GOVERNANCE

CHAIRMAN’S GOVERNANCE OVERVIEW

We have built a team with the skills and experience to support our strategy. In this section we look at their roles and their performance, and outline their independence, their effectiveness, ongoing professional development and succession.

ROBERT SWANNELL CHAIRMAN

OVERVIEW

As I mentioned earlier in this report, this has been another year of mixed progress for the Company. Our Food business delivered another very strong year in a difficult market. In Food we continue to pursue a clear strategy with a distinct and differentiated position, remaining true to our values and with a well-articulated plan for future growth.

We are encouraged by the improved performance across the business in the final quarter 2014/15, particularly in GM and M&S.com. However, our full year performance was constrained by a number of issues associated with the necessary and significant transformation of our infrastructure, implemented in the last few years, and macroeconomic and performance issues impacting delivery in a number of key international markets.

The launch of our new website and our distribution centre at Castle Donington represented the completion of two significant investments, essential for the long-term growth of our business. This has been a key area of focus for the Board over the last two years. Yet, and despite rigorous planning and mitigation of potential risks, both experienced initial execution issues beyond those that we expected. We believe these issues are now resolved, or that plans are in place to resolve them, and both projects continue to be areas of focus for the Board.

This year we have sought to provide insight into the scope of the Board’s activities, discussions and resulting actions. These are provided on pages 38 and 39 of this report.

As a Board we have taken away a number of learnings, particularly about our management of and approach to risk.

The Board, supported by the Audit Committee, spent time discussing risk appetite across the business as well as our investment criteria. Whilst defining our approach to risk appetite remains a work in progress, we believe this will improve the quality of our investment process, the mitigation of associated risks and will deliver improved project implementation going forward. A greater understanding of risk appetite and its management will also support our ambition to become a more agile, innovative and entrepreneurial organisation, as embodied by ‘Fit for the Future’ and our updated values, which were discussed earlier in this report.

CULTURE AND VALUES

The scale of investment and transformation of the business over the last few years has necessitated this shift in our culture and behaviour: it will enable us to respond to the changing consumer landscape, the constant evolution in technologies, and our aim to be a leading international, multi-channel business. But while we adapt and move forward, we are clear that staying true to the M&S tenet of integrity is non-negotiable.

Integrity underpins all of our Board discussions, from debate on the management of our teams, to the safety and integrity of our food supply chain. It affects the way we implement the changes required in our GM supply base to deliver our ambitious gross margin targets, while staying true to our high sourcing standards. It shapes how we operate in our international markets, and the management of our property assets. Integrity has protected the M&S brand and supported its reputation for over 130 years and the Board is focused on ensuring it continues to do so for the long term.

Having Integrity as a value also means being honest in how we judge our own performance as a Board and where we can do things better. We are disappointed not to have made more progress against our Board Action Plan this year. We discuss this performance and our Board evaluation and Action Plan on page 41 of this report. We are clear about how we can be more effective, and what information we need to monitor and challenge our progress and ensure proper debate.

I have highlighted before the importance of the Board as being critical friends. We have a strong team and we have had a number of robust discussions throughout the year on our execution issues at Castle Donington, the performance of the website and our international business, the results of unsatisfactory audits, our financial performance and progress against our targets. We have reflected, and will continue to debate openly the results of our Board evaluation and how we ensure we have the highest quality of debate, coupled with the right planning, information and environment to support this. We must do this to drive our effectiveness as a Board and to be fit for the future.

FIT FOR THE FUTURE

The introduction of ‘Fit for the Future’ brings greater focus on high performance, our teams, development and succession planning, all of which remain a key part of our Board and Committee agendas. Associated detail on the activities of the Nomination and Remuneration Committees are provided on pages 42-43 and 52-76 respectively. Our Action Plan for the 2015/16 year is stretching and sets out specific objectives to improve our performance. The plan aims to support and enable greater debate and reflection,
and enhance the quality of our decisions. Through the Action Plan, we aim to ensure that our values underpin the manner in which we operate as a Board at all times.

**UK CORPORATE GOVERNANCE CODE**

The key themes of the Code form the framework for articulating our narrative, a model that we have consistently adopted for a number of years. As such, our approaches to Leadership and Effectiveness are outlined on pages 34 to 43, Accountability on page 44 and pages 23 to 25 within the Strategic Report and pages 44 to 50 in the Directors’ Report. Engagement and relations with shareholders on page 51, Remuneration on pages 52 to 76 and the Governance of our Pensions Scheme on page 77.

The required governance and regulatory assurances are provided throughout this Directors’ Report. Where information that would previously have been located within the Directors’ Report has instead been incorporated into the Strategic Report, a list of page references is available within the ‘Other disclosures’ section on page 78. As in previous years, we have sought to provide a genuine understanding of how governance supports and protects the M&S business and stakeholders in a practical way.

Our governance framework is reviewed and benchmarked against best practice every year. It sets out the roles, accountabilities and expectations for our directors and our structures. This format has been adopted widely across the business and can be viewed at marksandspencer.com/thecompany.

Governance at M&S is seen as an important element of our Board environment, which feeds into how we do business and is reflected in our Board effectiveness review. We hope this report demonstrates how our governance helps us test whether we are doing the right things in the right way, with the right safeguards, checks and balances, and whether the right considerations underpin every decision we take.

We continue to drive the agenda of diversity in its broadest sense across gender, experience, ethnicity and age. Further insight on this is provided on page 43 and in our Plan A Report.

**MONITORING RISK**

The Audit Committee has played a key role in ensuring that the appropriate governance and challenge around risk and assurance is embedded throughout the business. It is closely monitoring the management of the problems generated by M&S.com and Castle Donington.

[Read more on the work of the Audit Committee on p46-50.]

**APPOINTMENTS AND SUCCESSION**

2014/15 saw significant changes to the Board. Following the resignation of Alan Stewart in July 2014 we undertook a thorough search process resulting in the appointment of Helen Weir, who joined the business as Chief Finance Officer on 1 April 2015. Helen brings considerable retail and finance experience and we are delighted to welcome her to the Board.

In March 2015, Jan du Plessis retired after six years on the Board. Jan has been succeeded in his role of Senior Independent Director by Vindi Banga, who maintains his existing role as Chairman of the Remuneration Committee. Subsequently, I have joined the Remuneration Committee and Miranda Curtis has joined the Audit Committee.

As a result of Jan’s retirement, and in order to provide the necessary balance, Richard Solomons was appointed to the Board on 13 April 2015. We had a clear specification for this appointment and are delighted that he has joined our Board, bringing his experience as a serving CEO with great knowledge of operating an international, multi-channel consumer business. Information on the inductions that both Richard and Helen are undertaking is provided on page 40.

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

We are a more capable business following a sustained period of investment in our infrastructure and people. As outlined on page 16, our focus will continue to be on delivery of our strategy and improvement in shareholder returns.

ROBERT SWANNELL CHAIRMAN

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The Governance report provides:
- A clear and honest review of the year;
- The outcome of our externally facilitated Board Evaluation;
- Greater disclosure around Board discussions and associated actions; and
- Information on our progress towards understanding our risk appetite.

As a Board we regularly discuss and debate:
- Strategy and Company performance
- Culture and behaviour
- Succession planning
- Ecommerce
- The M&S brand
- International
- Supply chain
- Risk
- Property
- Plan A 2020

**UK CORPORATE GOVERNANCE CODE**

The UK Corporate Governance Code 2012 (the ‘Code’) is the standard against which we were required to measure ourselves in 2014/15.

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

A summary of our governance profile, outlining our compliance with key areas of the Code, has been set out on page 5 of the Strategic Report.

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

OUR BOARD

CHAIRMAN

Robert Swannell Chairman
Appointed: Chairman in January 2011, Non-Executive Director in October 2010.
Skills, competence and experience: Robert is a Chartered Accountant and a Barrister. He has extensive government and regulatory experience and possesses a wealth of knowledge of many different business areas, banking and the City acquired over a 33-year career in investment banking. He has significant experience as a director and chairman across various sectors, and his leadership in the area of governance promotes robust debate and drives a culture of openness in the boardroom.
Other roles: Chairman of the advisory board of the Shareholder Trust.

EXECUTIVE DIRECTORS

Marc Bolland Chief Executive
Appointed: May 2010
Skills, competence and experience: Marc has extensive international experience in growing global consumer brands, as well as significant retail expertise from over 25 years in the industry. He joined M&S from Morrison’s where, as CEO, he successfully led the development and implementation of its long-term strategy, turning around the business. Since joining M&S, Marc has led the store modernisation programme, improved the positioning and optimisation of the sub-brands and driven international expansion. Marc continues to work with the Board in developing and implementing the business strategy to become an international, multi-channel retailer.
Other roles: Non-Executive Director, The Coca-Cola Company, Honorary Vice President of UNICEF UK and Director of the Consumer Goods Forum.

Helen Weir Chief Finance Officer
Appointed: April 2015
Skills, competence and experience: Helen is an Accountant, with over 20 years’ experience in the finance and retail sectors. She brings substantial strategic financial experience, and a wealth of significant retail and consumer experience to the Board. Helen has strong listed company experience having been group finance director, executive director, and non-executive director on the Board of a number of major listed companies. Helen is a Fellow of the Chartered Institute of Management Accountants and was awarded a CBE for services to Finance in 2008.
Other roles: Non-Executive Director, SAB Miller, Trustee of Marie Curie Cancer Care.

Patrick Bousquet-Chavanne Executive Director, Marketing & International
Appointed: July 2013
Skills, competence and experience: Patrick brings over 25 years of strong experience in the consumer goods industry. His valuable strategic insight is supported by his experience in developing and marketing brands globally, and a broad knowledge of enhancing business performance and customer experience in a multi-channel environment. Patrick played a key role in creating the new marketing strategy for Women’s wear, and continues to lead the transformation of M&S in-store environment and the publishing strategy for M&S.com. In addition to his responsibility for Corporate Strategy and Marketing, Patrick assumed responsibility for the International business from July 2014.
Other roles: Non-Executive Director, Brown-Forman Inc, Non-Executive Director, Collectively.org.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Vindi Banga Senior Independent Director
Appointed: Senior Independent Director in March 2015, Non-Executive Director in September 2011.
Skills, competence and experience: Vindi has extensive consumer brand knowledge and global business experience, acquired over 33 years in senior roles within the consumer goods industry. His in-depth knowledge of both UK and international trade and industry provides an invaluable insight into business and enterprise across the globe. He has strong experience as a board member of other listed companies, and is the recipient of the Padma Bhushan, one of India’s highest civilian honours.
Other roles: Partner at Clayton Dubilier & Rice, Non-Executive Director of Thomson Reuters, Chairman of the Mauser Group, Chairman of the Confederation of British Industry’s (CBI) Economic Growth Board, Non-Executive Director of GlaxoSmithKline plc (from 1 September 2015), and sits on the Governing Board of the Indian School of Business.

Alison Britain Non-Executive Director
Appointed: January 2014
Skills, competence and experience: Alison brings comprehensive financial and commercial experience to the Board, combined with considerable knowledge of running customer facing retail branch networks. She has held a number of senior positions in the financial sector particularly in retail, and has valuable regulatory insight. Alison has an MBA from Cambridge University’s Judge’s Business School.
Other roles: Group Director of Lloyds Banking Group’s (LBG) Retail Division, and Chair of the FCA’s Practitioner Panel. Alison will be leaving LBG in 2015 and will become CEO of Whittlemac plc in the early part of 2016.

Miranda Curtis Non-Executive Director
Appointed: February 2012
Skills, competence and experience: Miranda’s substantial experience of the international consumer and technology sectors, and varied knowledge of global industry provide a valuable contribution to the Board. During her 20-year career with Liberty, Miranda led the company’s investments in digital distribution and content operations across Continental Europe and Asia-Pacific, most notably in Japan.
Other roles: Chairman of the Board of Directors of Liberty Global plc, Board Member of both the Institute for Government and the Royal Shakespeare Company, Deputy Chairman of Gargrington Opera and Chair of African girls’ education charity, Cambled.

Martha Lane Fox Non-Executive Director
Appointed: June 2007
Skills, competence and experience: Martha brings significant experience from the successful operation of online and customer facing businesses. Martha co-founded Europe’s largest travel and leisure website lastminute.com in 1998, taking it public in 2000 and selling it in 2005. She has extensive knowledge of the online sector, and her valuable input continues to challenge and influence the development of our multi-channel strategy. In 2013, Martha was awarded a CBE and appointed a crossbench peer in the House of Lords. She was also the UK’s Digital Champion until 2013.
Other roles: Chancellor of the Open University, Chair of OnTheCut UK, MakeLab, Co-founder and Chair of Lucky Voice, Non-Executive Director of the Women’s Prize for Fiction, Founder of charitable foundation Antigone and Patron of AbilityNet, Repeve, Cambled and Just for Kids Law.
Andy Halford  
Non-Executive Director  
Appointed: January 2013  
Skills, competence and experience: A Chartered Accountant, Andy has a strong finance background and significant recent and relevant financial experience gained from CFO positions in global listed companies. His detailed knowledge of the UK and international consumer market provides the Board with valuable strategic insight. Andy is a member of the Business Forum on Tax and Competitiveness and a Fellow of the Institute of Chartered Accountants in England and Wales.  
Other roles: Group Finance Director of Standard Chartered plc.

