK digital rights issue undertaken, allowing digital participation by 180,000 shareholders. We also engaged with our largest institutional shareholders throughout the triennial review of our Remuneration Policy and have responded to their feedback on our proposals.

We know our Annual General Meeting (AGM) provides investors with another valuable opportunity to communicate with us. In recognition of this, we will be conducting this year’s ACM digitally, despite current lockdown measures, again supporting our digital strategy. In addition to being able to vote and submit questions electronically in advance, all shareholders will be able to join the meeting online to hear from Steve and me, ask questions and vote on our resolutions. Information on how to participate electronically, both in advance and on the day, can be found on pages 194 to 197.

Details of our engagement with stakeholders and our full response to s.172 of the Companies Act 2006 can be found on pages 20 to 21.

Archie Norman, Chairman

UK CORPORATE GOVERNANCE CODE

The UK Corporate Governance Code 2018 (the “Code”) is the standard against which we measured ourselves in 2019/20. The Code is available to view on 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 are summarised below, together with 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 46 to 47.

- 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
  An externally facilitated performance evaluation of the Board and its Committees was undertaken during the year in accordance with the requirements of the Code, details of which can be found on page 56.

- Attendance
  The directors have all attended an acceptable level of Board and Committee meetings, details of which are available on page 54.

- Committee Chair Experience
  1. The Audit Committee chairmen met the specific requirements with regard to recent and relevant financial experience throughout 2019/20.

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

- Governance Framework
  Our full Governance Framework, setting out 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. Our lead audit partner, Richard Muschamp, has been in place since the start of the 2019/20 financial year.

- Non-audit policy
  This is disclosed on our website, along with the limited non-audit work undertaken during 2019/20. Details of non-audit fees can be found on page 64.

- 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 65.

- Culture
  Information about how the Board has assessed and monitored culture can be found on pages 18 to 19 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 66.

- Workforce engagement
  The Chair of the Company’s workforce advisory panel, the Business Involvement Group (BIG), is invited to attend three 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 20 to 21.

- 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 19, 46, 49 and 58.
INDEPENDENT NON-EXECUTIVE DIRECTORS

Andy Halford
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.

CHAIRMAN

Archie Norman
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, Energies 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 DIRECTOR

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.

NEWLY-APPOINTED EXECUTIVE DIRECTOR

Eoin Tonge
Chief Financial Officer (Designate)
Appointed: Incoming June 2020
Key strengths and experience
- Strong financial background and extensive supply chain expertise.
- Significant experience in overseeing strategic programmes.
Eoin will join the business in June from Greencore, where he has been CFO since 2016. At Greencore, he oversaw the divestment of their US operations, strengthening the company’s balance sheet, returning capital to shareholders and simplifying the business. Prior to that he was MD of Greencore’s Grocery business and also worked in a variety of roles across finance, treasury and capital markets at Goldman Sachs.

BOARD AS AT 3 JUNE 2020 (DATE OF PUBLICATION)

Non-executive director tenure1
- 0-2 years: 5 (63%)
- 3-5 years: 1 (13%)
- 6-7 years: 2 (25%)
Sector experience
- Retail: 80%
- Consumer: 20%
- Finance: 30%
- E-commerce & technology: 30%
Gender diversity2
- Executive directors: Female (50%), Male (50%)
- Non-executive directors: Female (50%), Male (50%)
- All Board: Female (50%), Male (50%)

BOARD AS AT 3 JULY 2020 (FOLLOWING THE AGM)

Non-executive director tenure1
- 0-2 years: 5 (71%)
- 3-5 years: 1 (14%)
- 6-7 years: 1 (14%)
Sector experience
- Retail: 78%
- Consumer: 44%
- Finance: 33%
- E-commerce & technology: 33%
Gender diversity2
- Executive directors: Female (0%), Male (100%)
- Non-executive directors: Female (43%), Male (57%)
- All Board: Female (33%), Male (67%)

1. Figures rounded to the nearest 1%.
2. Katie Bickerstaffe was an executive director with effect from 27 April 2020.
Tamara Ingram
Non-Executive Director
Appointed: June 2020
Tamara joins from a longstanding leadership career in advertising, marketing and digital communications, having held leadership roles at WPP since 2002. Prior to this, she worked at Saatchi and Saatchi where she held the roles of CEO and Chair. Tamara has led renowned marketing campaigns for household brands around the world and delivered cultural and business transformation at pace within her own businesses as well as on behalf of clients. She is Non-Exec Chair of Wunderman Thompson and a non-executive director of Sainsbury’s, Marks & Spencer and Cadbury Healthcare.

Alison Brittain CBE
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. Alison will be standing down at the 2020 AGM having served over six years on the Board.

Katie Bickerstaffe
Chief Strategy and Transformation Director
Appointed: April 2020
(as Chief Strategy and Transformation Director) July 2018 (as Non-Executive Director)
Key strengths and experience
– Extensive experience of retail and operations.
– Significant understanding of UK retail and leading consumer-focused businesses.
Katie joined the leadership team as Chief Strategy and Transformation Director on 27 April 2020. As a result, she will step down from the Board at the 2020 AGM having served as a non-executive director for two years.
WHAT WAS ON THE BOARD’S AGENDA IN 2019/20?

The following pages provide an overview of the content and structure of the Board’s meetings and how consideration of the Group’s key stakeholders is central to its discussions (see the key to the right). Meeting agendas are agreed in advance by the Chairman, CEO and Company Secretary and are tailored to strike an appropriate balance between regular standing items, such as reports on current trading and financial performance, with one or two detailed “deep dives”. These enable the Board to exchange views and robustly debate elements of the Company’s performance, specific projects or areas of strategic significance.

PRINCIPAL COMMITTEE UPDATES

The Chairs of the Audit, Remuneration and Nomination Committees provide regular updates to the Board on the key issues and topics raised at those meetings, as well as any recommendations for the Board’s approval, ensuring that the Board as a whole is up to speed on a range of significant issues that fall outside of its own remit.

TRANSFORMATION PROGRAMME REVIEW AND KPI UPDATES

Updates on the progress of the transformation programme were provided at each meeting, supplemented by deep dives presented by the relevant business area as required. These updates enable the Board to keep a finger on the pulse of the transformation programme, providing guidance and challenge as needed and driving progress forwards.

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:

**Covid-19**
- Following the WHO’s declaration of a pandemic, held weekly calls to discuss and monitor the impact of Covid-19 on our business and stakeholders and agreed to continue to do so for as long as needed.
- Received updates on measures imposed by the government in response to the crisis and directed the Company’s response.
  + For more detail, see p50-p53

**Clothing & Home**
- Received updates on progress towards resetting the Clothing & Home operating model, resolving outstanding issues with business unit profitability and re-accelerating growth in online.
  + For more detail, see p12-p13

**Food**
- Reviewed progress of key elements of the Food transformation strategy, including lowering costs, delivering trusted value, reforming the supply chain, preparations for the Ocado launch and renewing the property estate.
  + For more detail, see p10-p11

**Home and Beauty**
- Received progress updates on the Home, Furniture and Beauty strategies, discussing cost base, logistical operations and challenges, and considered the future operating models of these businesses.

**Investment in Ocado Retail Limited**
- Discussed and approved matters relating to the rights issue, including timing and structure, the prospectus, launch communications and the impact of the rights issue on employee share plans.
- Received updates on the Ocado Retail Limited business plan, current activities and the key priorities and deliverables in preparation for transition by September 2020.
  + For more detail, see p9-p11, p29

**Brexit**
- Received updates on the Group’s preparations in light of developing government guidance, focusing on management of operational risk, financial impact and potential strategic consequences.
- Considered the potential impact over the longer term on the Company’s owned businesses in Ireland and the Czech Republic and its franchise business in France.
  + For more detail, see p37

**International**
- Discussed the stabilisation of the International business, roll-out of the market right pricing model and driving growth in key markets, particularly India.
  + For more detail, see p14-p15

**Property**
- Reviewed the property strategy and received updates on store renewals and the future shape of the estate.
  + For more detail, see p16

**Loyalty**
- Discussed options for a new Loyalty strategy, with work to conclude during the second half of 2020.
  + For more detail, see p17

**Culture**
- Received updates on the development of the HR community within M&S and the key areas of focus for delivery, including modernising supporting technological infrastructure, investing in leadership capability across the business and improving talent planning and succession processes.
- Received updates and discussed colleagues’ views and responses to changes in the business, including the re-launch of ‘Our Behaviours’ and organisation-wide communication from management.
  + For more detail, see p18-p19

**Business Involvement Group**
- Discussed the review of the role of National BIG to improve the way it engages with the business.
- Received updates on the activities of National BIG during the year and insights into the views of colleagues across the business.

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Key to stakeholder groups

M&S Shareholders  Colleagues  Suppliers  Customers  Communities  Partners

STRATEGY AND COMPANY PERFORMANCE

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

Business updates ● ● ●
- Received updates on progressive trading performance from each of the family of businesses.
- Considered a range of operational matters that had impacted the business and its supply chain during the year, including price investment in Food, volume growth, availability and waste.
- Discussed supply chain operations and performance, particularly over peak trading weeks and in light of the extreme pressures caused by the Covid-19-driven lockdown.

Transformation programme ● ● ●
- Received updates from the family of businesses on progress in delivering their key transformational programmes.
- Considered the significant strategic milestones reached during the year, challenges faced and solutions or mitigating actions identified.
  + For more detail, see p7 to p9

Digital and Data ● ● ●
- Discussed development of the Digital First strategy to review Sparks, build a leading customer database and achieve one third of UK sales online.
  + For more detail, see p17

FINANCIAL UPDATES

Capital, costs and budget ● ● ● ●
- Reviewed the Group’s liquidity position, cost base and capital expenditure requirements for key projects, assessing opportunities for potential savings to deliver £135m in repeatable cost savings by 2020/21.
- Discussed performance vs budget during the year and agreed the budgets for each of the family of businesses for 2020/21.
- Discussed and agreed the Three-Year Plan.
- Considered the impact of Covid-19-driven changes to the consumer, economic, governmental and regulatory landscape on the 2020/21 financials, including realistic downside scenarios.
  + For more detail, see p5 and p27-p31

Cash flow and dividend ● ● ●
- Reviewed cash flow, dividend cover and shareholder returns, particularly in the context of the rights issue and, later, the impact on the business of Covid-19, and agreed that no final dividend in respect of 2019/20 and no dividend in respect of 2020/21 would be paid.
  + For more detail, see p32

Regulatory and reporting ● ●
- Reviewed and assessed updated market guidance on company performance at key points throughout the year.
- Discussed the impact of IFRS 16 on the Company’s financial reporting.
- Approved the rights issue prospectus.

Risk ● ● ● ● ●
- Reviewed the Group Risk Profile twice during the year with a focus on the Group’s key internal and external risks, particularly risks arising through changes to the business and areas in which new risks were emerging.
- Agreed the principal Group-level risks and the appropriate mitigating actions.
- Engaged in regular robust debate in respect of the Group’s risk tolerance, the severity of the identified and agreed risks and the factors contributing to any subsequent re-evaluation of their placement in the Group Risk Profile.
  + For more detail, see p33-p42

GOVERNANCE

Board Review ●
- Supported the externally facilitated Board Review, with findings in respect of the Board’s effectiveness and actions to be discussed in depth on conclusion of the evaluation process.
  + For more detail, see p56

Board succession and diversity ●
- Considered and reviewed the Board’s composition and succession needs and received updates on the search for a CFO.
- Approved the appointment of two new non-executive directors.
- Approved the revised Board Diversity Policy.
  + For more detail, see p57-p58

Internal governance processes ●
- Approved changes to the Group Delegated Authorities to support the family of accountable businesses operating model.
  + For more detail, see p60-p61

Regulatory disclosures ● ● ●
- Reviewed and approved, according to the Audit Committee’s recommendations, the Annual Report and Accounts, Notice of Meeting, Half and Full Year Results announcements, Modern Slavery Statement and annual Groceries Code Adjudicator (CCA) Compliance report.

AGM ●
- Approved the resolutions to be put to shareholders at the AGM.
- Agreed to deliver a Hybrid AGM in 2020 following the success of this approach in 2019 and in light of measures introduced by the government in response to the Covid-19 pandemic.
- Reviewed specific issues raised by shareholders throughout the year to be addressed in the Chairman’s AGM statement.
  + For more detail, see p183 to p197

Board Involvement Program ●
- Agreed the Board Involvement Programme to enhance the director’s engagement with and understanding of different areas of the business.

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GOVERNANCE IN ACTION

COVID-19 RESPONSE

The Covid-19 pandemic has been unprecedented in scale and pace of impact and has changed the way people around the world live their lives. Significant decisions and adjustments have had to be made by organisations on a daily basis and M&S has been no exception, with quick actions required in each of its family of businesses to respond to a constantly changing and uncertain situation. These pages examine the governance behind M&S’s response to Covid-19 to date, focusing on our response to four central issues: Colleagues, Customers and Business Continuity; Supply & Demand; and Balance Sheet Resilience.

HOW THE EVENTS UNFOLDED

**Covid-19 emerges and reaches Europe**

<table>
<thead>
<tr>
<th>Date</th>
<th>Event Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>29 JAN</td>
<td>UK’s first two patients test positive</td>
</tr>
<tr>
<td>30 Jan</td>
<td>WHO declares a global health emergency</td>
</tr>
<tr>
<td>23 FEB</td>
<td>Italy sees a major surge in cases and introduces strict measures to lock down towns in Lombardy</td>
</tr>
</tbody>
</table>

**Early UK impact**

<table>
<thead>
<tr>
<th>Date</th>
<th>Event Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>28 FEB</td>
<td>UK confirms first case of the illness passed on inside the country, and the global stock markets have their worst week since the 2008 financial crisis</td>
</tr>
<tr>
<td>11 MAR</td>
<td>WHO declares the virus a pandemic</td>
</tr>
<tr>
<td>16 MAR</td>
<td>UK government begins daily press briefings on their Covid-19 response</td>
</tr>
<tr>
<td>20 MAR</td>
<td>M&amp;S issues Regulatory News Service (RNS) announcement on its Covid-19 response</td>
</tr>
</tbody>
</table>

**UK lockdown begins**

<table>
<thead>
<tr>
<th>Date</th>
<th>Event Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>23 MAR</td>
<td>UK lockdown measures announced</td>
</tr>
<tr>
<td>2 APR</td>
<td>Worldwide cases of Covid-19 passes 1 million</td>
</tr>
<tr>
<td>15 APR</td>
<td>Worldwide cases of Covid-19 passes 2 million</td>
</tr>
</tbody>
</table>

**Extended lockdown**

<table>
<thead>
<tr>
<th>Date</th>
<th>Event Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>20 APR</td>
<td>UK lockdown measures extended by another 3 weeks</td>
</tr>
<tr>
<td>28 APR</td>
<td>M&amp;S issues RNS announcement on strengthened liquidity</td>
</tr>
</tbody>
</table>

OUR RESPONSE IN NUMBERS

<table>
<thead>
<tr>
<th>Category</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board meetings</td>
<td>12</td>
</tr>
<tr>
<td>CMT meetings</td>
<td>51</td>
</tr>
<tr>
<td>Colleague announcements</td>
<td>70</td>
</tr>
<tr>
<td>Market updates</td>
<td>2</td>
</tr>
<tr>
<td>Value of product and cash donations</td>
<td>£928k</td>
</tr>
<tr>
<td>Charity T-shirt’s sold</td>
<td>65k</td>
</tr>
<tr>
<td>Meals donated to Neighbourly</td>
<td>1.29m</td>
</tr>
<tr>
<td>Charity bags for life sold</td>
<td>405k</td>
</tr>
</tbody>
</table>

* Figures as at 14 May 2020.
Early UK impact

Crisis Management Team
When Covid-19 reports emerge and lockdown measures are imposed in China and Hong Kong, sourcing offices are closed and communications are issued to them, updating them on health and safety measures and thanking them for their efforts in mitigating the impact on the Clothing & Home supply chain while working from home to keep the chain moving.

Government Relations Team
Begins to liaise with UK government to determine what their position is on travel, ensuring that we adhere to their advice and can make preparations for any impending changes.

Crisis Management Team
Cancels all business travel of colleagues and suppliers to and from affected areas in Hong Kong and China.

Customers and Business Continuity

Crisis Management Team
Reviews potential sourcing impacts and considers actions required to redirect sourcing from Southeast Asia to Turkey, to ensure continuity of availability for customers. Ensures that all support centre colleagues have appropriate and up-to-date remote working software on their laptops.

Supply & Demand

Board
Considers potential Clothing & Home product supply issues from China when Covid-19 reports emerge in the press, and directs the senior leadership team to investigate.

Crisis Management Team
When the team is established, it begins to take actions to review supply chain, inbound goods and raw materials sourcing, including alternatives from countries as yet unaffected.

Balance Sheet Resilience

Crisis Management Team
Begins reviewing the financial impact of primary and secondary supplier and supply chain issues, and the costs associated with strategically pivoting sourcing away from Southeast Asia to Turkey.

