

# TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES REPORT

## INTRODUCTION

This report sets out our climate-related financial disclosures, which have been drafted to demonstrate our progress towards alignment with TCFD from FY2021/22. We have done this to demonstrate, both internally and externally, the importance of climate-related issues within our broader sustainability programme, and also to generate the internal momentum to ensure that we are in a position to produce high-quality disclosures in future years.

We recognise that this is a complex issue and the TCFD recommendations are stretching. For the business to report more accurately, it needs to build a compliance framework that provides the Board and the ESG Committee with the assurance that disclosures are robust. This is complicated by the fact that the majority of the commitments involve medium- to long-term forward-looking statements and,

therefore, tracking progress against future targets will be vital.

As a result, in this first TCFD report, we have attempted to explain our current position, state our expectations for the future and, importantly, identify where additional work is required for us to disclose fully against all TCFD recommendations next year.

## STRATEGY

The Board has considered climate change as an emerging risk for a number of years. However, it has previously concluded that it should not be a standalone principal risk as

the impacts, and therefore mitigations, are better served by incorporating climate change into other existing principal risks. This year, the Board, with input from the Executive Committee ("ExCo"), ESG and Audit Committees, has concluded that, while this overall approach remains correct, the Company should be more overt in positioning climate change risk separately. This is due to the urgency of the climate crisis, the increasing demands from stakeholders, and the forthcoming introduction of new regulatory obligations and reporting requirements.

The ESC Committee reviewed a new "social, ethical and environmental responsibility" principal risk and recommended that it should be called out as a new and distinct risk from the "corporate compliance & responsibility" risk.

During the development and research phase for the refresh of Plan A, our stakeholders, particularly customers, highlighted the concerns they expect M&S to be addressing, with a broad spectrum of issues including climate change and the environment at the forefront of their expectations of M&S.

Furthermore, we have identified the need to better understand transition risks as a consequence of increasing regulation and changing societal expectations. This will be the focus of our scenario analysis work in 2021/22, which will be carried out to update our understanding and quantify the impacts of climate-related transition risks, as well as physical risks and market opportunities in line with the TCFD recommendations. The results of this assessment will be reported in next year's Annual Report.

M&S is already taking action to address the long-term implications of climate change on our corporate reputation, regulatory environment, physical assets, supply chain continuity and impacts for products and services. Our early targets to address climate change mean that M&S already has emission reduction plans in place for our own operations (scope 1 and 2) which have been established for over 14 years. This focus on reducing energy consumption and increasing the use of renewable energy has influenced key investment decisions such as the creation of our automated Clothing & Home warehouse at Castle Donington with a roof-mounted solar array. The business is committed to ensuring that its stores, offices and distribution centres are constructed and operated in a way that considers economic, comfort, environmental and energy whole-life impacts. Part of this commitment and resulting approach means we are ISO50001 'Energy Management Systems' certified.

## ENGAGING SUPPLIERS IN CLIMATE-RELATED RISKS AND OPPORTUNITIES

An important part of our strategy on climate change issues is to engage suppliers and build greater awareness, action and resilience to changes in climate across the food and clothing industry. In the **food supply chain**, we have worked in partnership with tea, coffee and produce suppliers to ensure that they are building capacity in their producer and grower networks on climate change resilience. This has included projects focused on improving water management for coffee growers in Peru and increasing resilience of British growers through our Farming with Nature programme, with an emphasis on enhancing biodiversity and pollinator protection programmes. To meet changing customer demands for more vegan offerings due to climate considerations, M&S also launched a significant category of vegan food in 2019 (Plant Kitchen). Furthermore in 2020, a new Food Innovation Hub was established to spearhead sustainability solutions, including soya-alternative proteins for plant-based foods and

the latest in material science to reduce plastic packaging. The Hub enables us to track emerging trends and insights, and respond to our customers' needs in the future.