Steve Rowe  
Executive Director, Food  
Appointed: October 2012  
Skills, competence and experience: Steve joined M&S in 1989 and progressed through a variety of roles within store management before moving to head office in 1992. He has worked in several senior roles across various areas of the business including Director of Home, Director of Retail, and Director of Retail and E-commerce, before his appointment as Executive Director of Food in October 2012. Under his leadership, the Food division has continued to achieve strong growth, broadened its range of quality and innovative products, and maintained high customer satisfaction ratings.  
Other roles: Non-Executive Director of GM where he has applied the same focus to the management team, delivering significant margin improvement and returning the division to growth in Q4 for the first time in four years.

Laura Wade-Gery  
Executive Director, Multi-channel  
Appointed: July 2011  
Skills, competence and experience: Laura brings considerable retail, e-commerce and customer experience, gained from over 15 years in senior roles in the retail sector. Laura has been instrumental in the improvement and modernisation of our ecommerce and multi-channel capabilities, which she continues to lead. In July 2014, Laura’s role was expanded, adding responsibility for UK stores to provide greater oversight and a fully integrated approach to M&S’s multi-channel strategy.  
Other roles: Non-Executive Director of British Land, Trustee of Royal Opera House Covent Garden Limited, Member of the Government’s Digital Advisory Board, and Trustee of Aldeburgh Music.

Richard Solomons  
Non-Executive Director  
Appointed: April 2015  
Skills, competence and experience: Richard brings strong commercial, financial, consumer, branding and global experience to the Board. His broad international retail and consumer experience, and his role as a CEO of an international business, provides valuable insight to the Board. During his career at InterContinental Hotels Group (IHG), Richard was integral in shaping and implementing IHG’s asset-light strategy, which has helped the business grow significantly since it was formed in 2003, as well as supporting the return of $10.4 billion to shareholders.  
Other roles: CEO of IHG, Governor of the Aviation Travel Industry Group of the World Economic Forum, Member of both the Executive Committee of the World Travel and Tourism Council and of the Industry Real Estate Financing Advisory Council.
LEADERSHIP & EFFECTIVENESS
OUR BOARD CONTINUED

BOARD OVERVIEW
This section looks at our Board members, the role of the Board, its performance and its oversight. We provide an overview of the induction programme undertaken by our two newly appointed directors, highlighting the differences between inductions for non-executive and executive directors respectively. We also outline how our Board contingency plan was tested during the year.

We provide further transparency on activities and discussions undertaken during the year by sharing some of the actions arising from the discussions and the progress against them.

We also provide insight relating to director:

- **Independence** Maintaining the right balance of independence on the Board;
- **Effectiveness** The review this year was externally facilitated. We update on the output and the action plan for the year ahead on page 41; and
- **Ongoing development** Business training, engagement and mentoring.

ROLE OF THE BOARD AND COMMITTEES
The Board is responsible for ensuring leadership through effective oversight and review. Supported by its Principal Committees – Audit, Remuneration, and Nomination – the Board sets the strategic direction and aims to deliver sustainable shareholder value over the longer term.

Clear terms of reference outline the full schedule of matters reserved for the Board’s decision and that of its key committees. These, along with the individual roles of the Board members, can be found in the Group’s formal Governance Framework at marksandspencer.com/thecompany.

BOARD MEETINGS
The Board held eight scheduled meetings during the year, and individual attendance is set out on the next page. Sufficient time is provided at the start and end of each meeting for the Chairman to meet privately with the Senior Independent Director and non-executive directors to discuss any matters arising. During the year the Board held two meetings away from the office, one of which was its annual two-day strategy meeting. A brief overview of the key areas of discussion, the actions and the outcomes is provided on the following pages.

BOARD RESPONSIBILITY
Responsibility for implementing operational decisions and the day-to-day management of the business is delegated to the Chief Executive and the Executive Board. The Management Committee supports the Executive Board by monitoring the development of the Group’s workstreams against the Group’s three-year plan and inputting annually into the Group’s strategic plan. The executive directors update the Board at each Group Board meeting.

There is clear delegation and oversight from the Executive Board to the Executive Committees (outlined in our Governance Framework at marksandspencer.com/thecompany), which strengthens decision-making across key areas of the business. In addition, the Audit Committee receives a business update at each meeting.

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

The annual two-day strategy meeting held during the Group Board meeting is discussed at each Group Board meeting. Risk Profile demonstrates where assurance is provided by the executive directors. However, the Board recognises the importance of the independence of the non-executive directors as part of its annual Board Effectiveness Review.

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

The Board approved the appointment of Martha Lane Fox for a third term in May 2013. At the date of publication, Martha will have served on the Board for eight years. Martha continues to receive strong support from shareholders as can be seen from the voting results of the 2014 AGM. As Martha has served more than six years with the Company and, as required by the Code, her appointment was again the subject of particular review and scrutiny and it was agreed that she continues to make a strong independent contribution to the Board. With the exception of Martha, all continuing non-executive directors have served less than six years on the Board.

The Board considers that all of the non-executive directors bring strong independent oversight and continue to demonstrate independence. However, the Board recognises the importance of the non-executive directors bringing strong independent oversight and continue to demonstrate independence.

BOARD COMPOSITION, ROLES AND ATTENDANCE

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<td>Independent non-executive directors assess, challenge and monitor the executive directors’ delivery of the strategy within the Board’s risk and governance structure. In addition, they review the integrity of financial information, devise appropriate succession plans, and monitor Board diversity</td>
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This table provides details with regard to meetings held in the 2014/15 financial year.

1. Both Helen and Richard joined the business in the new financial period, and their attendance will be included in next year’s Annual Report.
2. Steven Holliday was unable to attend the meeting on 19 May due to business commitments with National Grid.
3. Jan du Plessis was unable to attend the meeting on 9 September due to overseas business commitments.

MONITORING AND OVERSIGHT

Risk Monitoring and Oversight

Protecting the business from operational, financial and reputational risk is an essential part of the Board’s role. As key transformative projects came online this year, the Board, supported by the Audit Committee, looked to ensure that key financial and operational controls were robust throughout this change. Progress was assessed and challenges were managed within the context of the Board’s appetite for risk.

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

Strategic Progress

Progress against the strategy is closely monitored by the Executive Board and discussed at each Group Board meeting. The annual two-day strategy meeting held away from the office continues to provide for more relaxed and free-flowing discussion. This year the agenda focused on the Castle Donington distribution centre and M&S.com, GM, customer engagement, our property portfolio and International performance. Progress was reviewed against the three-year plan and the longer-term vision for the future.

The Board debated the priorities and the longer-term challenges, identified opportunities for improvement and agreed an action plan. The non-executive directors shared their expertise and provided independent oversight to the discussion.

There has also been increased focus on the people implementing the plans: key skills and competencies improved throughout the business.

See People Behind the Plan on p22.

Governance in Action

The role of the non-executives is not limited to Board attendance. Examples of other activities undertaken in the year:

Andy Halford: met with the Groceries Code Adjudicator, visited Castle Donington, the Mumbai store, and the Hong Kong Sourcing Office and store; and

Alison Brittain: visited Castle Donington and undertook a store visit with a multi-channel Fashion retail expert from Boston Consulting Group.

See our Risk management and Principal risks on p23-25, and Risk in action on p44-45.

INDEPENDENCE OF DIRECTORS

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

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

The Board approved the appointment of Martha Lane Fox for a third term in May 2013. At the date of publication, Martha will have served on the Board for eight years. Martha continues to receive strong support from shareholders as can be seen from the voting results of the 2014 AGM. As Martha has served more than six years with the Company and, as required by the Code, her appointment was again the subject of particular review and scrutiny and it was agreed that she continues to make a strong independent contribution to the Board. With the exception of Martha, all continuing non-executive directors have served less than six years on the Board.

See details and experience of each director on p34-35.

The Board considers that all of the non-executive directors bring strong independent oversight and continue to demonstrate independence. However, the Board recognises the importance of the non-executive directors bringing strong independent oversight and continue to demonstrate independence.

The Board considers that all of the non-executive directors bring strong independent oversight and continue to demonstrate independence.
## LEADERSHIP & EFFECTIVENESS

### OUR BOARD CONTINUED

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The assessment of the Marks & Spencer Board was conducted according to the guidance in the UK Corporate Governance Code and was facilitated by **Ffion Hague of Independent Board Evaluation**. Neither Ffion Hague nor Independent Board Evaluation have any other connection with the Company.

The external evaluation of our Board is an important factor in ensuring we are creating an open, effective Board and realising our potential.

**Robert Swannell Chairman**

### Director Induction

Shortly before the publication of this report, two new directors joined the business; Helen Weir, Chief Finance Officer, and Richard Solomons, Non-Executive Director. Both are receiving a tailored induction programme led by the Chairman, which includes time with each of the executive directors, the group secretary, members of the Management Committee, a wide range of senior management from across the business, and the opportunity to meet with major shareholders.

Helen and Richard’s induction programmes are comprehensive and both cover:

**Company structure and strategy, including:** Our history; strategy (including details of all key investment decisions), key people and succession plans; Board procedures including the Governance Framework, Code of Ethics and Behaviours; Board calendar, minutes from previous meetings, effectiveness reviews and action plans; finances, performance, operating plans, current KPIs and targets; operational overview of all business areas; key relationships, including suppliers and major contracts; Group Risk Profile and our approach to risk; insight into key audits and areas of focus.

**Industry and competitive environment, including:** Customer trends, consumer and regulatory environment including governance and all relevant consumer and industry bodies, Corporate Social Responsibility, environment and sustainability.

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

Richard’s induction as a non-executive was supported by one-on-one meetings, and aimed to provide a broad learning about the business, its operations, its key markets and its risks.

Helen’s induction was supported by a greater number of one-on-one meetings with the Chairman, the executive and the non-executive directors, but also management from Strategic Programmes, Finance, HR (including visiting our employee support team), GM (including our key suppliers and corporate brokers), Store operations (including visiting the Castle Donington facility), Plan A, Health & Safety, Pensions, M&S Bank, Internal Audit & Risk, the Company Archive and the Governance team.

Given that the two directors joined the business within a short space of time, we will take this opportunity to obtain feedback on their experience of the induction process and review the director induction programme. Going forward we will also seek feedback from Alison Brittain, on her induction and her first year with the business. Further information on our induction can be found in the Corporate Governance section of marksandspencer.com/thecompany.

### Succession

Succession planning and the succession pipeline remain a key agenda item for the Board.

During the year, our Board contingency plan was tested when, shortly after the AGM, Alan Stewart resigned from the Board. Given Alan had accepted a role with another food retailer, the Board felt it necessary for him to leave the business immediately. Until a suitable replacement was found for the position, Paul Friston, our then Director of Group Financial Control, was appointed Interim Chief Finance Officer. Paul held the position until Helen Weir joined the business on 1 April 2015, at which point Paul took up a new role within the business.

In August 2014, we also announced that Jan du Plessis would be leaving the business in the early part of 2015. Jan had served M&S for six years as a non-executive director. Having Jan remain with the business until March 2015, and Paul cover the Finance role for nine months, allowed the Board to focus sufficient attention on ensuring the new appointments came with the required qualifications, experience and skills to meet the challenges and opportunities ahead.

More detail on succession planning can be found on pages 42-43.
BOARD REVIEW PROCESS

Stage 1 A comprehensive brief was given to the assessment team by the Chairman, Robert Swannell, and Group Secretary, Amanda Mellor, in December 2014. The evaluation team also observed Board and committee meetings in December 2014, and January and March 2015. Copies of all Board papers were provided to the team for briefing purposes prior to the meeting.

In January and February, detailed interviews were conducted with every Board member. All participants were interviewed according to a clear agenda, tailored for the Board. In addition, the team spoke to the Director of HR, the Interim Chief Finance Officer, Head of Internal Audit & Risk, the Group Secretary, the Company’s external remuneration consultants, PwC, and the Company’s Lead Audit Partner from Deloitte.

Stage 2 The report was compiled by the evaluation team based on information and views supplied by the Board and those interviewed. All recommendations were based on best practice as described in the UK Corporate Governance Code and other current corporate governance guidelines.

Stage 3 Draft conclusions were discussed with the Chairman and subsequently discussed with the whole Board at its meeting in April, with Ffion Hague present. The conclusions of that discussion were recorded in the minutes of the meeting. Robert Swannell also received a separate report with feedback on individual directors. Following the Board meeting, Ffion Hague gave feedback on the Chairman to the Senior Independent Director and to the Committee Chairmen on the performance of each committee. The Senior Independent Director also met with the non-executive directors to review the Chairman’s performance. This review was then shared with the Chairman.

Note: The above activities were undertaken by Ffion Hague of Independent Board Evaluation.

* Ffion Hague also attended the Board discussion.

BOARD REVIEW INSIGHTS 2014/15

The ethos and culture of the Board is positive and remains in line with the last independent review in 2012.