Supply & Demand

Disclosure Committee
Discusses on 4 March recent Covid-19-driven market volatility and challenging trading conditions, including a recent drop in demand, and the impact of these on the Company’s forward guidance. An update is received from a broker noting that the market is reacting to high levels of uncertainty. The DC agrees that it does not currently have any certainty on trading conditions or outturn, to provide the market with a precise update.

Board
Receives an update on Covid-19 from all areas of the business at its meeting on 12 March and directs the business to continue its focus on scenario planning, agreeing that it will now meet more frequently to receive updates:

- International business has experienced significant decreases in demand in February due to social-distancing measures, particularly in Hong Kong and Singapore, and is working with all franchise partners and joint ventures to ensure that social distancing and lockdown restrictions imposed in each country are adhered to.
- Clothing & Home has been working closely with suppliers to mitigate the impact of the virus on sourcing. China production for delivery in March and April has been delayed by 2-4 weeks and 30% of Bangladesh production for delivery between April and June has been delayed by 4-6 weeks. So far, no demonstrable impact on Clothing & Home sales, but customer behaviour is being monitored.
- Food has been reviewing the risks to packaging and raw material sourcing to understand contingency options. Again though, no evidence of impact to sales in February other than in sale of anti-bacterial products, but the first week of March saw an increase in sales of certain groceries and household goods.
- Ocado Retail has seen a spike in order volumes in the first week of March.

Disclosure Committee
On 17 March, the DC continues its considerations of the recent impact on trading ahead of the Board meeting on 18 March, noting that the impact is not yet clear, but could be significant. A project list is created for individuals considering the financial impact of the virus on the business, and a broker update is received noting that all businesses are experiencing the same trading and earnings impact, and therefore the Company’s liquidity and Business Continuity arrangements are of increased interest for the market.
Early UK impact continued

- **Board**
  Receives an update on UK trading on 18 March, noting that there has been a material decline in sales in Clothing & Home, and improved trading in Food. The Board considers a draft RNS to update the market on these trading changes, noting that the impact on the forecast results is not yet clear, and therefore requests further clarity on trading impact and broker feedback. Delegates authority to the DC once impact is finalised to review and approve an RNS.

- **Disclosure Committee**
  On the evening of 19 March, DC receives finalised figures for review on the impact of Covid-19 on the 2019/20 profit outlook and agrees that inside information now exists. Reviews an updated draft RNS and approves its publication on 20 March at 7am.

Balance Sheet Resilience

- **Crisis Management Team & Operating Committee**
  At direction of the Board, the CMT and OC begins scenario planning exercises on the 2020/21 budget, looking at an anticipated lockdown and drop in demand – OC focuses on adjustments that can be made to anticipated expenditure in order to conserve liquidity in the near term.

- **Board**
  Reviews on 18 March the CMT and OC’s proposals for building resilience in the balance sheet for 2020/21 alongside a draft RNS to update the market on these changes:
  - Capex: Significant reduction in the budgeted capital expenditure for 2020/21 from up to £400m down to c.£140m.
  - Opex: modelling across the business ongoing, but options being explored are focused on Clothing & Home supply chain – cancelling, amending or deferring supplier orders.
  - Liquidity: revolving credit facility (RCF) debt covenants reviewed to ensure access to the £1.1bn facility. Board also considers the merits of the Company applying to the Bank of England’s Covid Corporate Financing Facility (CCFF), and directs the CMT to investigate and complete the next steps required to do so.
  - Non-payment of a Final Dividend: Board considers whether this is a prudent approach, and requests that further clarity be provided on the quantum of saving expected by not paying a dividend. Board delegates authority to a sub-committee to decide on the dividend approach, and to the DC to review and approve an RNS announcing these changes.

- **Disclosure Committee**
  On 18 March, DC notes that the Board has directed the business to investigate eligibility and application to the CCFF. A project list is created for individuals working on this application given the potential commercial sensitivity of the information.

- **Disclosure Committee**
  Following approval by the Board’s sub-committee on the approach not to pay a final dividend, on the evening of 19 March the DC reviews an updated draft RNS and approves its publication on 20 March 7am.

UK lockdown begins

- **Government Relations Team**
  After the UK’s Coronavirus Job Retention Scheme is announced on 20 March, the CMT and GRT reviews the applicability of the scheme to M&S colleagues.

- **Crisis Management Team & Operating Committee**
  Following announcement of UK lockdown measures on 23 March and closure of non-essential stores, CMT works immediately to ensure all Outlets are closed from 24 March. All Simply Food stores, standalone Food Halls and distribution centres continue to operate, with new social-distancing measures in place. Full-line stores also remain open, but Clothing & Home sections are packed down, with all colleagues supporting Food teams.

- **Government Relations Team & Crisis Management Team**
  At the direction of the OC and with assistance from the M&S Legal team, reviews the applicability of the Coronavirus Job Retention Scheme and conducts a week of consultation with colleagues through the BIC network to ensure that furloughing can take place on a voluntary basis as far as possible.

- **Board**
  Having been reviewed and approved already by the OC, and following consultation with BIC, the Board reviews on 26 March the CMT and GRT’s initial proposals for store colleague furloughing. 25,000 store colleagues are gradually placed on furlough on full pay over the next week, with colleagues continuing to work receiving a 15% uplift in pay.

- **Government Relations Team & Crisis Management Team**
  At the direction of the OC, reviews the extent to which the Coronavirus Job Retention Scheme can be applied to support centre staff too, consulting with senior leadership to evaluate workloads and BIC to consider colleague concerns.

- **Board**
  Reviews on 9 April the proposals for furloughing support centre colleagues. In stages starting from 14 April, c.1,000 colleagues are placed on furlough on 90% of salary. Those still working will receive an equity grant via the Company’s Restricted Share Plan equivalent to 5% of their salary for the furlough period. This ensures consistent treatment of all colleagues, by maintaining a 15% differential in pay between those working and those on furlough.
Customers and Business Continuity

- **Crisis Management Team**
  Following announcement of UK lockdown measures on 23 March and closure of non-essential stores, CMT works immediately to ensure all outlets are closed from 24 March.

- **Operating Committee**
  Directs the CMT and GRT to review ways in which M&S can support its communities and the NHS.

- **Crisis Management Team**
  Work continues with assistance from the M&S legal team to ensure that appropriate social-distancing measures are in place in stores and distribution centres, to protect our customers and colleagues and ensure that they can continue to operate while complying with health and safety laws, government guidance and new social distancing legislation in Wales and Scotland. 2 metre queuing systems in place; sneeze screens installed at tills; extra cleaning; extended contactless limit and use of the Mobile Pay Go shopping app to additional stores.

- **Crisis Management Team**
  Implements measures to support communities and the NHS, using colleague suggestions from ‘Suggest to Steve’ and through the BIG network, in addition to advice from the GRT which has been consulting with the government on how M&S can help:
  - Donating thousands of “We are the Nightingale” T-shirts for the uniform pack of the NHS Nightingale frontline team.
  - Donating free clothing care packs for patients discharged from NHS Nightingale London.
  - Donating 4,000 pairs of pyjamas to be used as scrubs to NHS Derbyshire, close to our Castle Donington distribution centre.
  - Delivering nearly 5,000 prepared meals, sandwiches and treats for NHS workers at St Mary’s Hospital, Paddington and Great Ormond Street Hospital, every week for the next two months.
  - Added NHS Charities Together, the National Emergency Trust and National Emergency Trust and Nightingale London.
  - Pledged that no fabric will go to waste and will be used at a later date.
  - Efforts of the Ethical Trading Initiative and International Labour Organization to be supported – facilitating the distribution of emergency relief funds, and supporting safe working where manufacturing continues.
  - Community projects within our supply chain to continue to be supported.

Supply & Demand

- **Board**
  Continues to receive at least weekly updates on supply and demand issues. Demand continues to be the key focus:
  - The closure of all Outlets and Clothing & Home sections of stores has significantly impacted Clothing & Home sales, and while sales online continue to operate this has not closed the gap.
  - Food trading has been unpredictable and while this had initially been significantly up on the prior year, this was now beginning to decline.

- **Crisis Management Team**
  With demand now the Board’s key concern in Clothing & Home, and with UK lockdown measures announced on 23 March, the CMT works immediately with the Clothing & Home sourcing teams to notify all suppliers to halt production of un-cut items on 24 March. All suppliers are engaged on measures to try and defer supply, while committing to support them:
  - All product shipped before 24 March to be paid for on normal terms.
  - Pledged that no fabric will go to waste and will be used at a later date.
  - Efforts of the Ethical Trading Initiative and International Labour Organization to be supported – facilitating the distribution of emergency relief funds, and supporting safe working where manufacturing continues.
  - Community projects within our supply chain to continue to be supported.

Balance Sheet Resilience

- **Government Relations Team & Crisis Management Team**
  Following the Board’s direction, the teams commence the Company’s application process for the CCFF and review additional liquidity and balance sheet strengthening options.

- **Disclosure Committee**
  Meets on 25 March to note that Standard & Poor’s (S&P) and Moody’s had notified the Company that they would be downgrading the ratings of Marks and Spencer plc’s senior unsecured debt. Agrees that no market announcement is required, given that S&P and Moody’s would make their own announcements, the impact of the downgrades would not be material to earnings and had already been outlined to the market in the rights issue prospectus issued in May 2019, and the significant volume of other rating actions being taken by S&P in the wake of Covid-19 rendering this less noteworthy.

Colleagues

- **Board**
  In its meeting on 20 April, reviews measures to date on Covid-19, particularly impact on colleagues – agrees that colleague communications should be issued to thank them for their efforts, wish those in hospital quick recoveries, and express condolences for colleagues who have passed away after contracting the virus.

Customers and Business Continuity

- **Crisis Management Team**
  Initiatives to support customers and communities continue:
  - Launched a new bag for life design in support of the NHS, with a thank you message and all profits going to NHS Charities Together.
  - “All In This Together” T-shirts are launched on 23 April and sell out in the same day, with one sold every second between 1pm and 5pm on launch day and all profits going to NHS Charities Together.

Supply & Demand

- **Crisis Management Team**
  Assesses the ongoing impact of a prolonged lockdown period on supply and demand and takes the following actions:
  - In Clothing & Home – assesses warehouse capacity limits and long-term storage options for stock, while also ensuring that Donington is receiving a steady supply to continue trading online.
  - In Food – commits to making immediate payment to smaller food suppliers, and launches a new marketing campaign in support of British farmers.

Balance Sheet Resilience

- **Board**
  Receives confirmation from GRT & CMT that the CCFF application has been successful. The teams have also successfully negotiated with the syndicate of banks providing the £1bn RCF to substantially relax or waive covenant conditions for tests arising until September 2021. Agrees that the market should be updated on these liquidity mitigations.

- **Disclosure Committee**
  On the evening of 27 April 2020, reviews a draft RNS and approves its publication on 28 April 7am.
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 eight 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 p46–p47

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GOVERNANCE

LEADERSHIP AND OVERSIGHT

THE BOARD

The Role of the Board
The Board is responsible for establishing the Company’s purpose, values and strategy, promoting its culture, overseeing its conduct and affairs, and for promoting the success of the Company for the benefit of its members and stakeholders.

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 20 and 21 of the Strategic Report highlight how the Board and has sought to effectively consider and engage with our shareholders and stakeholders.

The Board discharges some of its responsibilities directly and others through 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 2 to 43.

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 59 to 65).
- Effective succession planning for key senior personnel, much of which is delegated to the Nomination Committee (see page 57).

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 provided below and covered in more depth by the Schedule of Matters Reserved to the Board, available at marksandspencer.com/thecompany.

SUPPORTING COMMITTEES AND BUSINESS BOARDS
- Food Board
- Clothing & Home Board
- International Board
- Retail & Property Board

There is clear delegation and oversight from the Board to the Supporting Committees and Business Boards, strengthening decision-making across the family of businesses.

PRINCIPAL BOARD COMMITTEES

Audit Committee
- Monitor integrity of financial statements
- Review internal controls
- Maintain relationship with auditors

For more detail, see p55-p66

Nomination Committee
- Review Board composition and diversity
- Propose new Board appointments
- Monitor Board succession needs

For more detail, see p57

Remuneration Committee
- Remuneration policy
- Performance-linked pay schemes
- Share-based incentive plans

For more detail, see p66-p92

BOARD ROLES

Chairman
The Chairman is accountable to shareholders for the effectiveness of the Board and that it builds a sustainable business through consistent, profitable growth, taking account of the interests of wider stakeholders. The Chairman promotes the highest standards of corporate governance, assisted by the Company Secretary.

Chief Executive
The Chief Executive is accountable to the Board for all aspects of the performance and management of the Group. This includes developing business strategies for Board approval and achieving timely and effective implementation while managing risk.

Executive directors
The executive directors are accountable to the Chairman for their contribution on the Board and to the Chief Executive for business areas and delivery of Board-approved operating and capital plans.

Non-executive directors
The non-executive directors bring an independent, external dimension to the Board’s activities and play their part in relation to strategy, performance, risk and people.

The non-executive directors support and constructively challenge the executive team within the spirit of partnership and mutual respect.

Senior Independent Director (SID)
The SID supports the Chairman on all governance issues including the annual review of Board effectiveness. The SID provides a communication channel between the Chairman and non-executive directors and, when required, principal shareholders including representative bodies.

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The 2020 external Board Effectiveness and Developmental Review was conducted according to the principles of the UK Corporate Governance Code 2018 (the “Code”) and the supporting Guidance on Board Effectiveness, and was facilitated by Gurnek Bains and Georgia Samolada of Global Future Partners (“GFP”). Gurnek Bains, Georgia Samolada and GFP have no other connection with the Company. The Company’s last externally facilitated Board Review process occurred in 2017.

STAGE 1
GFP were provided with a full briefing on the objectives of the Board Review by the Chairman in June 2019. In making its assessment of the Board and principal committees’ effectiveness, GFP observed proceedings of at least one Board meeting and one meeting of each committee. Electronic access to the papers for these meetings was provided to GFP in advance via a secure portal. GFP was also given access to a full year’s worth of Board and committee papers via this portal to assist them in assessing the quality of the information that had been provided to the Board and committees during the year.

Detailed introductory interviews were conducted with each Board member and the General Counsel and Company Secretary in advance of the Board and committee meetings observed by GFP.

STAGE 2
A report was produced by GFP based on their observations and the information compiled from their Stage 1 interviews. The recommendations presented in the report were based on the bespoke objectives set out in the brief and on the principles of the Code and other corporate governance guidelines.

STAGE 3
Secondary interviews were conducted with Board members and the General Counsel and Company Secretary at which feedback was provided on GFP’s observations of the Board and committee meetings they attended. These meetings also provided individual feedback to all Board members and the General Counsel and Company Secretary, as well as providing an opportunity for further discussion of themes that had emerged from the Stage 1 interviews.

STAGE 4
GFP’s draft conclusions were discussed first with the Chairman and then with the whole Board at its meeting in May 2020. Gurnek Bains and Georgia Samolada were present for this discussion, which was recorded in the minutes of the meeting. Following the Board meeting, GFP provided feedback to the chairs of each of the principal committees relating to their committees’ respective performance and effectiveness. Board members provided their feedback on the Chairman to the Senior Independent Director (Andy Halford). The Chairman also received feedback from all Board members.

BOARDS INSIGHTS
The review found that the Board benchmarks well in terms of its overall composition, its ways of working and the value it adds to the business. It was deemed to be well constituted to meet the transformational challenges ahead and to address the key strategic decisions that need to be made about the business.

From a development perspective, the review highlighted certain areas of focus that would further lift the performance and effectiveness of the Board to higher levels. These were discussed with the Board and an appropriate action plan agreed. Additionally, external feedback was provided to each Board member in relation to their individual performance. It was agreed that developmental support would be provided to the Board, the principal committees and individual Board members.

COMMITTEES
Board committees were also reviewed and, overall, were considered to function well in terms of their effectiveness, decision-making and the rigorous manner in which they addressed any issues brought to their attention.

More detail on the findings of the reviews of the committees’ effectiveness can be found on pages 57, 61 and 91.

CHAIRMAN
The Chairman was considered to provide robust leadership for the Board, strengthening the link between the Board and senior leadership and driving the pace of transformation.

TABLE: THE BOARD REVIEW

<table>
<thead>
<tr>
<th>STAGE 1</th>
<th>STAGE 2</th>
<th>STAGE 3</th>
<th>STAGE 4</th>
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<tbody>
<tr>
<td>Briefing &amp; Board observation</td>
<td>Results collated, reported &amp; evaluated</td>
<td>Secondary interviews with Board</td>
<td>Discussion with committee chairs</td>
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<tr>
<td>One-to-one interviews with Board</td>
<td>Board discussion</td>
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Note: The above activities were undertaken by Gurnek Bains and Georgia Samolada of Global Future Partners.

*Gurnek Bains and Georgia Samolada in attendance.