In the **textile industry**, M&S is taking part in a range of collaborative supply chain programmes focused on reducing greenhouse gas emissions, including WRAP's Textiles 2030 and the Sustainable Apparel Coalition ("SAC"). As a signatory to Textiles



2030, we are committed to reducing the aggregate greenhouse gas footprint of new products by 50% by 2030. The SAC has collaborated with industry partners to develop and define a robust methodology to measure the climate impacts of the apparel industry annually using the Higg Index. We have asked our top clothing suppliers to adopt this index to provide us with data visibility on environmental KPIs, including greenhouse gas emissions. Our Clothing & Home business also increased its vegan footwear ranges in 2019.



### Plant Kitchen

Food Innovation Hub partnerships will help M&S Food build on its market share of plant protein ranges.

**POSITION AND AMBITION**

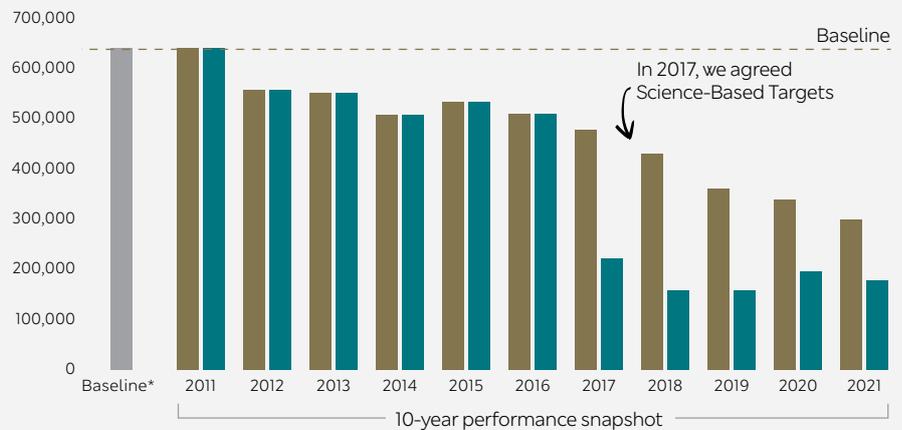
M&S has a strategic ambition to enhance our climate change commitments from carbon neutral operations today to net zero emissions by 2035. We are currently developing our targets and delivery roadmap. This work will be completed in FY2021/22 and will update our position on the use of renewable energy and the role of carbon removals (offsets). This strategic ambition builds on earlier actions taken on climate change as part of Plan A and on the existing approved science-based targets to reduce greenhouse gas emissions; 80% reduction by 2030, 90% reduction by 2035, and a cumulative project-based target for our wider value-chain of 13.3 million tonnes CO<sub>2</sub>e by 2030.

The adjacent chart demonstrates that this has been an issue we have taken seriously, and we have already made demonstrable progress on reducing our operational emissions (scope 1 and 2) against the baseline of 2006/2007. Our scope 3 baseline will be set against our 2016 position, in line with our science-based target. Modelling indicates that our total value-chain greenhouse gas emissions at that time were c.6.4 million tonnes.

We intend to track our progress against scope 1 and scope 2 emissions in future years using the adjacent chart, and will incorporate and track progress against scope 3 emissions in the coming years, building on our science-based target in this area.

In addition to this, we will undertake scenario analyses during 2021/22 to update our understanding of climate-related risks, including transition risks and opportunities arising from the transition to a low-carbon economy in line with the Paris Agreement.

**M&S Operational emissions (Scope 1 and 2)\*\***



● Location-Based ● Market-Based

\* Baseline year is 2006/07. This has been used consistently as our baseline year in annual Plan A performance reports and our submissions to the Carbon Disclosure Project (CDP).

\*\*In accordance with GHG protocol guidelines, and in absence of appropriate renewable sourcing in our 2015-16 reporting year and prior, our location-based emissions were equal to market-based emissions. Significant reductions in market-based performance in 2017 is primarily due to the procurement of renewable electricity. All figures represent scope 1 and 2 data only so as to present a fair and like-for-like trend for comparison.