Overall, the Board rated its performance as acceptable in the areas of governance and compliance, shareholder accountability and relationships, induction, and succession planning. However, in other areas performance was not considered to be as strong, and progress had been slow in relation to last year’s Action Plan. As a result, this year members were clear that there were several key areas that would enable the Board to be more effective, challenge business performance, and drive strategic debate.

The Board review was conducted in December 2014 and January 2015 when M&S’s performance was under particular scrutiny, with operational issues affecting the Castle Donington distribution centre and M&S.com. Given this context, members were particularly open, objective and critical with respect to Board performance and the potential changes that should be implemented to improve overall Board effectiveness. A number of these improvements have featured in previous years and primarily relate to information context, content and consistency, and debate around business and strategic risk. These now form the core of the 2015/16 Board action plan.

Board Committees Board Committees were also reviewed and were all considered well run, challenging, structured, trusted and effective. Members noted that committees were improved in terms of quality of information and support from management. Feedback from each Committee meeting to the main Board was felt to be full and transparent, particularly in relation to Audit and Remuneration.

BOARD ACTION PLAN

As in previous years, the Board’s focus on culture, values and people development was felt to be strong. However, this year it was felt that more could be done to facilitate greater informal engagement between the Board and the broader management team.

After a thorough debate of the review with Ffion Hague present, the Board has agreed an Action Plan for the year ahead. This plan focuses on the quality of information to support Board discussions, and broadening Board debate and scope around risk.

THE BOARD ACTION PLAN 2015/16 INCLUDES:

- Review of Board decision-making process and debate.
- Review of all management information and KPIs to improve quality and consistency of data, and enable clearer strategic context.
- Continue to refine our risk appetite statements across the business, building on the progress delivered on risk in 2014/15
- Improve tracking, review and debate on quality of past investments.
- Continue to encourage greater interaction with Board members across the business.
**LEADERSHIP & EFFECTIVENESS**

**NOMINATION COMMITTEE REPORT**

We have an established mapping of the experience and skills requirements for our Board. This allowed us to move with clarity on the replacement and succession of Jan du Plessis as Senior Independent Director.

**ROBERT SWANNELL**
CHAIRMAN OF THE NOMINATION COMMITTEE

**INTRODUCTION**

We have seen further change to our Board composition this year. I am pleased to welcome our new Chief Financial Officer, Helen Weir. We announced Helen’s appointment in November 2014 and she formally took up her position on 1 April 2015.

In August 2014 we announced that Jan du Plessis would be stepping down in the early part of 2015. He left the business on 4 March after nearly six years on the Board. As part of our Board succession planning process, we have established mapping of our experience and skills requirements, future Board and Committee requirements, and director tenure. As a result, following Jan’s retirement, we were well placed to appoint Vindi Banga as Senior Independent Director, in addition to his responsibilities as Remuneration Committee Chairman, and also appoint Miranda Curtis to the Audit Committee, in addition to her membership of the Remuneration Committee. Following the retirement of Steven Holliday from the Board in July 2014, we recognised the benefits that a serving CEO brings to our Board mix, along with international, brand and consumer experience. This clear brief underpinned the appointment of Richard Solomons to the Board in April 2015.

Vindi Banga succeeded Steven Holliday as Remuneration Committee Chairman. Vindi and Steve managed an exemplary handover, including consultation and meetings with investors ahead of the approval of our Remuneration Policy at the AGM in July 2014.

In addition to these Board changes, throughout the year, the Committee focused on executive director development and experience. As part of this, we agreed to build on this in the coming year with our 2015/16 Action Plan. We continued to refresh and review non-executive director tenure and skillset to ensure an appropriate mix and diversity of experience. As part of this, we agreed with international, brand and consumer experience. As part of this, we agreed to build on this in the coming year with our 2015/16 Action Plan. We continued to refresh and review non-executive director tenure and skillset to ensure an appropriate mix and diversity of experience. As part of this, we agreed to build on this in the coming year with our 2015/16 Action Plan.

The Committee’s performance was reviewed externally this year by Ffion Hague of Independent Board Evaluation. Performance was felt to have improved, with better support and more professional processes coming into effect. We intend to continue to identify opportunities for broader business engagement. We are pleased that women now represent almost 40% of our Board membership. Our current diversity percentage is also reflective of broader senior management, where female representation also accounts for almost 40%.

**EFFECTIVENESS OF THE NOMINATION COMMITTEE**

**Independent review**

The Committee’s performance was reviewed externally by Ffion Hague of Independent Board Evaluation. Performance was felt to have improved, with better support and more professional processes coming into effect. We intend to continue to identify opportunities for broader business engagement.

**Nomination Committee activity**

We continued to refresh and review non-executive director tenure and skillset to ensure an appropriate mix and diversity of experience. As part of this, we agreed to build on this in the coming year with our 2015/16 Action Plan.

**MEMBER ATTENDANCE**

<table>
<thead>
<tr>
<th>MEMBER</th>
<th>MEMBER SINCE</th>
<th>MAXIMUM POSSIBLE MEETINGS</th>
<th>NUMBER OF MEETINGS ATTENDED</th>
<th>% OF MEETINGS ATTENDED</th>
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<td>Vindi Banga</td>
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<td>Alison Britain</td>
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<td>4</td>
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<td>Miranda Curtis</td>
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<td>Martha Lane Fox</td>
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<td>Andy Halford</td>
<td>1 Jan 2013</td>
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<td>Jan du Plessis¹</td>
<td>1 Nov 2008</td>
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<td>Richard Solomons²</td>
<td>13 Apr 2015</td>
<td>-</td>
<td>-</td>
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<td>Robert Swannell (Chairman)</td>
<td>4 Oct 2010</td>
<td>4</td>
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<td>100%</td>
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</tbody>
</table>

¹ Jan du Plessis was a member of the Committee until 4 March 2015, when he resigned from the Board. He was unable to attend the meeting held on 8 September due to overseas business commitments.
² Richard Solomons joined the business during the new financial period and his attendance will be included in next year’s report.

**Action Plan 2015/16:**

- Continue to review succession plans for the Board and key roles across the business;
- Continue to identify future talent pipeline;
- Review development initiatives for directors, and
- Continue to identify opportunities for broader business engagement.
Our assessment of diversity in terms of experience and background is covered in further detail below. We also reviewed our diversity policy this year to ensure it remains fit for purpose.

**BOARD DIVERSITY POLICY**

Since the launch of the Board Diversity Policy in 2012, the Board has made progress in broadening the diversity of the Board and senior management. In 2014, the Board reviewed the policy to ensure that it continues to drive the benefits of a diverse Board and workforce across the business. The Board agreed that the ambitions and objectives set out in the policy remain relevant targets against which to measure our progress.

For further information on employee diversity, including gender, ethnicity and age, see p23 of our Plan A report marksandspencer.com/plana2015.

**BOARD DIVERSITY: PROGRESS UPDATE**

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

As highlighted earlier in the report, the Board made two appointments during the year following one retirement and one resignation. The appointments of Helen Weir and Richard Solomon increased the female/male balance on the Board from 31% female membership at the start of July last year to 38% in April this year.

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

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

In 2015, M&S was again listed in The Times Top 50 Employers for Women for the fifth year running.

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

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

Key initiatives include:

- A comprehensive talent review presented to the Board annually, mapping successional candidates and opportunities across all senior roles within the business.

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

- Access to International Business School Training.

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

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

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

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

The Board remains committed to ensuring that high performing women from within the business and from a variety of backgrounds, who have the requisite skills, are given greater exposure to the nomination committees of FTSE100 companies. Once again, the Board met its commitment, and all non-executive director long lists in 2014/15 included 50% female candidates.

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

The Board continues to support the nine principles of the Executive Search Firms Voluntary Code of Conduct on gender diversity, demonstrated by remaining committed to only engaging executive search firms who are signatories to this code. During the year, we continued to work closely with JCA, and maintained our focus on the targets and ambitions around female representation on the Board. The Board confirms that JCA has no other connection with the Company.

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

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

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

- The annual Board evaluation process includes an assessment of the Board’s diversity including gender, helping to objectively consider its composition and effectiveness.

- The M&S Inspiring Women’s Network launched in 2014, continues to support the progress of women in our business, giving access to a range of role models, providing informal mentoring and networking opportunities, and creating a forum for discussion to explore and address the career challenges women face.

- Taking part in a number of pilot schemes including cross-business mentoring for senior women, run by the government-backed 30% Club, a female only development programme.

- The MBA Leadership Programme is in its fourth year, recruiting and developing talented MBA graduates from international business schools; to date intake into the programme has been over 50% women.

- Partnering with a local school to provide one-to-one mentoring support for around 50 female students between the ages of 15 and 17.

- A number of programmes to help people in our communities, including Marks & Start, Marks & Start Logistics, and Make Your Mark, are successfully helping young people, the homeless, lone parents and those with disabilities, to find work in our stores and distribution centre.

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

We continue to regard the Board evaluation process as an important means of monitoring our progress. Full details of the 2014/15 Board evaluation and the Action Plan are on page 41. We remain committed to getting the right balance of internal versus external hires and work forwards understanding and managing some of the challenges we face, such as:

- International management experience reflective of the customers and communities we serve; and

- Any man challenges women face in reaching regional management positions and above, within the business.
ACCOUNTABILITY

Internal Audit & Risk comprises both the Group Risk function and Internal Audit. Group Risk facilitates and manages the risk process that is ultimately owned by the Group Board. Internal Audit, accountable to the Audit Committee, uses a risk-based approach to provide independent assurance over the adequacy and effectiveness of the control environment, including controls related to key risks on the Group Risk Profile. Management actions from all of our audits are tracked to completion and the status of these actions is reported to the Audit Committee to ensure that the risks identified are appropriately addressed. This will, in turn, further mitigate the risks included in our Group Risk Profile.

The following examples illustrate how Internal Audit supports the business through driving improvements to our control environment and adding value in core business areas.

**RISK: INTERNATIONAL EXPANSION**

In support of the Group’s international growth plans, Internal Audit reviewed the process to identify and approve new store locations, with a focus on Asia. The audit confirmed that we have a well defined governance structure in place through the Property Board, from the review of initial new stores proposals, to the formal post-investment reviews that measure actual performance against initial estimates. The audit highlighted an opportunity to improve the quality and consistency of data supporting these initial estimates prepared by the in-country teams, including greater alignment with the process for UK stores. This would support better decision-making and enable more effective comparison of proposals across countries. The audit also recommended more robust tracking of actions agreed at the post-investment reviews through to their completion, to drive profitability.

**RISK: GM CUSTOMER ENGAGEMENT**

The continuous improvement of our customers’ online experience is an important part of driving customer engagement. Following last year’s M&S.com website launch, Internal Audit reviewed the process to maintain product content online, including narrative product descriptions, photographic images, and the navigation paths supporting customer searches. Our review confirmed that robust review mechanisms are in place to minimise the risk of errors or omissions in product information on the website. However, in instances where data is missing or incorrect, delays in resolution can impact the timeliness with which products are launched online. The audit recommended clearer definition of roles and responsibilities between the GM teams developing and buying the products, and the M&S.com team managing the website content, and a more structured “critical path” for product launches online.

**RISK: IT CHANGE**

In 2014/15 new agreements were implemented with a number of third-party IT service providers, covering areas such as Infrastructure and Application Support and End User Computing. Effective management of our IT service providers is a key element of managing IT change risk, ensuring, for example, that IT changes are executed in line with M&S IT policies. Internal Audit conducted a review to assess the effectiveness of IT service provider management processes. The audit provided assurance that significant focus had been placed on the successful implementation of the new agreements. At the time of the audit there was further work required to clearly define vendor management roles and responsibilities and to implement monitoring against all contractual service levels, both of which have subsequently been addressed.

**RISK INTERDEPENDENCY**

We recognise that there is significant interdependency between our key risks. This diagram, based on our current Group Risk Profile, highlights how changes to one risk could impact on those connected to it, and therefore on the Group Risk Profile as a whole. By understanding the relationship between our key risks, if they were to materialise, we are better placed to ensure that we are managing them appropriately and to understand the entirety of our risk exposure.

The highlighted risks illustrate potential interdependent risk scenarios:

- The success of our business is highly influenced by our ability to retain quality individuals. The loss of key product developers would impact our ability to provide a point of difference against our competitors in terms of quality, value and innovation, whilst maintaining expertise in our Food technology team enables us to maintain high standards of food safety and integrity across our products and supply chain in an increasingly challenging environment.
- Our customers tell us that they trust us to do the right thing. By maintaining these high standards of food safety and integrity, we continue to stand out from our competitors.
- Strong GM customer engagement is influenced by our ability to maximise product availability and provide customers with an efficient and reliable delivery proposition. The robustness of the online business will also impact this supply chain and logistics network, as well as having a direct influence on customer engagement through the provision of a reliable online experience.
This year, we have placed significant focus on developing our approach to risk appetite in line with the UK Corporate Governance Code. By expressing the types and amount of risk we are willing to take or accept to achieve our plan, we aim to support consistent, risk-informed decision-making across the Group.