BOARD ACTION PLAN
The Board action plan for 2020/21 includes:

- Increasing the level of engagement between the Board and senior executives and developing a mentoring programme.
- Working closely with the senior executive team on reporting into the Board and monitoring of the transformation programme.
- Developing a clear action plan to track progress against GFP’s Board Evaluation recommendations.
- Modelling an open, high-performance culture to lead the culture change of M&S.
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.

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 46 and 47.

More information on the Nomination Committee is available in our full disclosure of compliance with the UK Corporate Governance Code at marksandspencer.com/thecompany.

INTRODUCTION

In my Chairman’s governance overview on page 44, I noted that this year has seen a review of the balance of the Board. This work, undertaken by the Nomination Committee (the “Committee”), ensures that we have in place a strong Board with diverse and relevant operational experience, which is going to be critical in the year ahead for our accelerated transformation in the aftermath of Covid-19.

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.

At the end of December, Humphrey Singer stepped down as Chief Finance Officer, having spent 18 months establishing the financial foundations of our transformation. While we undertook our search for a replacement, David Surdeau joined us as the Interim Chief Finance Officer in January, and has since contributed to our Covid-19 response measures to cut costs and strengthen our liquidity.

More recently, and mindful of the Company’s strategy, the Committee has sought to enhance the Board and senior leadership’s capabilities and experience of business transformation programmes. Katie Bickerstaffe started in her new position as Chief Strategy and Transformation Director in April and will be stepping down from the Board at the ACM in July to focus on her new role. We welcome Tamara Ingram and Sapna Sood to the Board, alongside Eoin Tonge as Chief Financial Officer, in June. I’m sure all of them will add to the Board’s strategic capabilities, having each had hands-on experience of delivering transformation.

Finally, we extend our sincere thanks to Alison Brittain, who will be stepping down from the Board prior to the ACM in July following six years of service.

ACTIVITIES AND EVALUATION

During the year, the Committee recommended the appointments of David Surdeau as Interim Chief Finance Officer, Katie Bickerstaffe as Chief Strategy and Transformation Director and Eoin Tonge as Chief Financial Officer. It also engaged in the ongoing search for new non-executive talent, culminating in appointment recommendations following the year end, in addition to supporting the search for, and development of, senior talent.

The Committee’s performance was reviewed as part of the 2019/20 externally facilitated Board Evaluation, which is covered on page 56. The review established that the Committee functions well in terms of planning succession to Board roles and other senior positions. Developmental feedback and support has been provided as part of the evaluation process.

MEETINGS HELD IN 2019/20

<table>
<thead>
<tr>
<th>Member since</th>
<th>Number of meetings attended</th>
<th>Maximum possible meetings</th>
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<tbody>
<tr>
<td>Archie Norman 1 Sept 2017</td>
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<td>7</td>
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<tr>
<td>Katie Bickerstaffe¹ 10 Jul 2018</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>Alison Brittain 1 Jan 2014</td>
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<td>7</td>
</tr>
<tr>
<td>Andrew Fisher 1 Dec 2015</td>
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<td>7</td>
</tr>
<tr>
<td>Andy Halford 1 Jan 2013</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Justin King 1 Jan 2019</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Pip McCrostie² 10 Jul 2018</td>
<td>3</td>
<td>7</td>
</tr>
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</table>

1. Katie Bickerstaffe was not required to attend the meeting on 4 February 2020.
2. Pip McCrostie was unable to attend four Committee meetings due to medical reasons.
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.

The Board’s minimum target has been achieved and maintained throughout the course of this year. Three of our current Board directors are women which, at the start of 2019/20, amounted to 33% of our Board. With the resignation of Humphrey Singer in December, this increased to 38% of the Board.

Two non-executive directors will soon join the Board, alongside our new Chief Financial Officer, while two of our current non-executive directors will be stepping down. Once these changes have taken place, the Board’s minimum target level of 30% female directors will continue to be maintained (33%).

The Board remains committed to its minimum 30% target for female representation and is also pleased to have met and maintained 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 and targets for Board diversity also apply to our Operating Committee, and currently three members of our Operating Committee are women from a total membership of ten (30%). The Board continues to strengthen the pipeline of senior female executive talent within the business, and to ensure that there are no barriers to women succeeding at the highest levels within M&S. More information on the gender balance of our senior management can be found on page 19.

Appoint at least one director from an ethnic minority background to the Board by 2021.

With regard to the recommendations of the Parker Review Committee, the Board has been committed to achieving ethnic diversity on the Board as well as gender diversity. With the appointment of Sapna Sood in June, this target will be met.

Assist the development of a pipeline of high-calibre candidates by encouraging a diverse range of senior individuals within the business to take on additional responsibilities and roles to gain valuable Board experience (such as non-executive roles).

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 and 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.
- Senior management mentoring schemes and engagement forums sponsored by Board directors and Operating Committee members.

Only engage executive search firms who have signed up to the Voluntary Code of Conduct for Executive Search Firms on behalf of both gender and ethnic 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 The MBS Group and Russell Reynolds, neither of which have any other connection with the Company aside from the provision of recruitment services.

Ensure non-executive directors ‘long lists’ reflect the Board’s diversity commitments in respect of gender and ethnicity, as set out in this policy.

All long lists of potential appointments include at least 50% female candidates, and we are committed to ensuring that candidates from all ethnicities are considered.

Consider candidates for appointment as non-executive directors from a wider pool including those with little or no previous FTSE board experience.

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.

Report annually against these objectives and other initiatives taking place within the Company which promote gender, social and ethnic 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 fourth 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.
- Launch of the Breakthrough Leaders programme aimed at developing and accelerating the progression of diverse talent in the business.
- 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.
- 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 for further information on diversity across M&S

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INTRODUCTION
As Chairman of the Audit Committee (the “Committee”), I am pleased to present the Committee’s report for the year ended 28 March 2020. These pages outline how the Committee discharged the responsibilities delegated to it by the Board over the course of the year, and the key topics it considered in doing so.

While the Committee’s core duties were unchanged, it reviewed the Company’s systems of internal control and risk management extensively this year, as part of the Group’s revised risk review process. This included providing valuable advice and oversight for the establishment of Ocado Retail Limited’s systems of internal control. The Committee also reviewed and approved a new Code of Conduct and control framework for monitoring compliance with Group policies. Each of these activities, and our ongoing review of them, help to steer the Company towards improving the maturity of its internal controls and compliance processes.

Of course, our review of the Company’s risk management processes became increasingly critical towards the end of the financial year with the emergence of Covid-19 and the risks that this posed: to the health and safety of our colleagues and customers around the world; to our supply chain in Asia; and then ultimately to the demand for our products and ability to operate our stores. While the Board has managed the Company’s response to mitigate these risks, which has been explored on pages 50 to 53, Committee members have provided senior leadership with additional knowledge and advice when considering mitigating controls and disclosure implications. The Committee has also, and will continue to, review the underlying risk management processes, ensuring that the impact of the crisis is not compounded by the realisation of additional risks.

The Committee fulfils 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, which is an ever more crucial task as we escalate our transformation and move beyond the Covid-19 crisis. Our thanks go to Alison Brittain for her contributions over the last six years in ensuring that the Committee fulfilled its role, as she leaves the Committee upon her standing down from the Board prior to the ACM.

COMMITTEE MEMBERSHIP
The Committee solely comprises independent non-executive directors. Justin King joined the Committee on 4 November 2019. Detailed information on the experience, qualifications and skillsets of all Committee members can be found on pages 46 and 47.

INDEPENDENCE AND EXPERIENCE
The Board has confirmed that it is satisfied that Committee members possess an appropriate level of independence and relevant 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.

MEETINGS HELD IN 2019/20
The Committee held five meetings during the year, with members of senior management invited to attend and to present 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 to facilitate meaningful dialogue during Committee meetings. To support him in fulfilling this role during the year, Andy Halford met regularly, on a one-to-one basis, with the Chief Finance Officer and the Interim Chief Finance Officer, the Director of Group Finance, the Head of Internal Audit & Risk, members of senior management and the lead audit partner from Deloitte.

More information about the Audit Committee is available in our full disclosure of compliance with the UK Corporate Governance Code at marksandspencer.com/thecompany.

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<tr>
<th>Member since</th>
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<tr>
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<tr>
<td>Alison Brittain</td>
<td>11 Mar 2014</td>
<td>5</td>
</tr>
<tr>
<td>Pip McCrostie</td>
<td>10 Jul 2018</td>
<td>4</td>
</tr>
<tr>
<td>Justin King</td>
<td>4 Nov 2019</td>
<td>2</td>
</tr>
</tbody>
</table>

1. Pip McCrostie was unable to attend the meeting on 20 January 2020 due to medical reasons.
2. Justin King joined the Committee on 4 November 2019.
Reviewed and approved the
monitors of the internal control framework ensured 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, and included controls in relation to the Clothing & Home Sourcing Office Operating Framework. In this instance, the Committee provided robust challenge on the standards of controls in operational areas such as mandatory training and fire, health & safety, and encouraged clearer accountability for monitoring compliance.

During the year, the Committee completed its first full cycle of reviews under the Group's revised risk review process. The Group's businesses and core functions are accountable for managing their own risks, in line with the Group risk process, and monitoring their internal controls, and now provide the Audit Committee with a detailed annual update for review. These are outlined below under Management Updates.

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

Finally, at the end of the year, the Committee reviewed improvements to be made to the Group's overarching governance and internal control framework. It approved the publication of a new Code of Conduct, to replace the previous Code of Ethics and Behaviours, and an underlying suite of Group Policies which set a floor of minimum commitments and responsibilities for business conduct. During the next financial year, the Committee will monitor compliance with the Code of Conduct by tracking reporting against each of the Group Policies’ compliance metrics.

**MANAGEMENT UPDATES**

The Committee received detailed updates from one or more business areas at each of its meetings; an overview of these updates are summarised below. These presentations are scheduled on a rolling 12-month basis, with additional matters identified by Internal Audit added throughout the year as they arise.

**Cyber security**

– Received updates on the maintenance of adequate cyber security systems and work undertaken to improve cyber security capabilities.

– Considered lessons to be learnt from high-profile data breaches within the market.


**Digital & Data**

– Reviewed the risks and mitigating controls identified by the newly formed Digital & Data function, particularly in relation to using data effectively in decision-making, and progressing the cultural changes required to drive the digital transformation.

**Stores & Property**

– Received an update on the changing risk profile of Stores & Property, particularly in relation to trading safely and legally in stores, the UK store estate transformation programme and the use of third-party contractors on construction projects.

– Reviewed the actions recommended by the newly restructured Health & Safety team to mitigate risk within property construction, maintenance and facilities management works.

**Food**

– Considered changes to the Food business’ risks and internal controls, including improvements in supplier governance processes to mitigate GSCOP compliance risk.

– Discussed the emerging risk related to ensuring adequate planning and preparation activities for the Ocado launch.

– Noted the key risks to business performance and profitability associated with a ‘no deal’ Brexit, and agreed that these required consideration by the Board.

**Bank & Services**

– Considered the identified risks associated with the commercial partnerships and regulatory responsibilities managed by Bank & Services.

**Clothing & Home**

– Received an update on the Clothing & Home business’ identified risks and internal controls, discussing in detail the supply chain risks and work undertaken to deliver an efficient and optimised end-to-end supply chain.

– Discussed the ongoing management of risks to the Clothing & Home supply chain in China and Bangladesh presented by the Covid-19 pandemic, and the mitigation plans in place to address the emerging risk of a significant impact on demand.

**WHAT WAS ON THE COMMITTEE’S AGENDA IN 2019/20**

**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 and reporting 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.

**SEGMENTAL REPORTING**

This year, in addition to its core activities, the Committee oversaw the transition in the Company's reporting methodology to segmental reporting, ensuring that our financial reporting aligns insofar as it is possible to the structure of our Group as a family of businesses. This year’s financial statements on pages 112 to 171 provide the Group’s financial results for the first time by these reporting segments: UK Clothing & Home, UK Food, and International.

At regular intervals throughout the year, the Committee assessed and challenged the cost allocations and assumptions used by the senior leadership team to ensure that the finalised segments accurately reflect the split of centralised costs and the value generated by each reportable segment.

**INTERNAL CONTROLS FRAMEWORK**

The Committee received updates on internal control matters from the Internal Audit team at each meeting, as part of its key duty to review the Company’s internal control processes. This regular
AUDIT COMMITTEE EFFECTIVENESS REVIEW

The Committee's performance was reviewed as part of the 2019/20 externally facilitated Board Evaluation, which is covered on page 56.

The review found that the Committee functions effectively and that issues are dealt with in a thoughtful, clear and rigorous manner.

Feedback on the level of challenge and quality of updates provided by the Committee to the Board was positive.

The Committee was considered to be operating well in terms of meeting structure and the levels of engagement provided by its members, with demands on members' time viewed as extensive but not problematic. 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 2019/20 action plan, particularly in relation to increasing the focus on risk reporting and emphasising accountability for risk at business unit level.

FAIR, BALANCED AND UNDERSTANDABLE

At the request of the Board, the Committee has considered whether, in its opinion, the 2020 Annual Report & 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 focusses 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 and provided feedback on it, 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 the narrative in the reporting on the business performance in the front of the report 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 clear 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 2020 Annual Report & 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.

2020/21 ACTION PLAN
- Monitor the effectiveness of the Internal Audit function and its activities.
- Continue to increase focus on risk reporting and accountability for risk at business unit level.
- Increase focus on financial and non-financial controls, including monitoring effectiveness of the Code of Conduct.
- Monitor progress of the Company's wider technology and cyber security transformation.

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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: directly attributable gains/(expenses) resulting from the Covid-19 pandemic; net costs associated with the unwind; impairment of goodwill and a credit categorised as other.

With regards to the Covid-19 pandemic, 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 (£335.9m charge) and the guidelines on the use of alternative performance measures issued by the European Securities and Markets Authority and the Financial Reporting Council.

See note 5 on p128

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 these assumptions 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 p116, p128, p146 and p163

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. In light of the ongoing Covid-19 pandemic, the Group’s cash flow projections over the three-year strategic plan period have been revised and include a Covid-19 overlay in year 1 (the Covid-19 scenario), focusing on the external impact of social distancing measures, and the internally controllable mitigating actions the Group is taking to protect the business. The Committee has challenged management and is satisfied that these are appropriate considering the increased risk because of Covid-19.

The Committee has also understood the sensitivity analysis used by management in its review of impairments, including consideration of the specific sensitivity disclosures in the relevant notes. 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, 2, 14 and 15 on p116, p128 and p144-148

INVENTORY VALUATION AND PROVISIONING

As a direct result of the restrictions on ‘non-essential’ trade imposed in response to the Covid-19 pandemic the Group’s ability to sell through existing Clothing & Home stock has been significantly impacted and additional Clothing & Home inventory provisioning has been required. The Committee considered the Group’s current provisioning policy, the impact of expected future expectations of sell-through impacting the recoverability of the cost of inventories held at the balance sheet date and the nature and condition of current inventory. This included reviewing the assessment of the incremental impact on stock holding and provisioning related to Covid-19. When calculating inventory provisions, the Group has considered the nature and condition of inventory, as well as applying assumptions around when trade restrictions might be eased leading to resumption of sales. The Committee has concluded that such are appropriate. The assumptions have been disclosed in the financial statements.

See notes 1 and 5 on p116 and p128
GOING CONCERN AND VIABILITY STATEMENT

The Committee has reviewed the Group’s assessment of viability over a period greater than 12 months. In assessing viability, the Committee has considered the Group’s position presented in the budget and three-year plan recently approved by the Board. In the context of the current challenging environment as a result of Covid-19, a Covid-19 scenario was applied to the plan, as well as the modelling of additional sensitivities. These were based on the potential financial impact of the Group’s principal risks and uncertainties and the specific risks associated with the Covid-19 pandemic and the uncertain high street trading environment. The Committee has concluded that these assumptions are appropriate.

The Committee has also reviewed the Group’s reverse stress test using the downside scenario three-year plan above. The Committee has reviewed this with management and is satisfied that this is appropriate in supporting the Group as a Going Concern.

The Committee received regular updates on the steps taken by management to secure liquidity for the likely duration of the crisis and recovery period beyond. These include the formal agreements reached with the lending syndicate of banks providing the £1.1bn revolving credit facility to substantially relax or remove covenant conditions for the tests arising in September 2020, March 2021, and September 2021; and confirmation as an eligible issuer under the UK Government’s Covid Corporate Financing Facility (CCFF).

The Committee is satisfied that this has been reviewed and that the impact of Covid-19 has been reduced by these measures.

See note 1 on p116

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 19 on p150

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 p116

IFRS 16

IFRS 16 Leases is effective for periods beginning on or after 1 January 2019. The Group has adopted the new financial reporting standard from 31 March 2019 and the financial statements for the 52 weeks ended 28 March 2020 are prepared under the new standard. The Group adopted IFRS 16 using the fully retrospective transition approach, meaning the comparative period has been restated on adoption. 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 and Impact of new accounting standards adopted in the year sections 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 notes 1 and 29 on p116 and p166

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. As a result of the impairment review, an impairment charge has been recognised in the year (see note C6 Investments on page 175. The Committee has reviewed management papers outlining the key assumptions used in calculating the value in use and is satisfied that these are appropriate.