**“M&S is already taking action to address the implications of climate change, having had emission reduction plans in place for our own operations for over 14 years.”**

**Steve Rowe, Chief Executive**



**WHAT HAVE WE ALREADY DONE**

Over a decade ago, M&S recognised climate change as a shared and potentially existential environmental threat, and one that could pose a challenge to our global business operations and supply chain. In addition to our clear corporate responsibility for cutting emissions to avoid the worst consequences of climate change, we recognised that our energy costs could increase over time and we could be required by law to cut emissions. We also acknowledged that a changing climate could make some raw materials scarce and more expensive. It was our view that, by responding effectively, we would build greater business resilience and be better placed to benefit from shifting market demands for lower emission products and services.

That is why, in 2007, we committed to making our UK and Republic of Ireland operations (stores, offices, warehouses, business travel and logistics) carbon neutral by 2012. M&S has been a leader on climate change transparency, being one of the early companies to make a full submission to the Carbon Disclosure Project and to publish GHG emissions, assured by a third party under their proprietary methodology, in 2008. Since then, we have transparently reported on the progress we have been making on reducing our greenhouse gas emissions in our annual Plan A reports and through the Carbon Disclosure

Project. Greenhouse gas emissions data for M&S operations (scope 1 and 2) in 2020/21 can be found within the streamlined energy and carbon reporting section on page 32 and in our Plan A Report on pages 30-32, available on our corporate website at [marksandspencer.com/plana](https://marksandspencer.com/plana).

We also took early action to understand the physical risks associated with climate change, commissioning specialist consultancies to carry out reviews on our food and clothing supply chain in 2012 and our property estate in 2015. We knew we would have to revisit our plans periodically to ensure they are keeping pace with the need for decisive action on the climate emergency.

Since then, much has changed. The increased focus and awareness on climate change in the investor community is noticeably different from 2007. While this is our first year on the journey to aligning our climate related disclosures to the TCFD framework, these disclosures will evolve to become even more comprehensive as the Company implements the actions outlined on page 76 during 2021/22. We believe we have made good progress towards TCFD recommendations this year and plan on delivering a fully compliant disclosure for FY2021/22.

**KEY MILESTONES IN OUR CLIMATE CHANGE JOURNEY**

- 2002 Full submission to Carbon Disclosure Project
- 2006 Established our global greenhouse gas emissions reporting boundary
- 2007 Launched Plan A, our sustainability programme. Set an ambition to be carbon neutral in operations by 2012
- 2012 Achieved carbon neutrality in UK and ROI operations and reduced emissions by 22%
- 2014 Achieved carbon neutrality in International operations
- 2017 New targets approved by the Science Based Targets Initiative. Signed up as a supporter to TCFD
- 2020 Reduced emissions by 70% against our 2006/7 baseline. Signed up to British Retail Consortium's Climate Action roadmap
- 2021 Began preparations for the future adoption of TCFD reporting

**PREPARING FOR TCFD – IMPROVING GOVERNANCE**

**Governance**

At the end of 2020, in response to increasing stakeholder interest and pressures relating to environmental, sustainability and governance matters, we announced the creation of a new Board Sub-Committee on ESC. While the creation of this new Committee provides enhanced visibility at the top of the organisation, it is only part of the wider governance arrangements in place to support the Committee, and ultimately the Board, in leading the Company’s response to these issues and discharging our responsibilities, particularly in this area of increasing focus and regulation.

As with all matters delegated by the Board, the CEO is ultimately tasked with the delivery of the Company’s ESG programme. To effectively discharge these duties, his executive leadership team, the ExCo, have collective responsibility for the delivery of the ESG targets, as approved by the ESG Committee on behalf of the Board. The Managing Director of each of the five accountable businesses (Food, Clothing & Home, International, Retail & Property and Bank & Services) has responsibility for the creation and delivery of targets in their business, in addition to the collective responsibility they have as members of the ExCo.

During the course of the year, the Board, ESG Committee and ExCo have made good progress on revitalising Plan A, which includes a strategic ambition to be a net zero business. In addition to this, the ESG Committee recommended that the Group provides disclosure on its progress towards adoption of the TCFD recommendations, ahead of the new Listing Rule coming into effect from our next year end. While the detailed delivery plan and means of measurement underpinning this net zero ambition and future TCFD statements will be developed in 2021/22, work is already under way to develop and agree short- and medium-term targets for each of the businesses, as well as the structure to aggregate them at Group level. Performance against these targets will be tracked by our Transformation Project Office team, with quarterly reports being provided to both the ExCo and ESG Committee, as well as at least annually to the Board.