Our starting point has been to define draft risk appetite statements for our principal risks, and for key decisions made by the Board. These statements provide parameters within which we typically expect the business to operate, facilitating structured consideration of the risk and reward trade-off in the decisions we make and in how the Group conducts business.

We have covered a wide range of risks from GM ethical sourcing and food safety and integrity, through to investment decisions and business resilience. Given the varied nature and diversity of such risks, there is no ‘one size fits all’ approach to establishing risk parameters. We believe that taking the time to get this right will yield the greatest benefits to our business and as such we are currently working with management to define a draft set of risk statements which we will refine over time to ensure that they best reflect what the Group stands for.

Providing clear parameters is important; however, it is essential that we also foster an environment where innovation and entrepreneurial activities thrive. At times, there may be merit in operating outside of these risk parameters but proposed exceptions will need to be escalated to senior management for debate and approval before activities commence, ensuring that appropriate mitigating controls are in place.

Once finalised, our risk appetite statements will be incorporated into an operating framework, integrated with our existing Group Risk process, and used to monitor business activities and decision-making. We believe we have made good progress this year and risk appetite remains a key priority for the Board in 2015/16.

Changes to the UK Corporate Governance Code, which came into effect in October 2014, will require companies to state whether they believe they will be able to continue to operate and meet their liabilities, taking into account their current position and principal risks. Companies will need to state over what period they have made their assessment and why they consider that period to be appropriate. The assessed period must be longer than 12 months and relative to business planning processes and how business performance is measured.

On the surface this might appear to be a simple statement to make. However, the Code changes emphasise the need for an interconnected approach to assessing viability. The Board must take into account the Company’s business model (and the inputs which support it) and the strategy, ensuring that these are aligned with its risk appetite, supporting risk framework and the controls and activities in place to mitigate risk. The Code requires statements to be made as a ‘reasonable expectation’ rather than a certainty.

Whilst the Code changes are not applicable to M&S until next year’s Annual Report, elements of the Code change are aligned with the principles of integrated reporting. Both require some changes to a number of our ways of working and, as part of our commitment to producing an integrated report next year, we have already made progress. We are committed to ensuring that our response to the Code change is meaningful and adds value both within the business and to our stakeholders. The work we have in progress means that we are in a strong position to meet the requirements in next year’s Annual Report.

See more in our Risk management section p.23-25.
ACCOUNTABILITY

AUDIT COMMITTEE REPORT

The Committee has covered much ground this year with the auditor transition, a wider and enhanced assurance scope and greater risk oversight.

We plan to build on this in the year ahead.

ANDY HALFORD CHAIRMAN OF THE AUDIT COMMITTEE

INTRODUCTION

The following pages aim to open up the doors to the boardroom and provide insight into the Audit Committee’s activities in the year, as well as provide an update on the Company’s new statutory auditor (Deloitte), their effectiveness and the non-audit fees they received. It provides the Committee’s opinion on the Annual Report when viewed as a whole, including how it has assessed the narrative reporting in the front of the report to accurately reflect the financial statements in the back.

This report also shares some of the insight we received from the executive updates presented to us from across the business. These continue to provide the Committee with real insight into our challenges and aspirations. These also tell us how the risks are being managed and mitigated, as well as helping the Committee members understand the progress being made towards the strategic plan. The updates provide us with an opportunity to challenge, discuss and debate with the presenters whilst sharing our experience and providing an independent perspective.

In October 2014, the UK Corporate Governance Code was updated. The Committee is looking closely at the additional requirements introduced by the new iteration of the Code to assess which of our processes need updating and to ensure that we are well positioned to report against them in future.

EFFECTIVENESS OF THE AUDIT COMMITTEE

The Board is satisfied that one member of the Committee, Andy Halford, has recent and relevant financial experience.

Independent review

The Audit Committee’s performance was reviewed externally this year by Ffion Hague of Independent Board Evaluation, as part of the Board Effectiveness Review. The Committee received very positive feedback from Board members and external participants. It is seen as open, transparent and effective and Board members value the feedback to the wider Board. In particular, the Committee is seen to have driven some improvement in the business response to internal audits and the overall quality of information provided to members. The Committee made good progress against the 2014/15 Action Plan, establishing good ways of working with Deloitte and improving the risk oversight in key business areas that were critical to performance.

Audit Committee activity

→ Remained focused on the audit, assurance and risk processes within the business, and maintained oversight of financial and other regulatory requirements.

→ Reviewed their ways of working and assurance following appointment of Deloitte as the new Statutory Auditor.

→ Updated the process for assessing the effectiveness of the external auditor.

→ Reviewed the design and scope of the assurance plan, with particular focus on key strategic priorities.

→ Received and discussed specific business presentations relating to risks within the Group Risk Profile.

Action plan 2015/16:

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

The action plan for 2015/16 will focus on:

→ Providing oversight of key business risks with particular focus on international retail and ethical sourcing;

→ Supporting risk work achieved in 2014/15 and definitions of risk appetite across the business; and

→ Continuing to support the development, design and scope of the assurance plan, with particular focus on key strategic priorities.

MEMBER ATTENDANCE

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<thead>
<tr>
<th>MEMBER ATTENDANCE</th>
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<th>NUMBER OF MEETINGS ATTENDED</th>
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<td>Andy Halford (Chairman)</td>
<td>1 Jan 2013</td>
<td>5</td>
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<tr>
<td>Steven Holliday¹</td>
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<td>Jan du Plessis²</td>
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</table>

¹ Steven Holliday was unable to attend the meeting held on 15 May due to business commitments with National Grid.
² Jan du Plessis was unable to attend the meeting held on 8 September due to overseas business commitments.
EXTERNAL AUDITORS

TENURE OF THE AUDITORS

At the AGM last year shareholders approved the appointment of Deloitte as the Company’s new Statutory Auditor.

The proposed change in auditor was communicated to shareholders in December 2013. This extended lead time provided a smooth handover process from PwC, the previous Statutory Auditor, and allowed Deloitte to shadow PwC through areas of the 2014 year end process, giving them a good understanding of the business.

In the early part of the year, Deloitte underwent a thorough induction process to enhance their understanding of the business. This included:

- Meetings with management and executives across the business including a large number of individuals outside of the finance function (trading managers, buyers, property team, HR and others)
- A number of site visits across the UK and International operations; including 16 UK distribution centres, 27 UK stores
- A joined up approach towards the audit process, and provide the Audit Committee with sufficient detail to establish an informed view on the overall efficiency, integrity and effectiveness of the external audit.

Questionnaires were tailored to the following target groups:

1. Chief Finance Officer and Director of Group Financial Control
   - A full questionnaire, covering all areas of the audit process, was completed based on the individual’s close knowledge of the audit process, their interaction with the audit partner and taking consideration of the questionnaire completed by the Heads of Finance for Food, GM and International.
   - Shorter questionnaire, focusing on the audit team, planning, challenge and interaction with the business.

2. Heads of Finance: Food, GM and International
   - A high level set of questions with specific focus on the audit partner, planning, execution, value, communication and challenge. The Committee had access to copies of the completed finance questionnaires (sections 1 and 2 above) to assist their considerations.

WHAT WAS THE OUTCOME?

As this is Deloitte’s first year with M&S, the Committee was only able to assess their work up until the end of the financial period and not the year end audit itself. However, the period assessed included the interim reporting cycle, providing Committee members with early insight into the level of challenge and scrutiny Deloitte provide.

Feedback highlighted:

- A good understanding of the business and its values;
- A team that were robustly challenging, whilst supportive on technical matters; and
- A joined up approach towards the significant issues for discussion.

<table>
<thead>
<tr>
<th>Last year’s feedback identified:</th>
<th>How has this been addressed?</th>
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</thead>
<tbody>
<tr>
<td>The Committee Chairman was felt to have greater visibility of the overall audit process as a result of his one-to-one meetings with the audit partner.</td>
<td>Time has been made available prior to each Committee meeting for the Chairman to update Committee members, where necessary, on his discussions.</td>
</tr>
<tr>
<td>The survey itself contained a level of detail regarding processes that the Committee may not have or need visibility of.</td>
<td>The content of the survey has been reviewed and updated. An overview of the new process is provided above.</td>
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</table>
The Committee receives a detailed update from the business at each Committee meeting, with one or more areas represented. Business updates are planned on a rolling 12-month basis and reviewed at every meeting. Some of the 2014/15 updates are listed below:

**ETHICAL SOURCING**
- Updated our GM ethical trading approach, including M&S standards and auditing.
- Discussed the monitoring process, site rankings and escalation procedures and improvements made in this area.
- Received examples of high, medium and low risk suppliers, noting those that M&S works with.
- Updated on training and innovation, and noted the introduction of new technologies and methodologies in this area.

**INTERNATIONAL OPERATIONS**
- Updated on the risks and mitigating actions to deliver the international strategy, including effective supply of goods.
- Discussed the challenges facing the International business including the impact of the social-economic and geopolitical climates.
- Updated on the international growth strategy, including the franchise model, the international control environment and the performance of the India business model.
- Discussed the International food strategy, fire, health & safety, and improvements in business continuity.

**GM SOURCING**
- Updated on the improvements in GM margin and sourcing strategy, key drivers to delivering the target growth in the plan, and key areas of risk.
- Updated on the key changes to the M&S ways of working to deliver the margin initiatives, including changes in supplier models and a better buying model.
- Noted the risks and impact of external factors and mitigating actions, including currency volatility risk.
- Discussed ways of working with our GM supply base and how this has changed over time and key areas of change going forward, including change in culture.

**HEDGING POLICY**
- Updated on the key areas relating to transaction and translation exposure, the associated level of exposure and specific approaches to transactional hedging.
- Discussed the impact of currency on overseas franchise income.
- Updated on net asset hedging and approach, including risk appetite and associated limits.

**M&S.COM AND CASTLE DONINGTON DISTRIBUTION CENTRE RESILIENCE**
- Updated on Castle Donington business continuity, including contingency options and devising a plan for e-commerce fulfilment.
- Discussed the Castle Donington operating model, including planning and forecasting models and resourcing, and operating procedures.
- Updated on the M&S.com platform resilience and noted that the resilience solution for the M&S.com platform had been embedded, but would be regularly re-tested.
- Discussed the recovery testing and the process for evaluating and testing management judgement for unplanned recovery.

**BUSINESS CONTINUITY**
- Discussed the 2014/15 performance by key incident areas and the benefits from tracking incident data.
- Updated on progress made in the International business, including legacy joint venture countries and franchise.
- Discussed the current national threat level, level of preparedness and key areas for improvement, including working with our franchise partners.
- Discussed the strategy and focus for 2015/16 with the key areas of focus being Castle Donington and International.

**FOOD SUPPLIER TERMS AND CONDITIONS REPORT**
- Discussed the outcome and recommendations of the internal audit into Food Supplier Rebes, including the types and mechanics of Food Supplier income and proposed improvements in the control environment.
- Updated on the areas of greater potential risk and opportunities for an associated higher level of risk-based monitoring.
- Discussed the importance of accounting standards, controls and appropriate training.

**SIGNIFICANT ISSUES**

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

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

The main areas of judgement that have been considered by the Committee to ensure that appropriate rigour has been applied are outlined in this section. All accounting policies can be found in note 1 on pages 94 to 97. Where further information is provided in the notes to the financial statements, we have included the note reference.

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

**IMPAIRMENT OF GOODWILL, BRANDS AND TANGIBLE ASSETS**

The Committee has considered the assessments made in relation to the impairment of goodwill, brands and tangible fixed assets, including land and buildings and store assets. The Committee received detailed reports from management outlining the treatment of impairments where we are committed to close a store, valuation methodology, the basis for key assumptions (discount rate and long-term growth rate) and the key drivers of the cash flow forecasts. The Committee has challenged management and is satisfied that these are appropriate. The Committee has also understood the sensitivity analysis used by management in their review of goodwill and brand impairment. In addition, the business plans detailing management’s expectations of future performance of the businesses are Board approved. The Committee is satisfied that no impairment of goodwill or brand is required and appropriate impairment of tangible assets has been recognised.

See notes 14 and 15 on page 110-111

**INVENTORY VALUATION AND PROVISIONING**

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

At the request of the Board, the Committee has considered whether, in its opinion, the 2014/15 Annual Report and Financial Statements is fair, balanced and understandable, and whether it provides the information necessary for shareholders to assess the Group’s performance, business model and strategy.

As the Chairman advised in his opening statement, the structure of the report has been updated this year to provide greater focus on the key strategic messages in the Strategic Report. Therefore, it was important for the Committee to ensure these changes did not dilute the level of transparency in disclosure that we know is useful for stakeholders, and that the business continued to provide a clear message that was reflective of the Company as a whole.

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

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

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

  IS THE REPORT FAIR?
  - Is the whole story presented and has any sensitive material been omitted that should have been included?
  - Is the reporting on the business segments in the narrative reporting consistent with those used for the financial reporting in the financial statements?
  - Are the key messages in the narrative reflected in the financial reporting?
  - Are the KPIs disclosed at an appropriate level based on the financial reporting?