OCAKO TRANSACTION (VALUATION OF CONTINGENT CONSIDERATION)

As part of the investment in Ocado Retail Limited, a contingent consideration has been recognised in the year. The Group has estimated the maximum potential undiscounted amount of all future payments that the Group could be required to make under the contingent consideration arrangement. Contingent consideration, resulting from the investment in Ocado Retail Limited, is remeasured at fair value at each reporting date with the changes in fair value recognised in profit or loss. The change in fair value and the related unwind of discounting is considered to be an adjusting item as it relates to a major transaction and consequently is not considered representative of the normal operating performance of the Group.

The arrangement has a number of elements which only become payable on the achievement of specific performance targets. The most significant of these is Ocado Retail Limited achieving a specified target level of earnings in the financial year ending November 2023. The determination of the fair value is therefore based on discounted cash flows. The key assumptions take into consideration the probability of meeting each performance target and the discount factor. The Committee has reviewed management papers outlining the key assumptions used in calculating the fair value of the contingent consideration and is satisfied that these are appropriate.
Deloitte was appointed by shareholders as the Group’s statutory auditor in 2014 following a formal tender process. The lead audit partner, Richard Muschamp, has been in post since the start of the 2019/20 audit. 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 2020/21 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. The four Finance Directors for Food, Clothing & Home, International and Retail & Property, the Head of Finance Group Reporting, the Head of Investor Relations and the Head of Finance Business Services:

   Short questionnaire focusing on the audit team, planning, challenge and interaction with the business.

2. Interim 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 Interim 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 team had been both responsive and cooperative and had demonstrated great flexibility and adaptability in working with management day-to-day to overcome the challenges faced. Early engagement throughout the year had been appreciated and had meant that a number of significant issues had been addressed before the Covid-19 pandemic arose.

   It was agreed that the audit partners have a good understanding of our business and, on the whole, this had been reflected across the audit team in terms of approach, lines of enquiry and challenge. A common theme from the business unit Directors of Finance reflected a desire for more engagement with the senior members of the audit team throughout the year.

**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, with fees in excess of £50,000, was put to the Audit Committee for prior consideration and approval. For non-audit work where fees were below £50,000, approval was obtained by the Chief Finance Officer and the Audit Committee notified of all work falling within this threshold. 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 28 March 2020 was 0.33:1, compared with the previous year’s ratio of 0.21:1. The majority of the £0.67m in non-audit fees paid in total to Deloitte during 2019/20 was incurred for assurance services provided during the year. These comprised fees in respect of the Half Year review, turnover certificates, the annual Euro Medium Term Note (EMTN) programme renewal, June 2019 bond comfort letter, the role of reporting accountant in the rights issue and assurance services for overseas entities. It is normal practice for such assurance services to be provided by the Company’s statutory auditor.

No additional recurring or one-off non-audit services were provided during the year.
The Board assumes ultimate responsibility for the effective management of risk across the Group, determining its risk appetite and 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. These systems are also designed to be sufficiently agile to respond to changes in circumstances, such as the recent impact of Covid-19.

The key features of the Group’s internal control and risk management systems that underpin 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, which includes 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 to complete these reviews:

1. Internal Audit
   - The Group’s primary source of internal assurance is 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. The Plan is subject to ongoing review throughout the year so that it remains relevant and adapts to any new or emerging circumstances. The findings and actions from internal audit reviews are agreed with the relevant business area, communicated to the Audit Committee and tracked through to completion.
   - The work completed by Internal Audit during the year has focused on key risks including information and data security, core finance controls, legal and regulatory compliance, supplier management, franchise operations and HR processes. The Internal Audit team has also supported the business in its response to the Covid-19 situation.

2. Management updates and risk deep dives
   - As part of the Committee’s annual calendar, it receives updates on risk management, maturity of control and assurance activities from individual business areas and functions. These updates are complemented by Internal Audit’s independent reviews.
   - A broad range of assurance activity has been designed and deployed across the business to target key risk areas, such as ethical assurance, food safety, fire, health and safety and business continuity. While reporting lines for these activities are directly to business areas, the processes and controls of these functions are periodically tested by Internal Audit.

3. Operational oversight
   - Business Boards and committees provide oversight and challenge on key risk areas within individual business areas, cross-business programmes and activities, such as business continuity, fire, health and safety, and Brexit. The output from these discussions forms part of the cyclical updates provided to the Audit Committee.

Internal Assurance Framework

<table>
<thead>
<tr>
<th>Source of Information</th>
<th>Frequency/nature of reporting</th>
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<tbody>
<tr>
<td>Internal Audit</td>
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<tr>
<td>- Internal Audit Plan</td>
<td>Formal updates presented to the Committee at each meeting</td>
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<tr>
<td>- Regular reports against Plan</td>
<td>Updates to the Audit Committee Chairman as required</td>
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<tr>
<td>- Follow-up of remediation</td>
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<tr>
<td>- Updates on fraud, whistleblowing and other irregularity</td>
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<tr>
<td>- Ad hoc engagement with the business in response to new/emerging risks or major incidents, for example Covid-19</td>
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<tr>
<td>Management updates and risk deep dives</td>
<td></td>
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<tr>
<td>- Papers submitted on a range of issues including:</td>
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<td>- Information security</td>
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<td>- Bribery</td>
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<tr>
<td>- Code of Ethics and Behaviours</td>
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<td>- GSCOP</td>
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<tr>
<td>- Financial control</td>
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<tr>
<td>- Risk deep dives from individual business areas and functions</td>
<td></td>
</tr>
<tr>
<td>Functional assurance</td>
<td>Updates provided to the Committee as part of annual business updates where appropriate and as requested</td>
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<tr>
<td>- Functional audit activities undertaken, including:</td>
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<tr>
<td>- Food safety and integrity</td>
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<td>- Ethical audits</td>
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<tr>
<td>- Trading safely and legally</td>
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<tr>
<td>Operational oversight</td>
<td>Updates presented to the Committee annually, and as needed</td>
</tr>
<tr>
<td>- For example:</td>
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<tr>
<td>- Business Boards</td>
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<tr>
<td>- Fire, Health &amp; Safety Committee</td>
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<tr>
<td>- Customer &amp; Brand Protection Committee</td>
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<tr>
<td>- Business Continuity Committee</td>
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</table>

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 98-111. No other significant failings or weaknesses were identified during the Committee’s review in respect of the year ended 28 March 2020 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 full disclosure of compliance with the UK Corporate Governance Code at marksandspencer.com/thecompany.
“The Committee ensures that the pay framework is appropriately flexible, to act in shareholders’ best interests in unpredictable circumstances.”
Andrew Fisher, Chair of the Remuneration Committee

INTRODUCTION
On behalf of the Board, I am pleased to present our 2019/20 Remuneration Report. We also present our proposed Remuneration Policy (Policy). In line with regulations, we are seeking shareholder support and approval for our Remuneration Policy at the 2020 AGM. A summary of the proposed changes to the approved Remuneration Policy is set out below and on pages 74–80 of this report.

The Remuneration 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 and the intended arrangements for 2020/21.

BOARD CHANGES
Following the departure of Humphrey Singer in December, we were delighted to appoint Eoin Tonge as CFO. Details of Humphrey’s leaving arrangements, along with recruitment details for Eoin, can be found on page 89 of this report. The Committee was pleased that we secured the appointment of Eoin Tonge in line with our simplified pay framework. He will, however, receive mobility allowances for a set period of time.

In addition, we are pleased to appoint Katie Bickerstaffe as our new Chief Strategy and Transformation Officer and see her become an executive member of the Company. Katie was previously a non-executive director of the Company and a member of the Remuneration Committee, for which I would like to thank Katie for all her help and support. In line with our standard practice Katie did not participate in Committee discussions that could be construed as her influencing her own future remuneration arrangements.

USE OF DISCRETION
Recent world events have highlighted the importance of having a flexible policy together with appropriate permissible discretions to ensure that we can continue to run M&S successfully. For complete transparency, we are more explicitly outlining the discretions already in place to ensure the Committee is able to act in the best interests of the business and our shareholders in unknown and unpredictable circumstances.

The Committee believes that our Remuneration Policy continues to provide appropriate flexibility, ensuring that any payments made in the implementation of the Policy are in the best interests of both the Company and our shareholders. The overall framework is considered to remain appropriate but based on investor feedback some minor amendments are proposed and described below.

REMUNERATION FRAMEWORK CONSIDERATIONS
Shareholder engagement and feedback
The Board is committed to ensuring that our remuneration framework supports our strategy, and provides a balance between motivating and challenging our senior leaders to deliver our business priorities and also driving the long-term sustainable success of M&S.
2017 allow the Committee a number of circumstances during the life of the binding policy beyond financial misstatement; these are explicitly disclosed on page 76.

During the year the Committee did not apply any discretion to the variable pay outcomes of the bonus and Performance Share Plan (PSP). The Committee agreed that the final vesting of the PSP was reflective of the last three years of M&S’s performance and that the Policy operated as intended.

**KEY AMENDMENTS TO REMUNERATION POLICY**

The PSP will continue to be the primary long-term incentive plan for executives. We will maintain the overall construct of the plan, with the typical award being 250% of salary. To further align executives with shareholders and the longer-term success of the business, we will be introducing a post-cessation shareholding guideline. Executives will be expected to continue to hold their shareholding requirement for two years post exiting the business.

Having already reduced our pension cash alternative for new executive directors at our last policy review, and in line with the pay arrangements offered to executive directors joining since that time, we are formally removing this cash payment for all new executive director appointments. In order to remove any policy differential between incumbent and new executive directors, Steve Rowe has agreed to forgo his contractual arrangements for this pension cash alternative. Steve’s pension supplement will be reduced to zero over the next three years. Steve will remain eligible to participate in the pension scheme on the same terms as all other colleagues as has long been M&S’s practice.

Shareholders approved the current Remuneration Policy at the AGM in 2017. As such, the Company is required to seek approval for the new policy at the AGM to be held on 3 July 2020. Pages 74-80 provide the full details of the proposed policy. For transparency, the table below sets out an overview of the key areas of the Policy.

### Main features of current policy

<table>
<thead>
<tr>
<th>Base salary</th>
<th>Benefits</th>
<th>Pension benefits</th>
<th>Annual Bonus Scheme</th>
<th>Performance Share Plan</th>
<th>Shareholding requirement</th>
<th>Non-executive directors (including Chairman)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increases awarded are normally in line with those elsewhere in the business. Adjustments in excess of this may be made where the Committee deems it appropriate.</td>
<td>Benefits provided at a rate commensurate with the market and currently include a car or cash allowance, a driver, and life insurance plus other benefits provided to all colleagues, including colleague discount.</td>
<td>Maximum opportunity of 200% of salary.</td>
<td>Maximum award of 300% of salary.</td>
<td>The CEO is required to hold 250% of salary in shares. For all other executive directors, the current requirement is 150% of salary.</td>
<td>Fees reviewed annually.</td>
<td></td>
</tr>
<tr>
<td>Salaries will be compared against appropriately sized listed companies.</td>
<td>Directors may participate in M&amp;S’s defined contribution arrangement on the same terms as other colleagues, or receive a cash supplement in lieu of pension contributions. Cash alternative maximum is currently 20% of salary for other executive directors (25% for CEO).</td>
<td>Maximum opportunity of 200% of salary.</td>
<td>Performance measured against financial targets over a three-year period.</td>
<td>The CEO is required to hold 250% of salary in shares. For all other executive directors, the current requirement is 150% of salary.</td>
<td>Fees reviewed annually.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>50% of total bonus deferred into shares for three years.</td>
<td>Performance conditions may include quantifiable non-financial/strategic measures, with financial measures comprising at least 50% of awards.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Measured against Adjusted Group Profit Before Tax (PBT) (currently 70% of award) and individual objectives.</td>
<td>A two-year holding period post vesting.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Clawback and malus provisions apply.</td>
<td>Clawback and malus provisions apply.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Policy change

| No change. | No change. | Removal of pension cash supplements for any future directors. | No change. | No change. | The shareholding requirement is increasing from 150% to 200% for all other executive directors. |
| No change. | No change. | Reduction of the CEO’s cash pension supplement to zero over next three years. | | | Directors are required to continue to hold their shareholding requirement (or their actual shareholding on leaving if lower) for two years after leaving M&S. | No change. |

Annual Report & Financial Statements 2020
STRATEGIC ALIGNMENT OF PAY

The focus at M&S continues to be on transformation, so the measures and targets used in M&S's incentive schemes, specifically those of the Performance Share Plan and Annual Bonus Scheme, align with the KPIs and strategic priorities being used across the business. The illustration below demonstrates this strong linkage between the KPIs and strategic priorities with executive remuneration. This strength of alignment will enable the Committee to ensure pay arrangements help to accelerate transformation and fulfill M&S's potential for long-term sustainable profitable growth, despite the prolonged impact of Covid-19 in the current trading environment and likely subsequent financial performance.

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 accelerated transformation journey to emerge stronger and more competitive.

REMUNERATION OVERVIEW CONTINUED

STRATEGIC ALIGNMENT OF REMUNERATION FRAMEWORK WITH KPIs

<table>
<thead>
<tr>
<th>KPI/Strategic Priority</th>
<th>As measured by</th>
<th>Performance Share Plan (PS9)</th>
<th>Annual Bonus Scheme (ABS) (when operating)</th>
</tr>
</thead>
<tbody>
<tr>
<td>KPI</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjusted Earnings Per Share (EPS)</td>
<td>Financial Results</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Return On Capital Employed (ROCE)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Group PBT Before Adjusting Items (PBT)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategic Priority</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>What we are learning from the crisis</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>What will never be the same again</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accelerating the transformation programme</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2019/20 PERFORMANCE

<table>
<thead>
<tr>
<th>ADJUSTED EARNINGS PER SHARE</th>
<th>RETURN ON CAPITAL EMPLOYED</th>
<th>GROUP PBT BEFORE ADJUSTING ITEMS</th>
</tr>
</thead>
<tbody>
<tr>
<td>16.7p</td>
<td>12.7%</td>
<td>£403.1m</td>
</tr>
</tbody>
</table>

Adjusted EPS in 2019/20 was 16.7p. This was below the 26.8p threshold required for any vesting under this element of the 2017 PSP award. Average three-year ROCE performance was 12.7%. As a result, 11.2% out of a maximum of 33% of the 2017 PSP will vest under this element. Group PBT was below the threshold for bonus payments to be made under the 2019/20 Annual Bonus Scheme.
CONTEXT OF BUSINESS PERFORMANCE

During the year, M&S made good progress in further implementing its transformation. With improvements made to range, value and customer communication, the Food business outperformed the market and improved its financial performance in several aspects such as sales and operating profit. In addition, significant strides were taken to deliver the strategy to bring M&S food online via the investment in Ocado Retail Limited. While several Clothing & Home departments improved their performance, ultimately total revenue for this area of the business was down.

As referenced earlier in this Annual Report, the impact of Covid-19 has been significant. In the short-term, M&S has responded rapidly to the changing trading landscape making financial decisions to secure the future of the business. In the long-term the business must, as described earlier in this Annual Report, harness the learnings from this crisis to return M&S to profitable, sustainable performance.

As demonstrated on page 68 and referenced throughout this Remuneration Report, there is a strong alignment between M&S’s key financial performance indicators and the measures within the directors’ incentive schemes. The inclusion of strategic measures within the long-term incentive award, allows the Committee to drive the delivery of M&S’s transformation while supporting the learnings taken from this global crisis.

WIDER WORKFORCE PAY ARRANGEMENTS

The Committee received regular and varied updates during the year relating to M&S’s pay arrangements. In addition to those already outlined in the Committee’s remit available on the M&S website, detailed discussions ranged from hourly pay for store colleagues to colleague participation in last year’s rights issue. Further, we welcome the collaboration with the Business Involvement Group at the Committee meeting in receiving direct feedback on colleagues’ views. This dialogue ensures a close link between the pay philosophies at the most senior levels with those for the broader population.

To demonstrate the Committee’s keen interest in wider workforce pay arrangements within M&S, we have this year expanded our disclosure on these specific areas; see pages 72 and 73. As is referenced earlier in this Annual Report, the business has taken great care to support all colleagues during the Covid-19 pandemic which the Committee and the Board were supportive of. From a pay perspective, these include, but are not limited to, supporting every colleague needing to either self-isolate or shield themselves to do so on full pay, and rewarding M&S’s hardworking frontline store and e-commerce distribution colleagues with an additional short-term 15% pay award.

SINGLE FIGURE AND INCENTIVE SCHEME OUTCOMES

The graph below summarises the total payments made to executive directors in 2019/20, illustrating the figures detailed in the single figure chart set out later in this report on page 81.