**Risk Management**

M&S has established a risk management framework that allows consistent adherence to, and application of, risk management principles across the Group, with each business and function accountable for identifying its specific risks. Climate change is considered within two principal risks in the Group risk assessment; “social, ethical and environmental responsibility” has been identified as a new principal risk in our 2020/21 Annual Report, and we have also specified future compliance with mandatory TCFD reporting in our existing “corporate compliance and responsibility” risk. At a business/functional level, climate change considerations also form a part of the Plan A risks that are being managed by our International and Property businesses within their risk registers.

The structure of the Group’s overall risk management framework, including climate-related risks, is the responsibility of the CFO, supported by the Group Risk team. The Managing Directors of the five accountable businesses are responsible for their business’ risk register, and for managing and resourcing mitigating activities. The ExCo members are individually responsible for reviewing and confirming risks in their own areas, with the Executive Directors reviewing the entirety of the principal risks, providing the Audit Committee with confidence that significant risks are appropriately monitored and managed.

As required by the UK Corporate Governance Code, the Audit Committee is tasked with ensuring the effectiveness of the risk management process, as well as confirming that the principal risks and uncertainties of the business are appropriately disclosed externally. However, from this year and as part of our governance and non-financial control arrangements, the ESG Committee has also supported this process by reviewing and providing the Audit Committee with recommendations on all ESG-related risks, including climate change. Further details on the Group’s overall risk management process are available on page 47.

**METRICS AND TARGETS – WHAT ARE WE COMMITTING TO?**

When we launched Plan A in 2007, we made the commitment to have carbon neutral operations by 2012. In 2012, we achieved our original climate-related goal for our own operations, reducing emissions by 22%, sourcing renewable electricity and investing in offsets to compensate for remaining emissions. Since 2012, we have continued to refine our targets and deliver further emissions reductions. In 2017, we confirmed our science-based targets. The first was a commitment to reduce operational emissions (scope 1 and 2) by 80% by 2030 (compared with 2007 levels). In 2020/21, our market-method emissions were 177,000 tonnes CO<sub>2</sub>e, down by 72% on 2006/7 (640,000 tonnes CO<sub>2</sub>e), putting us in a good position to achieve our first operational emissions science-based

target of 80% by 2030. Greenhouse gas emissions data for M&S operations (scope 1 and 2) in 2020/21 can be found within the streamlined energy and carbon reporting section on page 32 and in our Plan A report on pages 30-32 (available on our corporate website). As detailed in the chart on page 75, these measurements are set against our original baseline year of 2006/7.

The second science-based target, over the same time period, committed to cut emissions in our supply chain (scope 3) by a cumulative 13.3 million tonnes (classified as being “well under 2°C” by the Science Based Targets Initiative). This was set against a baseline of modelled emissions totalling c.6.4 million tonnes annually.

Our strategic ambition is to enhance our climate change commitments from carbon neutral operations today to net zero emissions by 2035. Over the course of the next 12 months, we will set out what we mean by that and the role that reductions, renewable energy and removals (offsets) play in meeting the overall ambition. Detailed work will be conducted in 2021/22 to determine the delivery roadmap to achieve this ambition in the short, medium and long term, including the contributions required from each of the accountable businesses and our supply chains.

The results from our scenario analyses will also inform our proposed metrics and actions to be taken on climate-related risks and opportunities.

**CONCLUSION**

**Playing our part in the retail sector**

In September 2020, as part of supporting the low carbon transition, we signed up as supporters to the British Retail Consortium’s Climate Action Roadmap. M&S is committed to working with other retailers, our suppliers, the government and other stakeholders, and to support customers collectively to deliver the retail industry’s net zero ambition.

**ACTION WE WILL TAKE IN 2021/22**

- Publish the delivery roadmap to underpin our new net zero ambition with clear targets across each of the three scopes.
- Continue to track our performance against the baseline.
- Conduct scenario analysis.
- Publish the climate-related risks and opportunities over the short, medium and long term.