  IS THE REPORT BALANCED?
  - Is there a good level of consistency between the narrative reporting in the front and the financial reporting in the back of the report, and does the messaging reflected in each remain consistent when read independently of each other?
  - Is the Annual Report properly a document for shareholders?
  - Are the statutory and adjusted measures explained clearly with appropriate prominence?
  - Are the key judgements referred to in the narrative reporting and the significant issues reported in this Audit Committee Report consistent with the disclosures of key estimation uncertainties and critical judgements set out in the financial statements?
  - How do these compare with the risks that Deloitte plan to include in their report?

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

CONCLUSION

Following its review, the Committee was of the opinion that the 2015 Annual Report and Accounts is representative of the year and presents a fair, balanced and understandable overview, providing the necessary information for shareholders to assess the Group’s performance, business model and strategy.
ACCOUNTABILITY
AUDIT COMMITTEE REPORT CONTINUED

ASSURANCE AND INTERNAL CONTROL ENVIRONMENT

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

See p23-25 of the Strategic Report for more information on our material risks.

See p44-45 for further information on our risk management processes.

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

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

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

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

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

The Group was compliant throughout the year with the provisions of the UK Corporate Governance Code relating to internal controls and the FRC’s revised Turnbull Guidance on Internal Control. No significant failings or weaknesses were identified during the Committee’s review in respect of the year ended 28 March 2015 and up to the date of this Annual Report.

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

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

Andy Halford
Audit Committee Chairman

INTERNAL ASSURANCE FRAMEWORK

<table>
<thead>
<tr>
<th>COMMITTEES</th>
<th>ANNUAL UPDATE BY RELEVANT EXECUTIVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fire, Health &amp; Safety</td>
<td>Plan A*</td>
</tr>
<tr>
<td>Business Continuity</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>REPORTS</th>
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<tbody>
<tr>
<td>Information Security</td>
</tr>
<tr>
<td>Whistle Blowing &amp; Fraud</td>
</tr>
<tr>
<td>CSCOP (Grocery Supplier Code of Practice)</td>
</tr>
<tr>
<td>Bribery</td>
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<tr>
<td>Code of Ethics</td>
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<tr>
<th>ANNUAL PAPER</th>
</tr>
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<tbody>
<tr>
<td>Food Safety &amp; Integrity</td>
</tr>
<tr>
<td>Ethical Audits</td>
</tr>
<tr>
<td>Trading Safely &amp; Legally</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>OTHER CONTROL AGENCIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Updates as requested/ appropriate</td>
</tr>
</tbody>
</table>

* Reports directly to the Group Board.

Exisiting direct line of reporting

Formal updates

AUDIT COMMITTEE

Updates as requested/ appropriate
ROBERT SWANNELL CHAIRMAN

As indicated earlier in this report, in 2014 we refreshed our core business values as part of our drive to ensure that our business is fit for the future. These values, Innovation, Integrity and In Touch, are not in themselves entirely new to M&S; rather, we have placed them at the heart of our business as the essential behaviours through which we aim to make everyday life better for customers, employees and investors alike. The latter of these four values, In Touch, complements our attitude towards engaging with our investors as we believe that the foundation of our strong relationship with them lies in regular, open dialogue. Ensuring that we are in touch means we are always available to discuss particular areas of the business and to address any concerns they might have. This year, the business had over 566 contacts with over 316 separately identifiable institutions via one-to-one or group meetings hosted by an executive director or our Investor Relations team. Additionally, I hosted the annual M&S Governance Event. Details for this year’s event are provided in the box on the right.

AMANDA MELLOR GROUP SECRETARY

In last year’s report, I spoke of the importance of maintaining our trusted relationship with our shareholders and outlined my role, as Company Secretary, in engaging with stakeholders on a variety of governance matters. These remain as intrinsically important as ever and, over the course of the year, I have again had discussions with a number of investors and representative bodies. I am also tasked with safeguarding the important relationship with our private investors, who are some of our most loyal customers, and for whom we have introduced a new loyalty scheme this year in partnership with our registrar, Equiniti. See more on page p128.

We must also recognise that our unique heritage positions us to engage more widely beyond the traditional stakeholder group. This is well illustrated by our acclaimed Company Archive, which was relocated in 2012 to a purpose-built facility within the campus of the University of Leeds and houses a collection of over 70,000 items from the Company’s past. The facility’s award-winning ‘Marks In Time’ exhibition opens up our heritage to customers, schools and the wider community. It has received thousands of visitors, including over 8,000 school pupils aged between 5 and 18, who took part in a range of educational sessions. Demand from schools is overwhelming and is met by our Education Officer who works with Heritage Ambassadors across our stores to share the history of M&S, Plan A and the environment, with their local community. The archive’s education programme has received the prestigious Sandford Award for excellence in heritage education and Visit England’s VAQAS award for the quality of its visitor offer.

The relocation of the archive laid the foundation for a broader partnership with the University of Leeds, encouraging close collaboration in areas ranging from design, technology and product innovation to business management and law. The partnership is also a fantastic medium through which to articulate our values, for example, we have worked with the University to produce a free, online educational course on innovation, which was a huge success and reached almost 15,000 people. For my part, I am proud to help strengthen this partnership as a member of the University Council and to promote the importance of ethical leadership as a visiting professor of the University’s Ethics Centre.

We held an investor event in Paris, providing an update on our International strategy, and a seminar on the development of our multi-channel capabilities. Presentations at these events are made by directors or senior managers and offer investors more in-depth information on the progress being made towards our strategic goals. No new, material financial information is disclosed at these events and no additional statements are made regarding current trading performance. The slides from the presentations are available to view at marksandspencer.com/thecompany.

To understand the views and opinions of our private investors outside of the ACM, we engage with a number of leading client brokers who typically represent our private shareholder base. For an independent view, Makinson Cowell, the capital markets advisory firm, continues to provide guidance to our Investor Relations team and undertake an annual audit of our major investors’ views on the Company’s management and performance. The results are presented to the Board.

M&S GOVERNANCE EVENT 2015

The M&S Governance Event is a regular fixture on the calendar and is hosted by the Chairman, Robert Swannell. Board attendees for 2015 will be Vindi Banga (Senior Independent Director and Chairman of our Remuneration Committee), Andy Halford (Chairman of our Audit Committee), Martha Lane Fox (Non-Executive Director and member of our Sustainable Retailer Advisory Board) and Mike Barry (our Director of Plan A).

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

- The Board
- Remuneration
- Audit
- Risk
- Plan A
- Q&As

The presentation will be available at marksandspencer.com/thecompany.

ACM

The 2015 ACM will be held at Wembley Stadium in London on Tuesday 7 July at 11am.

The Notice of Meeting sets out the resolutions to be proposed and the schedule for the day. A copy of the Notice can be downloaded at marksandspencer.com/thecompany

The meeting will be webcast live and a recording made available on our website after the event.

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

The ACM in 2014 was well attended and all of the proposed resolutions were passed, with the percentage of the Company’s share capital voted in favour of each ranging from 88.25% to 99.99%.

See Shareholder information on p127
On behalf of the Board, I am pleased to present our Remuneration Report for 2014/15, my first as the Chairman of the Remuneration Committee. Following the new reporting regulations adopted last year, this report is split into two distinct sections. Although we are not required to include the policy report approved by shareholders last year, the Committee has decided to continue to do so in order to maintain full, transparent reporting. For easy reference, we have included a 'summary' of the remuneration policy on pages 54 to 60. Information on the policy since its approval last year is shown on pages 60 and 61.

Our remuneration framework is designed to support and drive our strategy, and ensure our business is run by high-quality leaders with the skills and expertise necessary to deliver our long-term business priorities. The Committee made good progress against the action plan it set itself last year. As planned, the Committee reviewed and tendered the independent external advisers to the Committee following the appointment of Deloitte as the Company’s auditor. After an extensive process, PwC was appointed to advise the Committee.

REMUNERATION REVIEW AND PROPOSED AMENDMENTS

This year, and with PwC’s support, we undertook a thorough review of the current executive remuneration framework and targets to ensure they remained aligned with the strategic business priorities and were balanced against the Company-wide remuneration offering. The Committee was particularly keen to ensure that the incentive arrangements remained sufficiently motivating for management to deliver while encouraging the behaviours, values and ethics which underpin Fit for the Future and the way we do business at M&S.

The timing of this review was also linked to our requirement to renew our existing share plans, as outlined last year. The Committee has reviewed the Plan rules and framework, along with changes in market practice and feedback from stakeholders. Overall, the Committee concluded that while the structure of the framework remains appropriate, it is time to refresh some elements within the Performance Share Plan in order to provide an even clearer fit with the business’s current strategic priorities, following four years of intensive investment and transformation. The Plan will continue to retain the metrics of EPS and ROCE and their associated weightings of 50% and 20% respectively.

The financial strategic scorecard element will retain targets for International and M&S.com sales as before as we continue to grow these areas of the business, but will now include targets for two key business priorities of GM gross margin growth and the delivery of free cash flow, as set out in the Company’s key performance indicators. While these amendments are within the parameters of the remuneration policy approved by shareholders at last year’s AGM, we value the views of, and input from, our shareholders and therefore consulted with them on the proposed amendments and associated targets for the 2015/16 awards. As a result, we believe the proposed changes and targets are timely and appropriate and will ensure the awards remain stretching but motivating for the senior management team.

CLAWBACK

In updating the associated plan rules, the Committee has also taken the opportunity to introduce clawback in line with updated UK corporate governance guidance. Clawback provisions will apply to any bonus awards in 2016 and beyond and under any of the Company’s executive share schemes from 2015 onwards. Details of this are provided on page 60.

KEY POINTS FOR THE YEAR

Salary review

Executive director salaries were reviewed and discussed by the Committee during the year. The Committee took into account the salary review applicable for the rest of the organisation and directors’ individual performance when assessing the appropriateness of any increase. The Committee was also mindful that the executive directors had requested not to receive an increase last year, despite a 2% average pay review for the business. Further, the annual salary review date has been moved from January to July to fit better with the annual performance cycle. In line with previous years, Marc Bolland has again, at his own request, not received an increase. He has not received a salary increase since his appointment in 2010. The highest increase has been awarded to Steve Rowe in recognition of his strong performance over the period. However, while there is some variation in salary increase across the executive directors, the resulting average salary increase awarded to the executive directors as a group is in line with the rest of the organisation and the market median for the same period since the last review. Further details of the directors’ salary increases are shown on page 63.

Our new Chief Finance Officer, Helen Weir joined the Board on 1 April, after our year end on 28 March, and was not eligible for this salary review. We provide full details of her recruitment arrangement and future pay on page 73.
IN THIS SECTION

Performance-related payments
The Committee also reviewed the performance of both the business and each director against targets set at the beginning of the year for the Annual Bonus Scheme. This year, the business met its corporate Profit Before Tax (PBT) target and a bonus was paid across the organisation.

The bonus payments outlined on page 64 reflect both the delivery against corporate or business area targets and the progress made by each director against their specific individual objectives. Underlying Group PBT at £661.2m was above the minimum threshold of £650m at which level payments against financial targets were triggered for directors. Performance against the Company’s overall Plan A targets was also taken into consideration by the Committee in determining the resulting outturn for each director. The Committee undertook a rigorous review of the achievement against financial and individual objectives to ensure the level of bonus payment was appropriate and fair given the overall business performance. The highest bonus payment was made to Steve Rowe, Executive Director, Food at c.60% of maximum bonus opportunity reflecting strong performance in the Food business. The other bonus payments range from 18% to around 30% of maximum.

The Performance Share Plan awards granted in 2012 were measured for the three-year period up to 28 March 2015 against challenging Earnings per Share (EPS), Return on Capital Employed (ROCE) and Revenue targets. As a result of performance against these targets, executive directors will receive only 4.7% of the original award when it vests in 2015. This level of vesting reflects delivery against ROCE targets; all other targets were not met. Further details are shown on page 66.

SHAREHOLDER CONSULTATION
We remain committed to reporting openly the details of our executive director pay arrangements. Following constructive shareholder feedback, we are providing further disclosure around our bonus targets this year. We will continue to maintain a dialogue with investors regarding our disclosures to ensure we clearly communicate our arrangements as far as possible without it impacting our commerciality.

REMUNERATION COMMITTEE
The following independent non-executive directors were members of the Committee during 2014/15:

<table>
<thead>
<tr>
<th>MEMBER</th>
<th>MEMBER SINCE</th>
<th>MAXIMUM POSSIBLE MEETINGS</th>
<th>NUMBER OF MEETINGS ATTENDED</th>
<th>% OF MEETINGS ATTENDED</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vindi Banga (Chairman since 8 July 2014)</td>
<td>1 September 2011</td>
<td>5</td>
<td>5</td>
<td>100</td>
</tr>
<tr>
<td>Robert Swannell1</td>
<td>1 March 2015</td>
<td>1</td>
<td>1</td>
<td>100</td>
</tr>
<tr>
<td>Miranda Curtis</td>
<td>1 February 2012</td>
<td>5</td>
<td>5</td>
<td>100</td>
</tr>
<tr>
<td>Jan du Plessis</td>
<td>8 September 2009</td>
<td>4</td>
<td>3</td>
<td>75</td>
</tr>
</tbody>
</table>

Steven Holliday was the Chairman of the Remuneration Committee until his retirement from the Board on 8 July 2014. Although there were no Committee meetings during this time, Steven ensured a smooth handover process and participated in investor consultations.