The total pay for the CEO was c.20% lower this year, reflecting lower PSP outcomes and the reduction in share price during the year. The 2017 PSP will vest at 11.2% in June 2020 for the three-year performance period up to 28 March 2020. Page 85 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 overleaf. The remit of the Committee is to ensure that targets set are stretching yet achievable, rewarding the delivery of sustainable, ambitious long-term performance. Vesting under the PSP 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.

SINGLE FIGURE REMUNERATION FOR 2019/20

<table>
<thead>
<tr>
<th></th>
<th>Fixed pay</th>
<th>PSP</th>
<th>Total bonus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Steve Rowe</td>
<td></td>
<td></td>
<td>£1,067,583</td>
</tr>
<tr>
<td>Humphrey Singer</td>
<td></td>
<td></td>
<td>£456,000</td>
</tr>
</tbody>
</table>

Total: £1,210,862

See Single figure remuneration on p81  See PSP on p84-p85  See Annual Bonus Scheme on p83

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The 2019/20 Annual Bonus Scheme was focused 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 2019/20 financial year, the PBT achievement of £403.1m was below the threshold to trigger a bonus payment and so no bonus was paid under the Annual Bonus Scheme to anyone within the organisation, including the 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 83 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 2019/20 and payments made elsewhere in the business. The Remuneration Policy operated as intended so no changes to outcomes were necessary.

When reviewing salary levels, the Committee considers 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. As a result of performance in the year and the unprecedented impact of the Covid-19 pandemic, it was decided not to implement any salary increases in the wider organisation and the Committee decided that it would be appropriate to freeze Steve Rowe’s salary. As detailed within this report, the Committee made the recommendation, and Steve agreed, that over the next three years the CEO pension supplement would be reduced to zero. While the intended structure of the Annual Bonus Scheme, as detailed on page 75 in the Policy table, remains...
unchanged from 2019/20, the Committee has agreed that for 2020/21 only there will be no bonus scheme in operation for the executive directors. Executive directors will still continue to be measured against a scorecard of individual objectives aligned to the strategic priorities set out earlier in this report, however no financial payment will be made in respect of their achievements. The Committee debated the appropriateness of this decision in a time when executives are working harder than ever and believes, in the context of wider macroeconomic factors and the experience of the business with a large number of colleagues placed on furlough, this is the right decision for M&S.

The Committee continues to ensure that the total remuneration framework for executives is aligned to shareholder interests. In light of the decision not to operate a bonus scheme for 2020/21, the Committee believes it is critical to ensure that executives remain aligned with shareholders’ long-term interests through a PSP award set against not only appropriate measures but also achievable yet stretching targets. In the current rapidly changing circumstances caused by Covid-19, and the extreme uncertainty in the retail sector more broadly, the Committee debated the operation of the PSP, the appropriateness of the proposed performance measures and targets as well as the timing of a 2020/21 award which is typically granted shortly after M&S’s final year results. As a result, the Committee has agreed to grant a PSP award to executives in July 2020. The performance targets for this award will be set at a time when the impact of Covid-19 on the business can be better forecast and the proposed strategic measures reviewed in light of the business’s strategic response to the post-pandemic trading environment. However, the Committee recognises the material fall in share price since awards were made in 2019 and so took decisive action to significantly reduce the quantum of the 2020 PSP award from 250% to an intended 175% of salary. In determining the size of this year’s PSP awards, the Committee wished to acknowledge the shareholder experience of Covid-19 to reduce windfall gains from directors’ awards. As such, M&S’s average share price since February 2020 until mid-May was used as a reference point in Committee discussions. The Committee will review and reconfirm this decision immediately prior to grant to ensure this remains appropriate.

Targets will be set and disclosed no later than 31 December 2020. The Committee is committed to shareholder engagement and will further engage with our major shareholders in advance of any long-term incentive targets being determined. More details are set out on page 85.

The Committee believes that this approach is appropriate as the business reviews its strategy in light of the Covid-19 crisis and when retention and motivation of the senior leadership team remains critical.

SHAREHOLDER APPROVAL AT THE AGM

In addition to the resolution at this year’s Annual General Meeting (AGM) to renew the Remuneration Policy, we are also seeking shareholder approval to make an amendment to the existing share plan rules. We wish to provide the facility to satisfy awards with new issue shares, rather than market purchase shares as is currently the practice. This change will support M&S in securing its cash flow for financially efficient business operations. In addition some minor amendments to align with the operation of our existing Remuneration Policy approved by shareholders in 2017 are proposed. Further details are set out in the Notice of Meeting on pages 183 to 199.

LOOKING AHEAD

This was the final year under the current remuneration framework, and we hope to have your support at the 2020 AGM to approve the new Remuneration Policy. The new Policy has been designed to ensure 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. Having engaged with our major shareholders as part of this process, to both incorporate their views and to maintain open dialogue on director pay arrangements, we hope that all our shareholders will support the Policy at the AGM.

As we look to the future, the Committee will also need to take into consideration the impact of investment in 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 this partnership impacts structures, targets and application 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 what has been an unprecedented year. Due to the Covid-19 pandemic the Company’s AGM on 3 July 2020 will be via a live webcast broadcast from Waterside House and I will be able to answer any questions in relation to this Remuneration Report at this time.

Andrew Fisher, Chairman of the Remuneration Committee
COLLEAGUE ENGAGEMENT

- **Share ownership across our colleagues** 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. Across our UK and Irish colleagues, M&S has a significant number of participants in all employee share schemes: colleagues hold over 53m SAYE options in our ShareSave scheme and over 3,000 colleagues hold shares in our Share Incentive Plan ShareBuy.

- **Direct engagement with our colleagues** Since 2018, the Chair of the National Business Involvement Group (BIG), our colleague representative body, is invited to attend a Remuneration Committee meeting each year to engage and contribute on a range of topics and activities. During the year, representatives from BIG have been engaged on a number of pay-related topics, beyond the executive level, including: helping colleagues to understand the impact of the rights issue on their share schemes and providing ongoing feedback on colleague questions and concerns during this period; user acceptance testing of our share schemes website; and providing feedback and support on the timing of our annual ShareSave invitation. The collaborative relationship that we have with BIG strongly reflects our belief in the key role that BIG plays in ensuring the Committee has greater visibility of the things that really matter to our colleagues and also gives the Committee the opportunity to explain and discuss our pay practices and how executive pay aligns with pay across the wider workforce. In addition, the Head of Executive Reward & External Reporting also provides updates to the Committee as appropriate on pay and people-related issues during the year.

**CONSIDERATION OF COLLEAGUE PAY**

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 the broader structure of Group bonus provisions which ensures appropriate alignment with senior pay arrangements. The Committee is provided throughout the year with information detailing pay in the wider workforce, which gives additional context for the Committee to make informed decisions. The Head of Executive Reward & External Reporting advises the Committee of the approach which will be adopted for the forthcoming UK pay review. The Committee also reviews and approves any PSP awards made to executive directors and directors below the Board prior to their grant. The Committee receives updates on a variety of colleague engagement initiatives which form part of our colleague voice surveys, asking colleagues about engagement, empowerment and enablement. While colleagues were not formally consulted on the development of the Policy, the annual employee voice survey asks colleagues about the fairness and reasonableness of colleague pay and benefits, and they are also encouraged to raise questions at the periodic all-colleague announcements led by the CEO. Any questions raised at this time are answered, and comments made during the year through surveys or our network of elected colleague representatives via BIG are considered. The Head of Executive Reward & External Reporting typically provides an annual update to these colleague representatives with an explanation of the executive directors’ pay arrangements during the year, and they are able to ask questions on the arrangements and their fit with the other reward policies at this time.

**CONSIDERATION OF STAKEHOLDER VIEWS**

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

The Committee seeks the views of the largest shareholders individually and others through shareholder representative bodies when considering making any significant changes to the Remuneration Policy; this may be done annually or on an ad hoc basis, dependent upon the issue. For example, during the year the Committee proposed changes to the PSP measures and, as a direct response to shareholder feedback, TSR remains a key measure. The Committee annually engages in a process of investor consultation, which is typically in written format, but may be through face-to-face meetings, if considered useful. The Committee Chairman is available to answer questions at the AGM and the answers to specific questions are posted on our website.
COLLEAGUES DURING COVID-19

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

CHIEF EXECUTIVE’S PAY RATIO

In last year’s report, the Committee chose to early disclose an indicative CEO pay ratio. During the year, the Committee considered the appropriate calculation approaches as set out in the regulations and has chosen Methodology A, as we believe it to be the simplest, most appropriate and robust way to calculate the ratio.

Option A requires three UK colleagues to be identified as the equivalent of the 25th, 50th and 75th percentile. Having identified these colleagues based on pay and benefits as at 28 March 2020, the total remuneration is calculated on the same basis as the CEO single total figure of remuneration, the only exception being the individual performance element of the Annual Bonus Scheme applicable to the relevant colleagues is assumed to be the respective target value, as the actual value is not known at the time of producing the Annual Report. This requires:

– Starting with colleague pay that was calculated based on actual base pay, benefits, bonus and long-term incentives for the 12 monthly payrolls within the full financial year. Earnings for part-time colleagues are annualised on a full-time equivalent basis to allow equal comparisons.

– Adjusting the value of any bonus so that it only reflects the amount earned in respect of the 2019/20 financial year and does not include the value of any deferred shares from the 2016 bonus which vested in June 2019.

– Adding in the employer pension contribution from the M&S Pension Saving Plan.

Joiners and leavers in the year have been excluded from the calculations, the percentile figures are therefore representative of the whole colleague population but do not include all colleagues as at 28 March 2020.

The table below shows the ratio of CEO pay in 2019/20, using the single total figure remuneration as disclosed in Figure 8 (page 81) to the comparable, indicative, full-time equivalent total reward of those colleagues whose pay is ranked at the 25th, 50th and 75th percentiles in our UK workforce. The calculation used to determine these figures is reflective of M&S’s pay proposition across the workforce as all pay elements have been included to ensure equal comparisons.

PAY ARRANGEMENTS FOR COLLEAGUES DURING COVID-19

We are proud to be providing support to our colleagues during Covid-19. As detailed earlier in this Annual Report, for those colleagues needing to self-isolate or shield themselves, they have done so on full pay. Our frontline store and e-commerce distribution colleagues continuing to work are being provided with a short-term 15% additional pay award and similarly, colleagues working in support centres will receive a share award equivalent to 5% of salary for the furlough period. Furloughed frontline colleagues continue to receive full pay with 90% of pay being paid for support centre colleagues placed on furlough. This ensures consistent treatment of all colleagues, by maintaining a 15% differential in pay between those working and those on furlough.

GENDER PAY GAP

The M&S median gender pay gap for the year to April 2019 is 4.0%, compared with a national average of 17.3%. The M&S mean gap for the same period is 12.9%.

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, the launch of our Breakthrough Leaders programme aimed at developing and accelerating the progression of diverse talent in the business, our participation in Retail Week’s Be Inspired accelerator programme for senior women, collaboration in the 30% Club’s cross-business mentoring programme and the launch of our own internal mentoring portal for our colleagues. All of this activity is supported by our colleague networks, including the Gender Equality Network, which hold events and raise important discussions on gender equality via their online social communities.

We’re proud that 74% of our Customer Assistants are women but we need to do more to encourage diversity in senior roles. Diversity and inclusion remains a key priority for us and we have developed a bold strategy and will not be letting our focus relent through these challenging times.

PAY ARRANGEMENTS FOR COLLEAGUES DURING COVID-19

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Shareholders approved the Remuneration Policy at the AGM in 2017. As such, the Company is required to seek approval for the new Policy at the AGM to be held on 3 July 2020, from which date the updated Policy will apply. The Committee reviewed the senior remuneration framework during the year to ensure that it remains fit for purpose, providing an appropriate framework to fulfil M&S’s reward philosophy which is, in turn, designed to support and drive the business strategy.

The Policy remains largely unchanged from the one approved by shareholders in 2017, for transparency, where amendments have been made these are highlighted. Once approved, this Policy may operate for up to three years. The Policy 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.

### REMUNERATION POLICY

**FIGURE 1: EXECUTIVE DIRECTORS' REMUNERATION POLICY TABLE**

<table>
<thead>
<tr>
<th>Base salary</th>
<th>Benefits</th>
<th>Pension benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PURPOSE AND LINK TO STRATEGY</strong></td>
<td>To attract, retain and motivate high-calibre executives needed to deliver our strategy and drive business performance.</td>
<td>To attract and retain high-calibre executives through a commitment to responsible, secure retirement funding in line with our Company values.</td>
</tr>
<tr>
<td><strong>OPERATION</strong></td>
<td>Directors are eligible to receive benefits in line with our policies which may include:</td>
<td>Current directors may participate in the Your M&amp;S Pension Saving Plan (a defined contribution arrangement) or an alternative pension saving vehicle that the Company may offer, on the same terms as all other colleagues or receive a cash supplement in lieu of pension contributions into this scheme.</td>
</tr>
<tr>
<td>Payable in cash. Reviewed annually by the Committee considering a number of factors, including:</td>
<td>– A car or cash allowance.</td>
<td></td>
</tr>
<tr>
<td>– Salary increases awarded to other colleagues in the wider workforce which are typically reviewed annually on a similar basis.</td>
<td>– A driver.</td>
<td></td>
</tr>
<tr>
<td>– Comparable salaries in appropriate comparator groups. Salaries reflect the experience, responsibility and contribution of the individual and role within the Group.</td>
<td>– Life assurance.</td>
<td></td>
</tr>
<tr>
<td><strong>MAXIMUM OPPORTUNITY</strong></td>
<td>While there is no set maximum, any increases are normally in line with those in the wider workforce. Individual adjustments in excess of this may be made outside of this cycle at the discretion of the Committee, where appropriate. Such circumstances can include:</td>
<td>A maximum employer contribution currently of 12% of salary where the employee contributes 6% of salary. Prior to 11 July 2017 an alternative cash payment capped at 25% of salary was available for executive directors.</td>
</tr>
<tr>
<td>Where the role scope has changed;</td>
<td>– Where comparable salaries in the external market have changed; or</td>
<td>Change for 2020</td>
</tr>
<tr>
<td>To apply salary progression for newly appointed directors.</td>
<td></td>
<td>Removal of pension cash supplements for any future directors.</td>
</tr>
<tr>
<td><strong>PERFORMANCE CONDITIONS</strong></td>
<td>N/A</td>
<td>Reduction of the CEO's cash pension supplement to zero over the next three years.</td>
</tr>
<tr>
<td>N/A</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
PERSPECTIVE AND LINK TO STRATEGY
To drive annual profitability, strategic change and individual performance in line with the business plan.
To recognise and reward individual contributions to the way we do business.
The deferral into shares provides alignment with shareholders’ long-term interests following the successful delivery of short-term targets.

OPERATION
Directors are eligible to participate in this non-contractual, discretionary scheme.
Payments are made subject to the satisfaction of predetermined targets set at the start of the year, as approved by the Committee.
Not less than 50% of any bonus earned is paid in deferred shares under the DSBP, with the remainder payable in cash.
Deferred shares vest after a period of three years subject to continued service, but no further performance conditions.
Clawback and malus rules apply to cash and DSBP awards respectively, see explanatory notes (page 76) for more information.
Good leaver and change of control provisions apply to the deferred shares (see explanatory notes).
The value of any dividends during the deferred period may be payable (see explanatory notes).
The Committee retains the right to exercise discretion, both upwards and downwards, to ensure that the level of award payable is appropriate and fair in the context of the director’s individual performance and the Company’s overall performance. Where exercised, the rationale for this discretion will be fully disclosed to shareholders in the subsequent Annual Report.

MAXIMUM OPPORTUNITY
A maximum annual potential of up to 200% of salary.

PERFORMANCE CONDITIONS
Quantifiable one-year performance measures and targets are set by the Committee around financial and individual objectives linked with the sustainable delivery of the business plan.
Financial performance measures comprise at least 50% of awards and may include, but not be limited to Group PBT after adjusting items. Typically, no payment for individual objectives can be earned unless a ‘threshold’ level of Group PBT after adjusting items has been achieved.
This threshold level is set by the Committee taking into account the previous year’s performance and the business operating plan for the current year.
For achievement of individual objectives no more than 40% (currently 30%) of the maximum bonus potential is paid for threshold performance, and no more than 60% for target performance. However, the Committee retains the flexibility to amend the pay-out level at different levels of performance for future bonus cycles. This is based on its assessment of the level of stretch inherent in the set targets, and the Committee will disclose any such determinations appropriately.

PERFORMANCE Share Plan (PSP)
Measured against the key financial drivers of the business plan to deliver sustainable value creation.
To encourage long-term shareholding to retain directors, and provide greater alignment with shareholders’ interests.