Andy Halford was a member of the Remuneration Committee from 1 May 2014 to 19 June 2014, attending the maximum possible one meeting during this time.

Robert Swannell attended Committee meetings by invitation prior to his appointment to the Committee on 1 March 2015.

Together with the rest of the Board, I look forward to hearing your views on our remuneration arrangements and will be available to answer any questions you may have at the AGM.

Vindi Banga
Chairman of the Remuneration Committee
This report sets out the Company’s policy on remuneration for executive and non-executive directors, and was approved by shareholders at the AGM on 8 July 2014. The policy remains unchanged from that disclosed in recent financial years: It took effect from 8 July 2014 and may operate for up to three years.

The Committee has therefore built in a degree of flexibility to ensure the practical application of the policy over this period. Where such discretion is reserved, the extent to which it may be applied is described.

The Company’s policy remains to attract, retain and motivate its leaders and ensure they are focused on delivering business priorities within a framework designed to promote the long-term success of M&S, aligned with shareholder interests.

The directors’ remuneration policy has been republished on pages 54 to 60 with no alterations, with the exception of the remuneration illustrations which have been updated to accurately reflect the directors’ remuneration for 2015/16 (see page 61). In addition, further information regarding the implementation of this policy which does not require shareholder approval is set out on page 60.

### EXECUTIVE DIRECTORS’ REMUNERATION POLICY TABLE

<table>
<thead>
<tr>
<th>Element</th>
<th>Base salary</th>
<th>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 provide market competitive benefits which drive employee engagement and commitment in our business.</td>
</tr>
</tbody>
</table>
| **OPERATION** | - Payable in cash.  
- Reviewed annually by the Committee considering a number of factors, including:  
  - Salary increases awarded to other employees in the wider workforce; and  
  - Comparable salaries in appropriate comparator groups (e.g. major retailers, our peer group of FTSE 25-75 companies etc.).  
- Salaries reflect the experience, responsibility and contribution of the individual and role within the Group.  
- Salaries for all employees are typically reviewed annually on a similar basis. | - Directors are eligible to receive benefits in line with our policies which may include:  
  - A car or cash allowance;  
  - A driver; and  
  - Life assurance.  
- Where appropriate, our Global/Domestic Mobility Policy may apply. This may include, but not be limited to travel, relocation and tax equalisation allowances.  
- All employees, including directors, are also offered a number of other benefits such as employee discount and salary sacrifice schemes such as Cycle2Work.  
- Directors are able to participate in a Save As You Earn Scheme and/or a Share Incentive Plan and any other all-employee share schemes on the same terms as other employees. |
| **MAXIMUM OPPORTUNITY** | Whilst there is no set maximum, any increases are normally in line with those in the wider workforce.  
- Individual adjustments in excess of this may be made outside of this cycle at the discretion of the Committee, where appropriate. Such circumstances can include:  
  - Where the role scope has changed;  
  - Where comparable salaries in the external market have changed; or  
  - To apply salary progression for newly appointed directors. | Whilst there is no set maximum, any benefits will be provided at a rate commensurate with the market.  
- Maximum participation in all-employee share schemes is in line with local statutory limits. |
| **PERFORMANCE CONDITIONS** | N/A | N/A |
Pension benefits

To attract and retain high calibre executives through a commitment to responsible, secure retirement funding in line with our Company values.

- Directors may participate in the Your M&S Pension Saving Plan (a defined contribution arrangement) or receive a cash supplement in lieu of pension contributions into this scheme.
- Directors who are members of the Marks & Spencer UK Pension Scheme (a defined benefit arrangement, closed to new entrants) will accrue benefits under that scheme.

- A maximum of 25% of salary for executive directors or 30% of salary for the CEO.

Annual Bonus Scheme including Deferred Share Bonus Plan (DSBP)

To drive annual profitability, strategic change and individual performance in line with our 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.

- 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.
- Malus provisions, good leaver and change of control provisions apply to the deferred shares (see page 58).
- The value of any dividends during the deferred period will be payable (see the explanatory notes on page 56).
- 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.
- All employees are eligible to participate in a bonus scheme measured against Group financial/local targets and/or individual performance. For the most senior managers, part of the bonus earned is paid in deferred shares under the DSBP.

- A maximum annual potential of up to 200% of salary.

N/A

- Quantifiable one-year performance measures and targets are set by the Committee around financial and individual objectives linked with the sustainable delivery of our business plan.
- Financial performance measures comprise at least 50% of awards and may include, but not be limited to, Underlying Group Profit Before Tax (PBT).
- Typically, no payment for individual objectives can be earned unless a threshold level of PBT has been achieved. This threshold level is set by the Committee taking into account the previous year’s performance and the business operating plan for the current year.
- For threshold performance, up to 40% of maximum bonus potential may be payable for the achievement of individual objectives.

Performance Share Plan (PSP)

Measured against the key financial 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.

- The Company’s principal long-term incentive scheme, first approved by shareholders in 2005.
- 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.
- Malus provisions, good leaver and change of control provisions apply (see page 58).
- The value of any dividends during the vesting period will be payable (see the explanatory notes on page 56).
- A significant proportion of the most senior managers may be invited to participate in the PSP, on similar terms as the executive directors.

- 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 is measured over a three-year period against a balanced scorecard of financial measures which currently include Revenue, Earnings Per Share (EPS) and Return on Capital Employed (ROCE) chosen as those measures which support and drive top-line and bottom-line performance in line with business strategy.
- The measures are currently weighted towards EPS.
- The threshold level of vesting is 20% of the maximum.
- For performance between threshold and maximum, awards vest on a straight-line basis.
Executive directors may be in receipt of awards under share plans outside of the current remuneration framework detailed on pages 54 to 55; 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 an executive director's annual remuneration, 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>
<tbody>
<tr>
<td>Restricted Share Plan (RSP)</td>
<td>To enable the recruitment of key directors who are necessary to the delivery of business strategy.</td>
<td>Restricted awards may be granted for the recruitment of directors.</td>
<td></td>
<td>Whilst there is no maximum set in the rules, the Committee considers the scale and structure of awards on an individual basis.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Awards vest after a restricted period, which can vary by award but is typically between one and three years.</td>
<td></td>
<td>The Committee may choose to apply no formal performance conditions for continued service.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Malus provisions, good leaver and change of control provisions apply (see page 58).</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>The value of any dividends during the restricted period will be payable (see explanatory notes below).</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Executive Share Option Scheme (ESOS)</td>
<td>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.</td>
<td>Approved by shareholders and HMRC in 2005, the Committee may choose to award share options to directors if appropriate.</td>
<td>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.</td>
<td>Awards vest subject to at least three-year predetermined performance conditions.</td>
</tr>
</tbody>
</table>

**EXEMPLARY NOTES**

Laura Wade-Gery has unexercised RSP awards which were made in connection with her appointment to compensate her for incentive awards that were forfeited on cessation from her previous employer.

Steve Rowe has unexercised ESOS awards which were made prior to his appointment as executive director.

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 (i) before this policy was in force or (ii) at a time when the relevant individual was not a director of the Company and, in the opinion of the Committee, the payment was not in consideration of the individual becoming a director of the Company.

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

Awards granted under the PSP, DSBP and RSP can be made in the form of conditional share awards, for feitable 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 or shares) the value of dividends, including any dividend tax credit, 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 in the case of the PSP and the ESOS were approved by shareholders on 13 July 2005).

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

The table below sets out the Company’s policy on the recruitment of new executive directors. Similar considerations may also apply where a director is promoted within the Board. In addition, the Committee in exceptional circumstances has discretion to include any other remuneration component or award which it feels is appropriate, taking into account 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 54 to 55.

FIGURE 3: RECRUITMENT POLICY

<table>
<thead>
<tr>
<th>Element</th>
<th>RECRUITMENT POLICY</th>
</tr>
</thead>
</table>
| Salary           | → The Committee will take into consideration a number of factors including the current pay for other executive directors, external market forces, skills and current level of pay at the previous employer in determining the pay on recruitment.  
                      → For new appointments to the Board, the Committee may set the rate of pay at the lower end of the rate for other directors with the intention of applying staged increases. |
| Benefits         | → The Committee will offer a package which is set in line with our policy to appropriately reflect the circumstances of the individual. |
| Pension benefits | → Maximum contribution in line with our policy for executive directors.            |
| Annual Bonus Scheme | → Eligible to take part in the Annual Bonus Scheme with a maximum bonus of 200% of salary in line with our policy for executive directors. |
| PSP              | → An award of up to 300% of salary in line with our policy for executive directors. |
| Buy-out awards   | → Where an individual forfeits outstanding variable pay opportunities or contractual rights at a previous employer as a result of appointment, the Committee may offer compensatory payments or buy-out awards, dependent on the individual circumstances of recruitment, determined on a case-by-case basis.  
                      → The Committee in its judgement normally intends that any such awards 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 value awarded will be no greater than the value forfeited by the individual.  
                      → Where appropriate, the Committee may choose to apply performance conditions to any of these awards. |

SERVICE CONTRACTS

It is the Company’s policy that all executive directors have rolling service contracts that can be terminated by the Company giving 12 months’ notice and the employee giving six months’ notice. The directors’ service contracts are available for shareholder inspection at the Company’s registered office.

TERMINATION POLICY

The Company may terminate the contract of any executive director summarily in accordance with the terms of their service agreement, on payment in lieu of notice of a sum equal to salary, benefits and pension as per their contractual notice entitlement (see page 73).

The Company can make a series of phased payments which are paid in monthly instalments and 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 overleaf sets out key provisions for directors leaving the Company under their service contracts and the incentive plan rules.
The Company’s policy toward 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 prorating.

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.

MALUS PROVISIONS

All share awards granted in 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 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.

CONSIDERATION OF WIDER WORKFORCE PAY

The Committee monitors and reviews the effectiveness of the senior remuneration policy and has regard to its impact and compatibility with remuneration policies in the wider workforce.

The Committee is provided throughout the year with information detailing pay in the wider workforce which gives additional context for the Committee to make informed decisions. The Director of Human Resources advises the Committee of the approach which will be adopted with the forthcoming UK pay review and the Committee then considers the executive directors’ pay review in line with these arrangements.

The Director of Human Resources consults on all executive director bonus objectives and advises the Committee on how and the extent to which, these may be cascaded throughout the Company. In approving the budget for the annual bonus, the Committee reviews all bonus costs for the Company against the operating plan. The Committee also reviews and approves any PSP awards made to executive directors and directors below the Board prior to their grant.

The Committee also receives updates on a variety of employee engagement initiatives which form part of our normal employee engagement practices. The annual ‘Your Say’ employee survey asks employees about the fairness and reasonableness of employee pay and benefits. Any comments made through this survey or through our network of elected employee representatives via our Business Involvement Groups are taken into account. The Head of Reward & Global Mobility annually provides these employee representatives with an explanation of the Company’s reward principles and director pay arrangements during the year, and is available to answer questions at this time.
## CONSIDERATION OF SHAREHOLDER VIEWS

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

The Committee seeks the views of the largest shareholders when considering making any significant changes to the remuneration policy; this may be done annually or on an ad hoc basis, dependent upon the issue. The Committee annually engages in a process of investor consultation, which is typically in written format, but may be through face-to-face meetings, etc., if considered useful. The Committee Chairman is available to answer questions at the Annual General Meeting (AGM) and the answers to specific questions are posted on our website.

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

During the year, the Committee consulted with shareholders regarding the minor amendments made to the implementation policy as detailed on page 76.

### FIGURE 5: NON-EXECUTIVE DIRECTORS’ REMUNERATION POLICY TABLE

<table>
<thead>
<tr>
<th>Element</th>
<th>Chairman’s fees</th>
<th>Non-executive director basic fee</th>
<th>Additional fees</th>
<th>Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>PURPOSE AND LINK TO STRATEGY</td>
<td>To provide a fair fee at a level that attracts and retains a high-calibre Chairman.</td>
<td>To provide a fair basic fee at a rate that attracts and retains high-calibre non-executive directors.</td>
<td>To provide compensation to non-executive directors taking on additional Board responsibility.</td>
<td>To facilitate the execution of responsibilities and duties required by the role.</td>
</tr>
<tr>
<td>OPERATION</td>
<td>→ Paid in equal monthly instalments, may be made in cash and/or shares.</td>
<td>→ Fees are paid in equal monthly instalments and may be made in cash and/or shares.</td>
<td>→ Additional fees are paid for extra responsibilities undertaken by non-executive directors for the role of Board Chairman, a Committee Chairman or the Senior Independent Director role.</td>
<td>→ In addition to the annual fee, the Chairman is entitled to the use of a car and driver.</td>
</tr>
<tr>
<td></td>
<td>→ Fees are determined by the Remuneration Committee.</td>
<td>→ Fees are determined by the Chairman and executive directors.</td>
<td></td>
<td>→ In line with other employees, the Chairman and non-executive directors receive employee product discount. No other benefits are provided.</td>
</tr>
<tr>
<td></td>
<td>→ The fee level recognises the scope of the role and time commitment required.</td>
<td>→ The fee level recognises the scope of the role and time commitment required.</td>
<td></td>
<td>→ The Chairman and non-executive directors do not participate in pension or performance-related schemes.</td>
</tr>
<tr>
<td></td>
<td>→ Reviewed annually, taking into account market practice in appropriate comparator groups, e.g. major retailers, our peer group of FTSE 25-75 companies, etc.</td>
<td>→ Reviewed annually, taking into account market practice in appropriate comparator groups (e.g. major retailers, our peer group of FTSE 25-75 companies, etc.).</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Policy table** The table below sets out our policy for the operation of non-executive director fees and benefits at the Company.
FIGURE 6: RECRUITMENT POLICY

The table opposite sets out the recruitment policy for non-executive directors.

AGREEMENTS FOR SERVICE

All non-executive directors, including the Chairman, have an agreement for service for an initial three-year term; these are available for shareholder inspection at the Company’s registered office. The Chairman has an agreement for service which requires six months’ notice by either party. Non-executive directors’ service agreements may be terminated by either party giving three months’ notice. In line with the UK Corporate Governance Code, all non-executive directors are subject to annual re-election by shareholders at our AGM.

Since the approval of the remuneration policy at the AGM held on 8 July 2014, a number of changes concerning the implementation of the approved policy have been made. These amendments do not require prior shareholder approval and do not change the current approved remuneration policy.

PERFORMANCE SHARE PLAN/EXECUTIVE SHARE OPTION SCHEME

The Company’s Performance Share Plan (PSP) and Executive Share Option Scheme (ESOS) were first approved by shareholders in 2005. As such, they are due to expire in 2015 and will be updated with replacement plans if approved by shareholders at the 2015 AGM. The terms of the proposed new plans are principally in line with those of the 2005 Plans and are fully in line with the policy approved by shareholders at the 2014 AGM. Further details of the proposed replacement plans are set out in the Notice of Meeting and on page 67.

CLAWBACK PROVISIONS

M&S is committed to ensuring its remuneration arrangements motivate participants to strive for exceptional performance whilst also protecting shareholder value from the Company taking unnecessary risks. In line with updated guidance in the UK Corporate Governance Code, clawback provisions will be introduced as part of the replacement share scheme rules at the 2015 AGM. Upon introduction, these clawback provisions will apply to payments made under the 2015/16 Annual Bonus Scheme and any future bonus schemes operated by M&S. Awards made under any of the Company’s other executive share schemes (including the Performance Share Plan) in 2015 and onwards will similarly be subject to clawback provisions. These provisions enable the Committee, in its absolute discretion, to reclaim awards paid to individuals for up to three years after the respective vesting or payment date (or up to two years in the case of PSP awards) where specified events occur.

The specified events include gross misconduct or where a material misstatement of the Company’s financial statements has occurred. Clawback may be effected, among other means, by requiring the transfer of shares, payment of cash, or reduction of awards.

All outstanding share awards made since 2013 will continue to be subject to the malus provisions which were introduced at that time and as reported on page 58 of this report. These malus provisions will be renewed as part of the replacement share plan rules.

UNVESTED AWARDS UNDER RESTRICTED SHARE PLAN AND EXECUTIVE SHARE OPTION SCHEME

As shown on page 56, Laura Wade-Gery and Steve Rowe had unexercised Restricted Share Plan and Executive Share Option Scheme awards respectively, when the remuneration policy was first implemented. In both instances, these outstanding awards have now been exercised during the year.
APPLICATION OF THE REMUNERATION POLICY

The charts below provide an illustration of what could be received by each of the executive directors in 2015/16.

These charts are illustrative as the actual value which will ultimately be received will depend on business performance in the year 2015/16 (for the cash element of the bonus scheme) and in the three-year period to 2017/18 (for the PSP), as well as share price performance to the date of the vesting of the share element of the bonus scheme and PSP awards in 2018.

FIGURE 7: REMUNERATION ILLUSTRATIONS

<table>
<thead>
<tr>
<th>DIRECTOR</th>
<th>Fixed</th>
<th>Target</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Marc Bolland</strong> £000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6,000</td>
<td>1,287</td>
<td>35%</td>
<td>18%</td>
</tr>
<tr>
<td>4,000</td>
<td>1,249</td>
<td>47%</td>
<td>23%</td>
</tr>
<tr>
<td>2,000</td>
<td>1,024</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td><strong>Patrick Bousquet-Chavanne</strong> £000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6,000</td>
<td>1,279</td>
<td>23%</td>
<td>34%</td>
</tr>
<tr>
<td>4,000</td>
<td>1,234</td>
<td>18%</td>
<td>43%</td>
</tr>
<tr>
<td>2,000</td>
<td>972</td>
<td>47%</td>
<td>23%</td>
</tr>
<tr>
<td><strong>John Dixon</strong> £000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6,000</td>
<td>790</td>
<td>22%</td>
<td>35%</td>
</tr>
<tr>
<td>4,000</td>
<td>1,170</td>
<td>46%</td>
<td>36%</td>
</tr>
<tr>
<td>2,000</td>
<td>1,708</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td><strong>Steve Rowe</strong> £000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6,000</td>
<td>738</td>
<td>18%</td>
<td>43%</td>
</tr>
<tr>
<td>4,000</td>
<td>1,573</td>
<td>35%</td>
<td>43%</td>
</tr>
<tr>
<td>2,000</td>
<td>1,038</td>
<td>47%</td>
<td>23%</td>
</tr>
<tr>
<td><strong>Helen Weir</strong> £000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6,000</td>
<td>651</td>
<td>22%</td>
<td>36%</td>
</tr>
<tr>
<td>4,000</td>
<td>1,651</td>
<td>18%</td>
<td>35%</td>
</tr>
<tr>
<td>2,000</td>
<td>1,287</td>
<td>46%</td>
<td>23%</td>
</tr>
<tr>
<td><strong>Laura Wade-Gery</strong> £000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6,000</td>
<td>651</td>
<td>22%</td>
<td>36%</td>
</tr>
<tr>
<td>4,000</td>
<td>1,651</td>
<td>18%</td>
<td>35%</td>
</tr>
<tr>
<td>2,000</td>
<td>1,287</td>
<td>46%</td>
<td>23%</td>
</tr>
</tbody>
</table>

KEY ASSUMPTIONS

- **Fixed remuneration** includes all elements of fixed remuneration:
  - Base salary (effective 1 July 2015, as shown in the table on page 63);
  - Pension benefits (using the salary supplement policy on pages 54 to 55); and
  - Benefits (using the value for 2014/15 included in the single figure table on page 62. For Helen Weir, the average value of benefits of the other executive directors has been used for the purpose of this calculation.

- **Annual Bonus Scheme (ABS)** represents the potential value of the annual bonus for 2015/16. Half of any bonus would be deferred into shares for three years and this is included in the value shown. No share price growth is assumed.

- **PSP** represents the potential value of the PSP to be awarded in 2015, which would vest in 2018 subject to the performance against the targets disclosed on page 67. No share price growth is assumed.

BASIS OF CALCULATIONS

- **Fixed**
  - Fixed remuneration only. No vesting under the Annual Bonus Scheme and PSP.
- **Target**
  - Includes the following assumptions for the vesting of the incentive components of the package:
    - Annual Bonus Scheme: 50% of maximum, and
    - PSP: 20% of maximum.
- **Maximum**
  - Includes the following assumptions for the vesting of the incentive components of the package:
    - Annual Bonus Scheme: 100% of maximum, and
    - PSP: 100% of maximum.
EXECUTIVE DIRECTORS’ REMUNERATION

The Remuneration Committee annually reviews the senior remuneration framework and considers whether the existing incentive arrangements remain strongly challenging in the context of the business strategy, current external guidelines and a range of internal factors including the remuneration policy and pay arrangements throughout the rest of the organisation. The table below shows the performance measures used in the 2014/15 incentive schemes and how these align with the key performance indicators detailed on pages 14-15. As shown, there is a strong linkage between the key performance indicators which are integrated in the directors’ incentive schemes. This ensures that directors are clearly aligned and motivated to deliver the strategy.

Looking ahead, for 2015/16, the executive directors’ incentive arrangements will include objectives against free cash flow, GM UK LFL sales, CM gross margin, M&S.com sales growth and International sales and operating profit. Further details are set out on pages 65 and 67.

FIGURE 8: STRATEGIC ALIGNMENT OF PAY

<table>
<thead>
<tr>
<th>FINANCIAL OBJECTIVES</th>
<th>KPI</th>
<th>INCENTIVE SCHEME</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grow group revenue</td>
<td>Group revenue</td>
<td>PSP</td>
</tr>
<tr>
<td>Increase earnings &amp; returns</td>
<td>Underlying Group PBT</td>
<td>Annual Bonus Scheme</td>
</tr>
<tr>
<td></td>
<td>ROCE</td>
<td>PSP</td>
</tr>
<tr>
<td></td>
<td>EPS</td>
<td>PSP</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>NON-FINANCIAL OBJECTIVES</th>
<th>KPI</th>
<th>INCENTIVE SCHEME</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improving product sustainability</td>
<td>Products with Plan A qualities</td>
<td>Annual Bonus Scheme</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>STRATEGIC OBJECTIVES</th>
<th>KPI</th>
<th>INCENTIVE SCHEME</th>
</tr>
</thead>
<tbody>
<tr>
<td>Driving growth</td>
<td>International and M&amp;S.com revenue</td>
<td>PSP</td>
</tr>
<tr>
<td>Improve profitability</td>
<td>International operating profit and CM/Food gross margin</td>
<td>Annual Bonus Scheme</td>
</tr>
</tbody>
</table>

FIGURE 9: TOTAL SINGLE FIGURE REMUNERATION (audited)

<table>
<thead>
<tr>
<th>Year</th>
<th>Salary £000</th>
<th>Benefits £000</th>
<th>TotalBonus £000</th>
<th>TotalPSPvested £000</th>
<th>Pensionbenefits £000</th>
<th>Total £000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marc Bolland</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2014/15</td>
<td>975</td>
<td>19</td>
<td>596</td>
<td>193</td>
<td>293</td>
<td>2,076</td>
</tr>
<tr>
<td>2013/14</td>
<td>975</td>
<td>41</td>
<td>0</td>
<td>259</td>
<td>293</td>
<td>1,568</td>
</tr>
</tbody>
</table>

| Patrick Bousquet-Chavanne1 |
| 2014/15 | 525 | 36 | 222 | 59 | 131 | 973 |
| 2013/14 | 380 | 29 | 0 | – | 95 | 504 |

| John Dixon |
| 2014/15 | 600 | 25 | 217 | 111 | 150 | 1,103 |
| 2013/14 | 600 | 46 | 0 | 143 | 150 | 939 |

| Steve Rowe |
| 2014/15 | 525 | 42 | 653 | 60 | 131 | 1,411 |
| 2013/14 | 525 | 53 | 0 | 77 | 131 | 786 |

| Alan Stewart2 |
| 2014/15 | 162 | 6 | 0 | 0 | 40 | 208 |
| 2013/14 | 579 | 34 | 0 | 146 | 145 | 904 |

| Laura Wade-Gery |
| 2014/15 | 552 | 21 | 219 | 107 | 138 | 1,037 |
| 2013/14 | 552 | 26 | 0 | 167 | 138 | 883 |

1. The amounts shown for 2013/14 reflect that Patrick Bousquet-Chavanne joined the Board on 10 July 2013.
2. The amounts shown for 2014/15 reflect that Alan Stewart resigned from the Board on 10 July 2014.
3. Benefits include the value of car allowance and intrinsic value of SAYE in addition to the taxable value of car, driver and life assurance, as applicable to each director and as described on page 63.
4. Half of any award will be deferred into Company shares for a period of three years. Further details of the 2014/15 Annual Bonus Scheme are shown on pages 64 and 65.
5. The value of awards vesting in 2013/14 has been restated to reflect the actual value of dividends equivalents and share price at the time of vesting. The value of awards vesting in 2014/15 has been estimated based on the three-month average share price from 2 January 2015 to 27 March 2015 as these awards do not vest until after the end of the financial year. This value also includes the anticipated value of dividends equivalents which will be payable in July 2015 and January 2016 for Patrick Bousquet-Chavanne. These estimated figures will be restated in next year’s report.
6. Pension benefits comprise the value of cash provided in lieu of participation in the Your M&S Pension Saving Plan.
EXECUTIVE DIRECTORS’ REMUNERATION CONTINUED

The following sections set out additional disclosure regarding each of the components set out in the previous ‘single figure’ table.

**SALARY (audited)**

When reviewing salary levels, the Committee takes into account a number of internal and external factors, including Company performance during the year, external market data and the salary review principles applied to the rest of the organisation to ensure a consistent approach.