OPERATION
The Company’s principal long-term incentive scheme, approved by shareholders in 2015.
Directors are eligible to participate in this non-contractual, discretionary plan. Directors may receive an annual award which vests after three years subject to predetermined performance conditions.
Clawback and malus rules apply to awards (see explanatory notes).
Good leaver and change of control provisions apply (see explanatory notes).
The value of any dividends during the vesting period may be payable (see explanatory notes).
Awards are subject to a further two-year holding period after the vesting date.
Directors may sell sufficient shares to satisfy the respective tax liability but must retain the net number of shares until the end of this two-year period.
As with the bonus scheme, the Committee retains the right to exercise discretion in the same manner to ensure appropriateness of outcomes.

MAXIMUM OPPORTUNITY
The maximum value of shares (at grant) which can be made under an award to an individual in respect of a financial year is 300% of salary.

PERFORMANCE CONDITIONS
Performance is measured over a three-year period against a balanced scorecard of appropriate measures as determined by the Committee each year. This currently includes EPS, ROCE, TSR and from 2020 strategic measure. These are chosen as those measures which support and drive top-line and bottom-line performance in line with business strategy.
Financial measures comprise at least 50% of awards. The threshold level of vesting is 20% of the maximum.
For performance between threshold and maximum, awards vest on a straight-line basis.

OPERATION
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.

MAXIMUM OPPORTUNITY
For the CEO, this requirement is 250% of salary. For all other executive directors the requirement is 200%.

Change for 2020
Directors are required to continue to hold their shareholding requirement, or, if their level of shareholding is below the requirement, their actual shareholding for two years after leaving M&S.
The shareholding requirement for other executive directors increased from 150% to 200%.

PERFORMANCE CONDITIONS
N/A
**FIGURE 2: POLICY TABLE**

Executive directors may be in receipt of awards under share plans outside of the current remuneration framework detailed on pages 74 and 75; these may have been awarded upon recruitment or prior to their appointment as an executive director. While awards under these plans do not form part of a forward-looking policy, for transparency, details of the plans are set out in the table below.

<table>
<thead>
<tr>
<th>ELEMENT</th>
<th>PURPOSE AND LINK TO STRATEGY</th>
<th>OPERATION</th>
<th>MAXIMUM OPPORTUNITY</th>
<th>PERFORMANCE CONDITIONS</th>
</tr>
</thead>
</table>
| Restricted Share Plan (RSP) | To enable the recruitment of key directors who are necessary to the delivery of business strategy. | – Restricted awards may be granted for the recruitment of directors.  
– Awards vest after a restricted period, which can vary by award but is typically between one and three years.  
– Malus provisions, good leaver and change of control provisions apply (see below and page 78).  
– The value of any dividends during the restricted period may be payable (see explanatory notes below). | While there is no maximum set in the rules, the Committee considers the scale and structure of awards on an individual basis. | The Committee may choose to apply no formal performance conditions save for continued service. |
| Executive Share Option Scheme (ESOS) | Measured against the key drivers of our business plan to deliver sustainable value creation. To encourage long-term shareholding to retain directors, and provide greater alignment with shareholders’ interests. | – Approved by shareholders and HMRC in 2015, the Committee may choose to award share options to directors if appropriate.  
– Malus provisions, good leaver and change of control provisions apply (see below and page 78).  
– Options are normally exercised between the third and tenth anniversaries of grant, subject to the achievement of any performance conditions set by the Committee. | Awards are capped at 250% of salary in respect of any financial year of the Company but in recruitment circumstances awards may be granted up to a higher limit of 400% of salary. | Awards vest subject to at least three-year predetermined performance conditions. |

**EXPLANATORY NOTES**

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

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

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

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

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

Our long-term incentive plans provide the Committee with discretion with respect of vesting outcomes that affect the actual level of reward payable to individuals, such discretion would only be used in exceptional circumstances and, if exercised, the rationale for this discretion will be fully disclosed to shareholders in the subsequent Annual Report.

**CLAWBACK AND MALUS**

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

In addition, clawback provisions were introduced in 2015 and apply to cash payments made under the Annual Bonus Scheme. Awards made under any of the Company’s other executive share plans (including the PSP) in 2015 and onwards will similarly be subject to clawback provisions. These provisions enable the Committee, in its absolute discretion, to reclaim awards paid to individuals for up to three years after the respective vesting or payment date (or up to two years in the case of PSP awards) where specified events occur. The specified events that would trigger clawback include the discovery of a material misstatement resulting in an adjustment in the audited consolidated accounts of the Company, the assessment of any performance condition, terms or conditions in respect of an award or payment that were based on error, or inaccurate or misleading information, the discovery that any information used to determine the number of shares subject to an award or amount payable was based on an error, or inaccurate or misleading information, the action or conduct of a participant which, in the reasonable opinion of the Committee, amounts to gross misconduct or a material breach of the participant’s service contract that falls short of gross misconduct, and events or behaviour of a participant that have had a significant detrimental impact on the reputation of any member of the Group, provided that the Committee is satisfied that the relevant participant was responsible for the reputational damage and that the reputational damage is attributable to the participant. Clawback may be effected, among other means, by requiring the transfer of shares, payment of cash or reduction of awards.

**PERFORMANCE CONDITIONS AND TARGET SETTING**

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

The Annual Bonus Scheme is measured against a balance of profitability and the delivery of key strategic areas of importance for the business. The profitability measure used is Group PBT before adjusting items as this is used internally to report and assess business performance by the Board and Operating Committee. Refer to the glossary on pages 176 to 178 for the definition of Group PBT before adjusting items, and to note 5 of the financial statements for a description of adjusting items.

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

The value delivered to shareholders is reflected by Relative TSR which is partially determined by Group PBT majority will be a cash-based payment for the annual bonus scheme which for the majority will be a cash-based payment partially determined by Group PBT performance. M&S’s philosophy is to provide a fair and consistent approach to pay.

Remuneration is determined by level and is broadly aligned with those of the executive directors.

Base salaries are reviewed annually and reflect the local labour market. All UK colleagues are eligible to participate in the Your M&S Pension Saving Plan on the same terms as the executive directors. In addition, all UK colleagues are provided with life insurance and colleague discount, and may choose to participate in the Company’s all-employee share schemes and salary sacrifice arrangements.

A significant number of colleagues are eligible to be considered to participate in an annual bonus scheme which for the majority will be a cash-based payment partially determined by Group PBT performance. For M&S’s most senior executives, part of the bonus is deferred into shares for three years. Around 170 of M&S’s top senior executives may be invited to participate in the PSP, measured against the same performance conditions as executive directors. Award levels granted are determined to be aligned with market practice and reflect an individual’s level of seniority as well as their performance and potential within the business.

**FIGURE 3: RECRUITMENT POLICY & SERVICE CONTRACTS**

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

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

The rationale for any such component would be appropriately disclosed. For example, for internal promotional appointments to the Board, the Committee would honour any pre-existing contractual remuneration arrangements; these arrangements may be outside of the Policy detailed on pages 74 to 75.

**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. |
| – There are no further obligations which could give rise to a remuneration or loss of office payment other than those set out in the Remuneration Policy and the Termination Policy. |
| – The directors’ service contracts are available for shareholder inspection at the Company’s registered office. |
| **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. |
| – For new appointments to the Board, the Committee may set the rate of pay at the lower end of the rate for other directors and/or other comparable roles within the market with the intention of applying subsequent increases. |
| The Committee will offer a benefits package in line with our benefits policy for executive directors. |
| **Benefits** | – Maximum contribution in line with our policy for future executive directors (currently up to 12% of salary). |
| **Pension benefits** | – Eligible to take part in the Annual Bonus Scheme with a maximum bonus of 200% of salary in line with our policy for executive directors. |
| **Annual Bonus Scheme** | – A maximum award of up to 300% of salary in line with our policy. |
| **PSP** | – Where an individual forfeits outstanding variable pay opportunities or contractual rights at a previous employer as a result of their appointment with M&S, the Committee may offer compensatory payments or buy-out awards, dependent on the individual circumstances of recruitment, determined on a case-by-case basis. |
| – The Committee in its judgement normally intends that any such payments are made on a like-for-like basis and considers issues such as the plan type, time horizons and valuation of the forfeited awards. The Committee’s intention would be to ensure that the expected value awarded will be no greater than the expected value forfeited by the individual. |
| – Where appropriate, the Committee may choose to apply performance conditions to any of these awards. |
| **Buy-out awards** | – Where an individual forfeits outstanding variable pay opportunities or contractual rights at a previous employer as a result of their appointment with M&S, the Committee may offer compensatory payments or buy-out awards, dependent on the individual circumstances of recruitment, determined on a case-by-case basis. |
| – The Committee in its judgement normally intends that any such payments are made on a like-for-like basis and considers issues such as the plan type, time horizons and valuation of the forfeited awards. The Committee’s intention would be to ensure that the expected value awarded will be no greater than the expected value forfeited by the individual. |
| – Where appropriate, the Committee may choose to apply performance conditions to any of these awards. |
FIGURE 4: TERMINATION POLICY

The Company may choose to terminate the contract of any executive director summarily in accordance with the terms of their service agreement, on payment in lieu of notice of a sum equal to salary, benefits and pension as per their contractual notice entitlement (see page 89).

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

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

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

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

CORPORATE EVENTS

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

<table>
<thead>
<tr>
<th>ELEMENT</th>
<th>APPROACH</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base salary, benefits and pension benefits</td>
<td>Payment made up to the termination date in line with contractual notice periods.</td>
</tr>
<tr>
<td>Annual Bonus Scheme</td>
<td>- There is no contractual entitlement to payments under the Annual Bonus Scheme. If the director is under notice or not in active service at either the relevant year end or on the date of payment, there will be no entitlement to any bonus payment, either in cash or shares. The Committee may use its discretion as described above to make a bonus award, which is normally pro-rated for time worked during the relevant financial year and based on performance assessed at the end of the bonus period.</td>
</tr>
<tr>
<td>Long-term incentive awards</td>
<td>- Where a director ceases to be an officer or employee of the Group before the end of the relevant vesting period, the treatment of outstanding awards is determined in accordance with the plan rules. - In some circumstances, where a director leaves due to retirement, injury, ill-health, death or the sale of the director’s employing company or business out of the Group, or any other reason at the discretion of the Committee and in accordance with the plan rules, DSBP awards normally vest in full on cessation; PSP and ESOS awards which have been held for at least 12 months normally vest when the level of performance has been assessed and agreed at the end of the three-year performance period. RSP awards are considered on an individual basis but would typically be pro-rated for the time held and vest on cessation. The Committee may determine these awards vest upon cessation as permitted in the plan rules. In either circumstance, any relevant performance conditions would still apply to the PSP and ESOS awards and unless the Committee determines otherwise, would be time pro-rated and subject to the two-year holding period post-vesting.</td>
</tr>
<tr>
<td>Repatriation</td>
<td>- M&amp;S may pay for repatriation where a director has been recruited from overseas.</td>
</tr>
<tr>
<td>Legal expenses &amp; outplacement</td>
<td>- Where a director leaves by mutual consent, M&amp;S may reimburse for reasonable legal fees and pay for professional outplacement services.</td>
</tr>
</tbody>
</table>
To provide a fair fee at a level that attracts and retains a high-calibre Chairman.

Fees are determined by the Remuneration Committee.

Total fee comprises the non-executive director basic fee and the additional fee for undertaking the role.

Paid in equal monthly instalments; may be made in cash and/or shares.

Fees reflect the time commitment, demands and responsibility of the role.

Reviewed annually, taking into account market practice in appropriate comparator groups, e.g. major retailers, similar-sized listed companies.

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.

To provide a fair basic fee at a rate that attracts and retains high-calibre non-executive directors.

Fees are determined by the Chairman and executive directors.

Paid in equal monthly instalments; may be made in cash and/or shares.

Fee level recognises the scope of the role and time commitment required.

Reviewed annually, taking into account market practice in appropriate comparator groups, e.g. major retailers, similar-sized listed companies.

The maximum aggregate non-executive director basic fees, including the Chairman, is £750,000 p.a. as set out in our Articles of Association.

To provide compensation to non-executive directors taking on additional Board responsibilities.

Additional fees are paid for undertaking the extra responsibilities of:

- Board Chairman.
- Senior Independent Director.
- Committee Chairman.

To facilitate the execution of responsibilities and duties required by the role.

In line with our other colleagues, the Chairman and non-executive directors are entitled to receive colleague discount.

The Company may reimburse the Chairman and non-executive directors for reasonable expenses in performing their duties and may settle any tax incurred in relation to these.

The Chairman may also be entitled to the use of a car and driver.

The Chairman and non-executive directors do not participate in pension or performance-related schemes.
FIGURE 6: SUMMARY OF REMUNERATION POLICY (TO BE APPROVED ON 3 JULY 2020)

The diagram below illustrates the balance of pay and time period of each element of the Remuneration Policy for executive directors, which, if approved, will take effect after the 2020 AGM. 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.

The charts below provide an illustration of what could be received by each of the executive directors in 2020/21 under the Policy. These charts are illustrative as the actual value which will ultimately be received will depend on business performance in the year 2020/21 (for the cash element of the Annual Bonus Scheme) and in the three-year period to 2022/23 (for the PSP), as well as share price performance to the date of the vesting of the share element of the Annual Bonus Scheme and PSP awards in 2023.

**DIRECTORS**

<table>
<thead>
<tr>
<th>Directors</th>
<th>Fixed</th>
<th>Target</th>
<th>Maximum</th>
<th>Maximum + 50%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Steve Rowe</td>
<td>£4,829</td>
<td>£5,872</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Eoin Tonge</td>
<td>£3,300</td>
<td>£4,050</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**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 2019/20 year end.

**APPLICATION OF REMUNERATION POLICY**

The charts below provide an illustration of what could be received by each of the executive directors in 2020/21 under the Policy. These charts are illustrative as the actual value which will ultimately be received will depend on business performance in the year 2020/21 (for the cash element of the Annual Bonus Scheme) and in the three-year period to 2022/23 (for the PSP), as well as share price performance to the date of the vesting of the share element of the Annual Bonus Scheme and PSP awards in 2023.
Each year, the Remuneration Committee assesses the current senior remuneration framework to determine whether the existing incentive arrangements remain appropriately challenging in the context of the business strategy, fulfil current external guidelines and are aligned with 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. 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, as illustrated on page 68.

The diagram below (Figure 7) 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 table below (Figure 8) and later in this report.

**FIGURE 7: REMUNERATION STRUCTURE 2019/20**

- **Fixed pay**
  - Base salary
  - Benefits
  - Pension benefits

- **Annual bonus**
  - 200% salary maximum bonus opportunity (with 50% deferral)
  - Measured against a balance of Group PBT before adjusting items and individual performance

- **PSP**
  - 250% salary awarded in 2017
  - Measured against adjusted EPS, average ROCE and TSR
  - Achievement was 11.2% against targets set

- **Total payments are c.25% of maximum potential

**Total pay for 2019/20**

- 3% in line with other M&S colleagues
- No bonus payment
- 11.2% of award vested

For more information see p83

**FIGURE 8: TOTAL SINGLE FIGURE REMUNERATION (AUDITED)**

<table>
<thead>
<tr>
<th>Director</th>
<th>Year</th>
<th>Salary £000</th>
<th>Benefits £000</th>
<th>Total bonus £000</th>
<th>Total PSP vested £000</th>
<th>Pension benefits £000</th>
<th>Total pay £000</th>
<th>Total fixed pay £000</th>
<th>Total variable pay £000</th>
<th>Total PSP £000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Steve Rowe</td>
<td>2019/20</td>
<td>828</td>
<td>37</td>
<td>0</td>
<td>143</td>
<td>203</td>
<td>1,211</td>
<td>1,068</td>
<td>143</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2018/19</td>
<td>810</td>
<td>33</td>
<td>0</td>
<td>471</td>
<td>203</td>
<td>1,517</td>
<td>1,046</td>
<td>471</td>
<td></td>
</tr>
<tr>
<td>Humphrey Singer (to 31 December 2019)</td>
<td>2019/20</td>
<td>456</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>456</td>
<td>456</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2018/19</td>
<td>439</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>439</td>
<td>439</td>
<td>0</td>
<td></td>
</tr>
</tbody>
</table>

Further details of Humphrey Singer’s leaving arrangements can be found on page 89.

Note that the value of PSP awards vesting in 2018/19 has been restated to reflect the actual share price on the date of vesting, £1.93.
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 2019, Steve Rowe was awarded an increase of 3%, his first increase since his appointment to CEO in 2016. Humphrey Singer was awarded a 2% increase in line with increases granted to the management population. Across the wider organisation salary increases in 2019/20 ranged from 2% to 4%.

For salaries effective July 2020, in light of the Covid-19 pandemic and the salary freeze across the wider organisation, the Committee discussed pay arrangements for all colleagues and decided it was appropriate to also freeze the salary for Steve Rowe. Eoin Tonge will receive a base salary of £600,000 when he joins the Company on 8 June 2020. For full details of his pay arrangements see page 89.

The table below details the executive directors’ salaries as at 28 March 2020 and salaries which will take effect from 1 July 2020.

<table>
<thead>
<tr>
<th>Figure 9: Salaries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Steve Rowe</td>
</tr>
<tr>
<td>Eoin Tonge</td>
</tr>
</tbody>
</table>

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. Humphrey Singer received neither a car nor cash allowance and did not have the benefit of a driver. Eoin Tonge will not receive a car or cash allowance when he joins M&S in June 2020.

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

During the year, Steve Rowe received a cash payment in lieu of participation in an M&S pension scheme. As reported last year, this cash payment was capped so that Steve Rowe’s salary increase was not applied to this element of pay. Both the CEO and the Committee are mindful of the external sentiment of executive pension arrangements. As such, the CEO has agreed that his pension cash supplement be reduced to zero over the next three years.

Steve Rowe is a deferred member of the Marks & Spencer UK Pension Scheme. Details of the pension accrued during the year ended 28 March 2020 are shown below.

While Humphrey Singer was eligible to join the M&S pension scheme on the same terms as all other colleagues, he chose to opt out of the scheme. He did not receive any additional payments in lieu of participation. On joining M&S, Eoin Tonge will be eligible to join the M&S pension scheme on the same terms as all other colleagues.

The accrued pension entitlement is the deferred pension amount that Steve Rowe would receive at age 60 if he left the Company on 28 March 2020. 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 performance for the year was measured against Group 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.

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. 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 corporate element was similarly achieved.

PBT outturn for the year was £403.1m which was below the threshold set to trigger payments under either the corporate element or the individual element of the Scheme. As such, no bonuses under the 2019/20 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 11 and directly corresponds to the value shown in the single figure table on page 81.

Despite there being no bonus payment under the 2019/20 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 individual objectives for the CEO, 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 2019/20 remain commercially sensitive and so are not disclosed. 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 aid of disclosure wherever possible, while ensuring that any measures set are those most appropriate to restore the business to profitable growth.

FIGURE 11: ANNUAL BONUS SCHEME OUTTURN 2019/20 (AUDITED)
PERFORMANCE SHARE PLAN (PSP)

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 2018 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 2018/19 award, measures used in 2019/20 were equally balanced to ensure an appropriate focus on all three metrics.

TSR is measured against a bespoke group of 13 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 shareholders’ 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 25 June 2019. 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, the trigger events that would result in clawback being enforced are detailed on page 76.

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.

FIGURE 12: PERFORMANCE CONDITIONS FOR PSP AWARDS MADE IN 2019/20 (AUDITED)

<table>
<thead>
<tr>
<th>Performance level</th>
<th>Adjusted EPS in 2021/22 (p)</th>
<th>Average ROCE (2019/20 – 2021/22) (%)</th>
<th>Relative TSR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Threshold performance</td>
<td>22.7p</td>
<td>10.2%</td>
<td>Median</td>
</tr>
<tr>
<td>Maximum performance</td>
<td>28.5p</td>
<td>12.7%</td>
<td>Upper quartile</td>
</tr>
</tbody>
</table>

Targets outlined above are stated on a post-IFRS 16 basis and include adjustments that have been made for the impact of the investment in Ocado Retail Limited.

FIGURE 13: TSR COMPARATOR GROUP 2019/20 AWARD

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

FIGURE 14: PSP AWARDS MADE IN 2019/20 (AUDITED)

<table>
<thead>
<tr>
<th>Executive director</th>
<th>Basis of award (%)</th>
<th>Threshold level of vesting</th>
<th>Face value of award £000</th>
<th>End of performance period</th>
<th>Vesting date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Steve Rowe</td>
<td>250%</td>
<td>20%</td>
<td>2,086</td>
<td>02/04/2022</td>
<td>27/06/2022</td>
</tr>
<tr>
<td>Humphrey Singer</td>
<td>250%</td>
<td>20%</td>
<td>1,530</td>
<td>02/04/2022</td>
<td>27/06/2022</td>
</tr>
</tbody>
</table>

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 2019 award, the share price was calculated as £2.1206, being the average share price between 18 June 2019 and 24 June 2019.

Humphrey Singer’s award lapsed in full when he left M&S on 31 December 2019.
FIGURE 15: PSP AWARDS VESTING IN 2019/20 (AUDITED)

For directors in receipt of PSP awards granted in 2017, the awards will vest in August 2020 based on three-year performance over the period to 28 March 2020. Performance has been assessed and it has been determined that 11.2% of the total award will vest.

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 81.

2017/18 award

<table>
<thead>
<tr>
<th>Performance Measure</th>
<th>Adjusted EPS in 2019/20 (p)</th>
<th>Average ROCE (2017/18-2019/20) (%)</th>
<th>TSR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Threshold performance</td>
<td>26.8</td>
<td>12.1%</td>
<td>Median 11.2%</td>
</tr>
<tr>
<td>Maximum performance</td>
<td>32.8</td>
<td>15.6%</td>
<td>Upper quartile</td>
</tr>
<tr>
<td>Actual performance achieved</td>
<td>16.7</td>
<td>12.7%</td>
<td>Below Median</td>
</tr>
<tr>
<td>Percentage of maximum achieved</td>
<td>0%</td>
<td>11.2%</td>
<td>0%</td>
</tr>
</tbody>
</table>

2017/18 award

<table>
<thead>
<tr>
<th>Performance Measure</th>
<th>1/3 of award</th>
<th>1/3 of award</th>
<th>1/3 of award</th>
</tr>
</thead>
<tbody>
<tr>
<td>Threshold performance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maximum performance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Actual performance achieved</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percentage of maximum achieved</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Targets outlined above are stated on a post-IFRS 16 basis and include adjustments that have been made for the impact of the investment in Ocado Retail Limited.

FIGURE 16: VESTING VALUE OF AWARDS VESTING IN 2019/20 (AUDITED)

On grant At the end of performance period (28 March 2020)

<table>
<thead>
<tr>
<th>Number of shares granted (incl. rights issue adjustment)</th>
<th>% of salary granted</th>
<th>Number of shares vesting</th>
<th>Number of shares lapsing</th>
<th>Impact of share price performance</th>
<th>Total vesting of award (£000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Steve Rowe</td>
<td>638,436</td>
<td>250%</td>
<td>71,505</td>
<td>566,931</td>
<td>-50%</td>
</tr>
</tbody>
</table>

Total vesting values are based on a share price of £1.65 (the average share price from 2 January 2020 to 28 March 2020) plus a dividend equivalent of £0.365 per share.

The final vesting values also reflect a 50% decline in share price between grant and vesting, as illustrated on page 70 of this report.

PSP AWARDS TO BE MADE IN 2020/21

Between September 2019 and January 2020, the Committee reviewed the long-term incentive framework at M&S, assessing the extent to which it remained suitable and actively consulted with shareholders during this time. As part of this review and engagement process and taking into account shareholder feedback, it was determined that 20% of the PSP award should be based upon strategic transformation goals relevant to the achievement of the business strategy over the next three years. The remaining 80% of the award would be based on EPS (30%), ROCE (30%) and Relative TSR (20%) similar to recent years. Consulted shareholders were supportive of this approach.

The Committee believes in the importance of strategically-aligned incentives so that executive directors are motivated to deliver the commercial success of M&S. The Committee’s aim is to ensure realistic and sustainable targets to support the delivery of such success. After careful consideration, and as a direct impact of the current unprecedented trading and financial environment, targets for the 2020 awards to be granted in July will be delayed until appropriately stretching but realistic goals can be set. This will allow Steve Rowe and his leadership team sufficient time to review M&S’s long-term business plan in view of the emerging Covid-19 impact over the medium- and long-term. M&S remains committed to clear and transparent communication and intends to engage with its major shareholders with more detail on the targets prior to them being agreed. Targets will be set and disclosed no later than 31 December 2020.

It is the Committee’s intention to significantly reduce the quantum of the PSP award to be granted in July 2020, recognising the material fall in share price over the last year. For 2020, it is proposed that Steve Rowe and Eoin Tonge will be granted an award of 175% of salary instead of the typical 250% of salary. The Committee anticipates that it will revert to normal award levels for 2021.
EXECUTIVE 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 28 March 2020, 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 26 May 2020. No director had an interest in any of the Company's subsidiaries at the statutory end of the year.

<table>
<thead>
<tr>
<th>Shares owned outright</th>
<th>Unvested</th>
<th>Vested but unexercised</th>
<th>Shares owned outright</th>
<th>Unvested</th>
<th>Vested but unexercised</th>
</tr>
</thead>
<tbody>
<tr>
<td>Steve Rowe</td>
<td>373,187</td>
<td>2,302,782</td>
<td>90,744</td>
<td>196,374</td>
<td>196,374</td>
</tr>
<tr>
<td>Humphrey Singer (to 31 December 2019)</td>
<td>22,500</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

SHAREHOLDING REQUIREMENTS INCLUDING POST CESSATION (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 200% of salary. A similar requirement of 100% of salary currently applies to members of the Operating Committee below Board level.

The chart below shows the extent to which each executive director has met their target shareholding as at 28 March 2020, or date of retirement from the Board. For Steve Rowe, his 250% shareholding requirement is measured from the date he was appointed CEO. The target shareholding for Humphrey Singer prior to leaving on 31 December 2019 was 150%.

Supporting the Committee’s intention to drive long-term, sustainable decision-making for the benefit of M&S and our shareholders and in line with the 2018 Code changes and the Investment Association’s updated guidelines, directors are required to continue to hold their shareholding requirement, or, if their level of shareholding is below the requirement, their actual shareholding for two years after leaving M&S.

ELECTROUEN 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 141 to 143.

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 with 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 28 March 2020 is as follows:

Figure 19: All share plans

<table>
<thead>
<tr>
<th>Limit</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>10%</td>
<td>4.08%</td>
</tr>
</tbody>
</table>

Figure 20: Executive share plans

<table>
<thead>
<tr>
<th>Limit</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>5%</td>
<td>0%</td>
</tr>
</tbody>
</table>
FIGURE 21: EXECUTIVE DIRECTORS’ INTERESTS IN THE COMPANY’S SHARE SCHEMES (AUDITED)

<table>
<thead>
<tr>
<th></th>
<th>Maximum receivable at 1 April 2019</th>
<th>Adjusted for corporate transaction</th>
<th>Awarded during the year</th>
<th>Exercised during the year</th>
<th>Lapsed during the year</th>
<th>Maximum receivable at 28 March 2020 (or date of retirement)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Steve Rowe</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Performance Share Plan</td>
<td>1,824,538</td>
<td>72,014</td>
<td>983,801</td>
<td>0</td>
<td>381,197</td>
<td>2,499,156</td>
</tr>
<tr>
<td>Deferred Share Bonus Plan</td>
<td>119,675</td>
<td>4,722</td>
<td>0</td>
<td>33,653</td>
<td>0</td>
<td>90,744</td>
</tr>
<tr>
<td>SAYE</td>
<td>3,461</td>
<td>136</td>
<td>5,960</td>
<td>0</td>
<td>0</td>
<td>9,557</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,947,674</td>
<td>76,872</td>
<td>989,761</td>
<td>33,653</td>
<td>381,197</td>
<td>2,599,457</td>
</tr>
</tbody>
</table>

|                      |                                    |                                   |                          |                           |                        |                                                          |
| **Humphrey Singer**  |                                    |                                   |                          |                           |                        |                                                          |
| Performance Share Plan | 484,966                            | 19,141                            | 721,493                  | 0                         | 1,225,600              | 0                                                        |
| Deferred Share Bonus Plan | 0                                 | 0                                 | 0                        | 0                         | 0                      | 0                                                        |
| SAYE                  | 0                                  | 0                                 | 0                        | 0                         | 0                      | 0                                                        |
| **Total**             | 484,966                            | 19,141                            | 721,493                  | 0                         | 1,225,600              | 0                                                        |

The aggregate gains of directors arising in the year from the exercise of awards granted under the DSBP totalled £69,056 based on a share price on the date of exercise of £2.052. The market price of the shares at the end of the financial year was 99.18p; the highest and lowest share price during the financial year were 277.46p and 91.70p respectively.

Humphrey Singer retired from the Board and left the Company on 31 December 2019. His Performance Share Plan awards lapsed in full upon leaving. Details of his leaving arrangements are set out on page 89.

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

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Steve Rowe</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Performance Share Plan</td>
<td>2,499,156</td>
<td>71,505</td>
<td>566,931</td>
<td>680,545</td>
<td>–</td>
<td>983,801</td>
<td>–</td>
</tr>
<tr>
<td>Deferred Share Bonus Plan</td>
<td>90,744</td>
<td>90,744</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

As reported on page 85, the 2017 PSP awards included within the totals shown in Figure 22 will vest at 11.2% in August 2020. This has been reflected above in the 2020/21 ‘Lapsed’ column.
FIGURE 23: PERFORMANCE AND CEO REMUNERATION COMPARISON

This graph illustrates the Company’s performance against the FTSE 100 over the past ten years. While M&S is not currently a constituent of the FTSE 100 Index, the Committee feels that it remains the most appropriate comparator. 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.

<table>
<thead>
<tr>
<th>Year</th>
<th>FTSE 100 Index (£)</th>
<th>CEO single figure (£000)</th>
<th>Annual bonus payment (% of maximum)</th>
<th>PSP vesting (% of maximum)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009/10</td>
<td></td>
<td>Steve Rowe</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010/11</td>
<td></td>
<td>Marc Bolland</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2011/12</td>
<td></td>
<td>Stuart Rose</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2012/13</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2013/14</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2014/15</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2015/16</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2016/17</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2017/18</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2018/19</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2019/20</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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 p73

FIGURE 25: RELATIVE IMPORTANCE OF SPEND ON PAY

The table opposite illustrates the Company’s expenditure on pay in comparison with profits before tax and distributions to shareholders by way of dividend payments and share buy-back.

Total colleague pay is the total pay for all Group colleagues. 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.
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.

<table>
<thead>
<tr>
<th>Name</th>
<th>Date of appointment</th>
<th>Notice period/unexpired term</th>
</tr>
</thead>
<tbody>
<tr>
<td>Steve Rowe</td>
<td>02/04/2016</td>
<td>12 months/6 months</td>
</tr>
<tr>
<td>Eoin Tonge</td>
<td>08/06/2020</td>
<td>12 months/6 months</td>
</tr>
</tbody>
</table>

CHANGES TO EXECUTIVE MEMBERSHIP OF THE BOARD DURING 2019/20

PAYMENTS FOR THE LOSS OF OFFICE (audited)
As announced on 16 October 2019, Humphrey Singer stepped down from the Board and left M&S on 31 December 2019. Remuneration terms on leaving were in line with the approved Remuneration Policy. Humphrey was entitled to receive salary and benefits, by way of phased monthly payments from 1 January 2020 to 31 March 2020, subject to mitigation. As per the terms of the approved Remuneration Policy, these payments ceased when Humphrey’s new employment commenced in January 2020. The only payment made to Humphrey as a result of his leaving M&S was £10,692 in respect of accrued but untaken holiday as per the Company’s standard holiday policy for leavers. All outstanding share awards lapsed on leaving.

PAYMENTS TO PAST DIRECTORS (audited)
There were no payments made to past directors during the period.

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 1 April 2019 to 31 December 2019, his date of leaving M&S.

<table>
<thead>
<tr>
<th>Director</th>
<th>Period earned</th>
<th>Company</th>
<th>Fee £000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Humphrey Singer</td>
<td>01/04/2019 – 31/12/2019</td>
<td>Taylor Wimpey</td>
<td>58</td>
</tr>
</tbody>
</table>

DIRECTORS APPOINTED TO THE BOARD
Eoin Tonge will join the Board on 8 June 2020 as Chief Financial Officer. His remuneration upon appointment was in line with the approved Recruitment Policy detailed on page 77 with a basic annual salary of £600,000. Eoin receives neither a car allowance nor a pension cash allowance but he will be able to join the pension scheme on the same terms as colleagues. Eoin will be provided with short-term domestic mobility allowances and as per the Company’s recruitment policy he will receive replacement share awards to compensate him for those forfeited by him joining the business. These awards will vest in occurrence with the original award time horizons. The rest of Eoin’s incentive arrangements are aligned with that of an executive director.
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 2019/20 and 2018/19 are detailed in the table opposite.

Benefits include expense reimbursements relating to travel, accommodation and subsistence in connection with the attendance at Board and Committee meetings during the year, which are deemed by HMRC to be taxable. The amounts in the table opposite include the grossed-up cost of UK tax paid by the Company on behalf of the non-executive directors. Non-taxable expense reimbursements have not been included in the table.

During the year, fees for all non-executive directors were reviewed. Taking into account the relevant market data, the salary freeze for M&S colleagues, and given fees were increased with effect from 1 July 2019, no increase to fees was awarded.

Fee levels will be reviewed again during 2020/21 as per the normal annual process.

<table>
<thead>
<tr>
<th>Director</th>
<th>Year/Year</th>
<th>Basic fees £000</th>
<th>Additional fees £000</th>
<th>Benefits £000</th>
<th>Total £000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Archie Norman</td>
<td>2019/20</td>
<td>71</td>
<td>538</td>
<td>19</td>
<td>628</td>
</tr>
<tr>
<td></td>
<td>2018/19</td>
<td>70</td>
<td>530</td>
<td>11</td>
<td>611</td>
</tr>
<tr>
<td>Andy Halford</td>
<td>2019/20</td>
<td>71</td>
<td>31</td>
<td>0</td>
<td>102</td>
</tr>
<tr>
<td></td>
<td>2018/19</td>
<td>70</td>
<td>23</td>
<td>0</td>
<td>93</td>
</tr>
<tr>
<td>Alison Brittain</td>
<td>2019/20</td>
<td>71</td>
<td>0</td>
<td>0</td>
<td>71</td>
</tr>
<tr>
<td></td>
<td>2018/19</td>
<td>70</td>
<td>0</td>
<td>0</td>
<td>70</td>
</tr>
<tr>
<td>Andrew Fisher</td>
<td>2019/20</td>
<td>71</td>
<td>15</td>
<td>2</td>
<td>88</td>
</tr>
<tr>
<td></td>
<td>2018/19</td>
<td>70</td>
<td>8</td>
<td>0</td>
<td>78</td>
</tr>
<tr>
<td>Katie Bickerstaffe</td>
<td>2019/20</td>
<td>71</td>
<td>0</td>
<td>3</td>
<td>74</td>
</tr>
<tr>
<td></td>
<td>2018/19</td>
<td>51</td>
<td>0</td>
<td>2</td>
<td>53</td>
</tr>
<tr>
<td>Pip McCrostie</td>
<td>2019/20</td>
<td>71</td>
<td>0</td>
<td>0</td>
<td>71</td>
</tr>
<tr>
<td></td>
<td>2018/19</td>
<td>51</td>
<td>0</td>
<td>1</td>
<td>52</td>
</tr>
<tr>
<td>Justin King</td>
<td>2019/20</td>
<td>71</td>
<td>0</td>
<td>0</td>
<td>71</td>
</tr>
<tr>
<td></td>
<td>2018/19</td>
<td>18</td>
<td>0</td>
<td>0</td>
<td>18</td>
</tr>
</tbody>
</table>

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 28 March 2020 (or upon their date of retiring from the Board), including those held by connected persons.

Changes in the current non-executive directors’ interests in shares in the Company and its subsidiaries between the end of the financial year and 26 May 2020 are shown in the table opposite.

<table>
<thead>
<tr>
<th>Director</th>
<th>Number of shares held as at 28 March 2020</th>
<th>Number of shares held as at 26 May 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Archie Norman</td>
<td>148,600</td>
<td>No change</td>
</tr>
<tr>
<td>Andy Halford</td>
<td>25,200</td>
<td>No change</td>
</tr>
<tr>
<td>Alison Brittain</td>
<td>6,115</td>
<td>No change</td>
</tr>
<tr>
<td>Andrew Fisher</td>
<td>4,243</td>
<td>No change</td>
</tr>
<tr>
<td>Katie Bickerstaffe</td>
<td>4,800</td>
<td>No change</td>
</tr>
<tr>
<td>Pip McCrostie</td>
<td>7,200</td>
<td>No change</td>
</tr>
<tr>
<td>Justin King</td>
<td>44,000</td>
<td>64,000</td>
</tr>
</tbody>
</table>

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.

<table>
<thead>
<tr>
<th>Director</th>
<th>Date of appointment</th>
<th>Notice period/unexpired term</th>
</tr>
</thead>
<tbody>
<tr>
<td>Archie Norman</td>
<td>01/09/2017</td>
<td>6 months/6 months</td>
</tr>
<tr>
<td>Andy Halford</td>
<td>01/01/2013</td>
<td>3 months/3 months</td>
</tr>
<tr>
<td>Alison Brittain</td>
<td>01/01/2014</td>
<td>3 months/3 months</td>
</tr>
<tr>
<td>Andrew Fisher</td>
<td>01/12/2015</td>
<td>3 months/3 months</td>
</tr>
<tr>
<td>Katie Bickerstaffe</td>
<td>10/07/2018</td>
<td>3 months/3 months</td>
</tr>
<tr>
<td>Pip McCrostie</td>
<td>10/07/2018</td>
<td>3 months/3 months</td>
</tr>
<tr>
<td>Justin King</td>
<td>01/01/2019</td>
<td>3 months/3 months</td>
</tr>
</tbody>
</table>

NON-EXECUTIVE DIRECTOR CHANGES TO THE BOARD DURING 2019/20

DIRECTORS APPOINTED TO THE BOARD
Tamara Ingram and Sapna Sood will join the Board as non-executive directors on 1 June 2020. Tamara and Sapna receive the standard annual non-executive director fee of £71,500 and are members of the Nomination Committee.

ROLE CHANGES WITHIN THE BOARD
Katie Bickerstaffe started in her role of Chief Strategy and Transformation Director on 27 April and will step down from the Board at the AGM on 3 July 2020.

DIRECTORS RETIRING FROM THE BOARD
Alison Brittain will retire as a non-executive director and step down from the Board prior to the AGM on 3 July 2020. There were no payments made for loss of office to Alison.
REMUNERATION COMMITTEE REMIT

During the year, the Remuneration Committee reviewed the Terms of Reference ensuring that they reflected the government’s latest recommendations and the revised principles of the Remuneration Policy, as set out in the UK Corporate Governance Code 2018. In addition, the Committee delegated authority to management in determining the remuneration levels for senior colleagues below the level of Operating Committee. The Terms of Reference can be found on the Company’s website at corporate.marksandspencer.com/investors/corporate-governance/governance-framework

KEY RESPONSIBILITIES

The role of the Committee continues to have a strong focus on ensuring an appropriate alignment between the remuneration of executive directors and Operating Committee directors and that of colleagues across M&S, ensuring that 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 while following the below principles:
  - Clarity – remuneration arrangements are transparent and promote effective engagement with shareholders and the workforce.
  - Simplicity – remuneration structures are uncomplicated, and their rationale and operation is easy to understand.
  - Risk – ensure that 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. Outcomes should not reward poor performance.
  - Alignment to culture – incentive schemes that 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 BIG the Group’s colleague representative body, colleague voice surveys and management reports to ensure colleague views on Group culture, including remuneration strategy and diversity and inclusion are considered.

REMUNERATION COMMITTEE AGENDA FOR 2019/20

REGULAR ITEMS

Pay arrangements

- Within the terms of the M&S Remuneration Policy, approval of the remuneration packages for the executive directors and Operating Committee directors, and any terminological 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, ensuring principles for reward allocation are aligned across M&S.

Annual Bonus Scheme

- Review of achievements against 2019/20 performance objectives for executive directors and Operating Committee directors.
- Approval of targets for the 2020/21 Annual Bonus Scheme ensuring that the performance conditions are transparent, stretching and rigorously applied.
- Approval of the 2020/21 individual performance objectives for executive directors and Operating Committee directors.
- Noting of the total budgeted expenditure for the Annual Bonus Scheme across M&S.

Long-term incentives

- Approval of 2020 PSP awards for the executive directors and Operating Committee directors, following engagement with key stakeholders.
- Approval of vesting level of the 2017 PSP awards across M&S.
- Regular review of all in-flight performance share plans against targets.
- Consideration of long-term share awards granted to colleagues below Operating Committee level.

Goverance and external market

- Review of the M&S Remuneration Policy, ensuring it continues to support the long-term success of M&S, is aligned with the 2018 UK Corporate Governance Code, other external governance and emerging best practice.
- Review the appropriateness of the senior remuneration framework in the context of the rest of the organisation and external governance.
- Review of the Committee’s performance in 2019/20, 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.
- Review the effectiveness and transparency of remuneration reporting.
- Noting of direct feedback from the Business Involvement Group (BIG) M&S’s colleague representative body to ensure that all employee views are received and considered by the Board when making remuneration and reward decisions.

EFFECTIVENESS OF THE REMUNERATION COMMITTEE

An external review of the effectiveness of the Remuneration Committee was conducted by Gurnek Bains and Georgia Samolada of Global Future Partners. The review established that the Committee operates effectively and ensures sound independent review of remuneration policies. Developmental feedback and support will be provided as part of the review process.

2020/21 ACTION PLAN

- Review the M&S Remuneration Policy and framework to ensure strong alignment with the Never the Same Again strategy and transformation acceleration.
- Continued alignment of executive remuneration with the approach to pay across the wider workforce (e.g. CEO Pay Rate, Gender Pay Gap, Diversity).
REMUNERATION COMMITTEE MEETINGS

FIGURE 31: REMUNERATION COMMITTEE MEETINGS

The table opposite details the independent non-executive directors that were members of the Committee during 2019/20.

<table>
<thead>
<tr>
<th>MEMBER</th>
<th>Since</th>
<th>Maximum meetings</th>
<th>Number of meetings attended</th>
<th>% of meetings attended</th>
</tr>
</thead>
<tbody>
<tr>
<td>Andrew Fisher</td>
<td>1 October 2018</td>
<td>7</td>
<td>7</td>
<td>100%</td>
</tr>
<tr>
<td>(Chairman)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Archie Norman</td>
<td>3 November 2017</td>
<td>7</td>
<td>7</td>
<td>100%</td>
</tr>
<tr>
<td>Katie Bickerstaff</td>
<td>10 July 2018</td>
<td>7</td>
<td>7</td>
<td>100%</td>
</tr>
</tbody>
</table>

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 £70,900 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, General Counsel & Company Secretary and the Head of Executive Reward & External Reporting 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 Aon Hewitt Limited, KPMG, PwC, FIT Remuneration Consultants, Korn Ferry 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 Executive Reward & External Reporting, the Committee gives colleagues, through colleague representatives, the opportunity to raise questions or concerns regarding the remuneration of the executive directors.

During the year, colleague 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 described in the Committee Chair’s letter, the Committee took a consultative approach when considering changes to the 2020 Remuneration Policy, engaging with M&S’s 12 largest shareholders comprising 47.51% of the register and also shareholder representative bodies to fully understand their views on the current and proposed changes to the remuneration framework.

SHAREHOLDER SUPPORT FOR THE REMUNERATION POLICY AND 2018/19 DIRECTORS’ REMUNERATION REPORT

At the Annual General Meeting on 9 July 2019, 98.18% of shareholders voted in favour of approving the Directors’ Remuneration Report for 2018/19. The Committee believes that 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 2018/19 Directors’ Remuneration Report.

FIGURE 32: VOTING OUTCOMES FOR THE REMUNERATION POLICY AND 2018/19 REMUNERATION REPORT

<table>
<thead>
<tr>
<th>Remuneration Policy (at the 2017 ACM)</th>
<th>Votes for</th>
<th>% Votes for</th>
<th>Votes against</th>
<th>% Votes against</th>
<th>Votes withheld</th>
</tr>
</thead>
<tbody>
<tr>
<td>Remuneration Policy</td>
<td>1,020,561,621</td>
<td>99.08%</td>
<td>9,498,526</td>
<td>0.92%</td>
<td>2,368,960</td>
</tr>
<tr>
<td>2018/19 Remuneration Report (at the 2019 ACM)</td>
<td>1,165,884,756</td>
<td>98.18%</td>
<td>21,592,545</td>
<td>1.82%</td>
<td>146,548,542</td>
</tr>
</tbody>
</table>

APPROVED BY THE BOARD

Andrew Fisher, Chairman of the Remuneration Committee
London, 26 May 2020

This Remuneration Policy and these remuneration reports have been prepared in accordance with the relevant provisions 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 28 March 2020 comprises pages 44 to 97 and pages 198 to 199 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 02 to 43, as the Board considers them to be of strategic importance. Specifically, these are:

- Future business developments (throughout the Strategic Report).
- Risk management on page 33.
- Details of branches operated by the Company on pages 09 to 15.
- Information on how the directors have had regard for the Company’s stakeholders, and the effect of that regard, on pages 20 to 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 152 to 162 and is incorporated by reference.

For information on our approach to social, environmental and ethical matters, please refer to our Plan A website 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

<table>
<thead>
<tr>
<th>Listing Rule</th>
<th>Detail</th>
<th>Page reference</th>
</tr>
</thead>
<tbody>
<tr>
<td>9.8.4R (1) (2)</td>
<td>Not applicable (5-14) (A) (B)</td>
<td>N/A</td>
</tr>
<tr>
<td>9.8.4R (4)</td>
<td>Long-term incentive schemes</td>
<td>67-71, 74-78 and 80-85</td>
</tr>
</tbody>
</table>

BOARD OF DIRECTORS

The membership of the Board and biographical details of the directors are provided on pages 46 and 47. 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 86, 87 and 90. Options granted to directors under the Save As You Earn (SAYE) and Executive Share Option Schemes are shown on page 87. Further information regarding employee share option schemes is provided in note 13 to the financial statements on pages 141 to 143.
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 Company 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 28 March 2020 and remain in force in relation to certain losses and liabilities which the directors (or Company Secretary) may incur to third parties in the course of acting as directors or Company 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 28 March 2020 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 £274m (last year £45.3m). The directors have declared dividends as follows:

<table>
<thead>
<tr>
<th>Ordinary shares</th>
<th>£m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paid interim dividend of 3.9p per share</td>
<td>£76m</td>
</tr>
<tr>
<td>(last year 6.5p per share)</td>
<td></td>
</tr>
<tr>
<td>No proposed final dividend</td>
<td></td>
</tr>
<tr>
<td>Total dividend of 3.9p per share for 2019/20</td>
<td>£76m</td>
</tr>
<tr>
<td>(last year 13.3p per share)</td>
<td></td>
</tr>
</tbody>
</table>

SHARE CAPITAL

The Company’s issued ordinary share capital as at 28 March 2020 comprised a single class of ordinary share. Each share carries the right to one vote at general meetings of the Company.

DIRECTORS’ INDEMNITIES CONTINUED

During the period, 325,009,968 ordinary shares in the Company were issued and allotted on completion of the rights issue, while 49,610 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 247p and 261p. Details of movements in the Company’s issued share capital can be found in note 24 to the financial statements on page 160.

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.

ACCESS TO INFORMATION

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 28 March 2020, the following information has been received, in accordance with DTR 5, from holders of notifiable interests in the Company’s issued share capital.

<table>
<thead>
<tr>
<th>Notifiable interests</th>
<th>Voting rights</th>
<th>% of capital disclosed</th>
<th>Nature of holding as per disclosure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Schroders plc</td>
<td>90,153,730</td>
<td>5.549%</td>
<td>Indirect interest (5.547%), CFD (0.001%)</td>
</tr>
<tr>
<td>Majedie Asset</td>
<td>81,070,667</td>
<td>4.99%</td>
<td>Direct interest</td>
</tr>
<tr>
<td>Management Limited</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Blackrock, Inc.</td>
<td>132,880,504</td>
<td>6.81%</td>
<td>Indirect interest (5.14%), securities lending (1.64%), CFD (0.02%)</td>
</tr>
<tr>
<td>Ameriprise Financial, Inc. and its group</td>
<td>82,524,463</td>
<td>5.079%</td>
<td>Indirect interest (5.054%), direct interest (0.025%)</td>
</tr>
<tr>
<td>The Bank of Nova Scotia</td>
<td>51,235,305</td>
<td>3.15%</td>
<td>Direct interest (0.15%), swap (2.99%)</td>
</tr>
</tbody>
</table>

* Disclosures made prior to the 2019 rights issue.

In the period from 28 March 2020 to the date of this report, we received four further notifications in accordance with DTR5 from Blackrock Inc, the most recent being 13 May 2020, disclosing a holding of 128,573,249 ordinary shares (6.59%, broken down as follows: Indirect, 5.05%; Securities lending, 1.40% and CFD, 0.13%).
and (ii) comprising equity securities 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 rights issues and otherwise 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.

**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 amended and restated 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, 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 new 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 20 and 21. 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 30,538 colleagues currently participate in ShareSave, the Company’s Save As You Earn Scheme. Full details of all schemes are given on pages 141 to 142.

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. M&S has a business-wide inclusion strategy which is led by the Inclusion Steering Group. Alongside this, each member of the Operating Committee sponsors 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. In 2019, the Inclusion Steering Group agreed two key goals; by 2022, to have 50% female representation and 15% BAME representation on the M&S senior management team.

Further information on our diversity and inclusion initiatives can be found on page 58.
OTHER DISCLOSURES CONTINUED

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.

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


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 six of them have been resolved or closed. One additional Code reference made by a supplier before 31 March 2019 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 28 March 2020. 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 26 as well as the Group’s principal risks and uncertainties as set out on pages 34 to 43, including the downside sensitivities outlined on page 43.

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 2023. 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 pages 42 and 43

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 2020 AGM.

ANNUAL GENERAL MEETING

The AGM of Marks and Spencer Group plc will be broadcast online from M&S’ Waterside House support centre on 3 July 2020 at 11am. No physical attendance is permitted. The Notice of Meeting is given, together with explanatory notes and guidance on how to access the meeting and vote electronically, on pages 183 to 197.

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 61.
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.

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.

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 26 May 2020 and signed on its behalf by

Nick Folland, General Counsel and Company Secretary
London, 26 May 2020