No increases were awarded during the year. The Committee also moved the annual pay review date from January to July to better align pay to year end performance and hence these changes are being made after 18 months.

With effect from 1 July 2015, the following salary increases will be made to the executive directors, except for Marc Bolland.

Marc Bolland has, at his own request, not received a salary increase since his appointment in 2010. He has again proposed not to receive any increase in July 2015. The agreed increases take account of the significant performance of Steve Rowe in ensuring the continued success of the Food business and Patrick Bousquet-Chavanne’s excellent progress with marketing and embedding the new global M&S brand. Neither director has received a salary increase since their respective appointments to the Board; these increases reflect both this fact in addition to their significant contributions to the increased performance of M&S.

The average increase made to the executive directors is 3.0% (excluding Helen Weir) which is in line with the average increase awarded to the wider UK workforce over the same 18-month period.

The table below details the executive directors’ salaries as at 28 March 2015 and those which will take effect from 1 July 2015.

**FIGURE 10: EXECUTIVE DIRECTORS’ SALARIES**

<table>
<thead>
<tr>
<th>Name</th>
<th>Current annual salary £000</th>
<th>Annual salary as of 1st July 2015 £000</th>
<th>Change in salary % increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marc Bolland</td>
<td>975</td>
<td>975</td>
<td>0</td>
</tr>
<tr>
<td>Patrick Bousquet-Chavanne</td>
<td>525</td>
<td>546</td>
<td>4</td>
</tr>
<tr>
<td>John Dixon</td>
<td>600</td>
<td>612</td>
<td>2</td>
</tr>
<tr>
<td>Steve Rowe</td>
<td>525</td>
<td>557</td>
<td>6</td>
</tr>
<tr>
<td>Laura Wade-Gery</td>
<td>552</td>
<td>569</td>
<td>3</td>
</tr>
<tr>
<td>Helen Weir¹</td>
<td>590</td>
<td>590</td>
<td>–</td>
</tr>
</tbody>
</table>

¹ Helen Weir’s current annual salary is from her date of appointment on 1 April 2015.

**PENSION BENEFITS (audited)**

With the exception of the Chief Executive Officer (CEO), executive directors receive a 25% salary supplement in lieu of membership of the Your M&S Pension Saving Plan. The CEO receives a supplement of 30% of salary.

John Dixon and Steve Rowe are deferred members of the Marks & Spencer UK Pension Scheme. Details of the pension accrued by them during the year ended 28 March 2015 are shown below.

**FIGURE 11: PENSION BENEFITS**

<table>
<thead>
<tr>
<th>Name</th>
<th>Normal retirement age</th>
<th>Accrued pension entitlement as at year end £000</th>
<th>Additional value on early retirement £000</th>
<th>Increase in accrued value £000</th>
<th>Increase in accrued value (net of inflation) £000</th>
<th>Transfer value of total accrued pension £000</th>
</tr>
</thead>
<tbody>
<tr>
<td>John Dixon</td>
<td>60</td>
<td>138</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>3,204</td>
</tr>
<tr>
<td>Steve Rowe</td>
<td>60</td>
<td>147</td>
<td>0</td>
<td>2</td>
<td>0</td>
<td>3,442</td>
</tr>
</tbody>
</table>

¹ The accrued pension entitlement is the deferred pension amount that the director would receive at age 60 if they left the Company on 28 March 2015. The Listing Rules require this to be disclosed excluding inflation.

All transfer values have been calculated on the basis of actuarial advice in accordance with the current Transfer Value Regulations. The transfer values of the accrued entitlement represent the value of the assets that the pension scheme would transfer to another pension provider on transferring the scheme’s liability in respect of the director’s pension benefits. They do not represent sums payable to the director and therefore cannot be added meaningfully to annual remuneration.
For 2014/15, directors had the opportunity to earn an award of up to 200% of salary, with half of any award being payable in deferred shares. Performance measures used to determine the entitlement to any payment were set against challenging profitability targets and individual objectives. Profitability targets formed 60% of any bonus award with the remaining 40% payable for the achievement of stretching measures relevant to each director’s individual business accountabilities. For those executive directors with business unit responsibility, profitability measures were equally split between Group PBT and profit measures for their business unit. As a result of his additional International responsibilities, from July 2014, Patrick Bousquet-Chavanne’s corporate element was calibrated to include International operating profit from this time. For Marc Bolland, profitability was wholly measured against Group achievement. Each director also had three individual objectives, together accounting for 40% of the total bonus. These objectives were set against their key areas of focus and accountability which reflect the primary drivers of short and medium-term strategic success of the Company. See Figure 12.

Plan A (our environmental and ethical plan) is an integral driver of the way we do business; success against Plan A targets underpinned the entire 2014/15 bonus scheme. The Committee assessed performance for each executive director against all corporate and individual measures. The Committee was also satisfied that each director continued to ensure that Plan A remained a major focus of the ways of working at M&S and that the subsequent performance supported this. See Plan A Report for more detail.

M&S is committed to transparent remuneration reporting within the context of operating in a highly competitive market. As disclosed in the 2013/14 Report, and following feedback from shareholders after the publication of last year’s report, the Committee has reviewed its disclosure regarding annual bonus targets. The Committee will continue to assess the extent to which specific targets are commercially sensitive, determining to disclose wherever possible.

Figure 13 below illustrates each director’s achievement against corporate profitability and individual targets for the 2014/15 Scheme. As described in last year’s report, in order to ensure the affordability of the Scheme, no bonus payment may be made without first achieving a threshold level of PBT. Underlying PBT outturn for the financial year was £661.2m which was above the target set to trigger payments under both elements of the Scheme. As a result of performance, directors’ payments were between 18% and 62% of maximum bonus opportunity. Business unit profitability targets, not being disclosed elsewhere in the Annual Report, are deemed too commercially sensitive to disclose. An indication of achievement against the respective targets is shown instead in Figure 13 below.

**FIGURE 12: EXAMPLES OF INDIVIDUAL OBJECTIVES 2014/15**

<table>
<thead>
<tr>
<th>DIRECTOR</th>
<th>Group Objective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marc Bolland</td>
<td>Organisational development M&amp;S.com performance</td>
</tr>
<tr>
<td>Patrick Bousquet-Chavanne</td>
<td>New platform publishing house International Lingerie &amp; Beauty stores</td>
</tr>
<tr>
<td>John Dixon</td>
<td>CM sales CM gross margin</td>
</tr>
<tr>
<td>Steve Rowe</td>
<td>Food sales Food proposition development</td>
</tr>
<tr>
<td>Laura Wade-Gery</td>
<td>M&amp;S.com market share New distribution centre service delivery</td>
</tr>
</tbody>
</table>

**FIGURE 13: ANNUAL BONUS SCHEME 2014/15**

<table>
<thead>
<tr>
<th>DIRECTOR</th>
<th>GROUP PBT</th>
<th>BUSINESS UNIT PROFIT</th>
<th>INDIVIDUAL OBJECTIVES</th>
<th>TOTAL PAYMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Target &amp; performance</td>
<td>Achievement</td>
<td>Performance</td>
<td>% bonus salary</td>
</tr>
<tr>
<td></td>
<td>Min</td>
<td>Max</td>
<td>Actual</td>
<td>% bonus</td>
</tr>
<tr>
<td>Marc Bolland</td>
<td>£650m</td>
<td>£732m</td>
<td>£661m</td>
<td>12.4%</td>
</tr>
<tr>
<td>Patrick Bousquet-Chavanne</td>
<td>£650m</td>
<td>£732m</td>
<td>£661m</td>
<td>7.7%</td>
</tr>
<tr>
<td>John Dixon</td>
<td>£650m</td>
<td>£732m</td>
<td>£661m</td>
<td>6.2%</td>
</tr>
<tr>
<td>Steve Rowe</td>
<td>£650m</td>
<td>£732m</td>
<td>£661m</td>
<td>6.2%</td>
</tr>
<tr>
<td>Laura Wade-Gery</td>
<td>£650m</td>
<td>£732m</td>
<td>£661m</td>
<td>6.2%</td>
</tr>
</tbody>
</table>

Plan A underpin targeted objectives

Performance assessment key
- Below Threshold
- Threshold > Target
- Target > Stretch
- Stretch or above
ANNUAL BONUS SCHEME FOR 2015/16

The Annual Bonus Scheme has been structured to drive profitability and individual performance with performance being measured against Underlying Group Profit Before Tax (PBT), business area profit and individual objectives. During the year the Remuneration Committee undertook a thorough review of the bonus scheme. It concluded that a similar approach would continue to remain appropriate with only minor changes to the 2015/16 Scheme being required to ensure that the Scheme continues to drive behaviours and performance needed in line with the priorities for the future success of the business.

Maximum bonus opportunity will remain unchanged at 200% of salary. Up to 60% of an award is payable for achieving stretching one-year corporate financial targets and up to 40% of an award is measured against individual performance.

The achievement of profitability targets remains essential to M&S’s success and so 30% of any bonus award will be dependent upon achievement of Group PBT targets. The remaining 30% of the corporate element of the Scheme will be set against free cash flow targets for the CEO and CFO and against business unit profitability targets for the remaining executive directors. Changes made to the Scheme for 2015/16 provide for even greater alignment between the remuneration framework and the wider strategic priorities of M&S. The inclusion of free cash flow for the CEO and CFO recognises the increased importance of cash generation in the business post the period of heavy transformative capital investment.

Individual performance will continue to be measured independently of any financial targets. Individual objectives will be based on three strategic priorities specific to each director’s business area. These measures are set against quantifiable targets which the Committee deems to be important in the delivery of short and medium-term goals which will also provide a robust foundation for the long-term sustainable success of the business. In setting the individual objectives for the forthcoming year, the Committee has been mindful of ensuring an overarching balance with financial targets as well as customer and employee-focused metrics.

No individual objective element of the bonus can be earned unless a ‘threshold’ level of PBT has been achieved, subject to the Committee’s overall assessment of the Company’s performance during the period. This maintains the important principle that below a defined level of financial performance, no bonus will be earned.

The table below shows further details of the structure of this Scheme and provides examples of the individual objectives which each director will be measured against.

As with last year’s Scheme, the Committee will judge overall performance against our ecological, ethical and behavioural achievements to ensure consistency with M&S’s values. Success towards Plan A targets and the M&S values which all employees, including executive directors, are required to uphold will underpin the entire Scheme. Achievement against these will be assessed by the Committee at the end of the financial year. The Committee, in its absolute discretion may use its judgement to adjust overall payments accordingly. See Figure 14.

DEFERRED SHARE BONUS PLAN (audited)

Currently 50% of any bonus award is compulsorily deferred into nil-cost options/conditional shares. These deferred awards vest after three years subject to continued employment as well as malus and, for awards made from 2015/16 onwards, clawback provisions. As no bonus was payable last year, no deferred shares were awarded during 2014/15.

FIGURE 14: ANNUAL BONUS SCHEME TARGETS 2015/16

<table>
<thead>
<tr>
<th>DIRECTOR</th>
<th>GROUP PBT % bonus</th>
<th>FREE CASH FLOW % bonus</th>
<th>BUSINESS UNIT PROFIT % bonus</th>
<th>% bonus</th>
<th>Examples of measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marc Bolland</td>
<td>30%</td>
<td>30%</td>
<td>–</td>
<td>40%</td>
<td>GM gross margin</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>People</td>
</tr>
<tr>
<td>Patrick Bousquet-Chavanne</td>
<td>30%</td>
<td>–</td>
<td>30%</td>
<td>40%</td>
<td>Customer engagement strategy</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>International LFL sales</td>
</tr>
<tr>
<td>John Dixon</td>
<td>30%</td>
<td>–</td>
<td>30%</td>
<td>40%</td>
<td>GM UK LFL sales</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>GM4 programme</td>
</tr>
<tr>
<td>Steve Rowe</td>
<td>30%</td>
<td>–</td>
<td>30%</td>
<td>40%</td>
<td>Food UK sales</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Quality and innovation of Food proposition</td>
</tr>
<tr>
<td>Laura Wade-Gery</td>
<td>30%</td>
<td>–</td>
<td>30%</td>
<td>40%</td>
<td>New distribution centre stability</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Customer journey</td>
</tr>
<tr>
<td>Helen Weir</td>
<td>30%</td>
<td>30%</td>
<td>–</td>
<td>40%</td>
<td>Operating costs</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>End-to-end supply chain</td>
</tr>
</tbody>
</table>

1. Pre dividend and post returns.
The Performance Share Plan (PSP) is the primary long-term incentive for executive directors and senior managers. The Committee believes that long-term share awards help retain and reward executives for the delivery of long-term business goals.

Following the remuneration review undertaken during the year, the Committee determined that the current Plan supports the delivery of the long-term business strategy. Minor amendments to the performance measures and targets however were felt necessary to better align with the delivery of the operating plan.

**PSP AWARDS MADE IN 2014/15 (audited)**

In June 2014, executive directors were awarded nil-cost options/conditional shares of 250% of salary. These awards vest subject to performance measured against EPS, ROCE and Revenue, each measured independently. Performance is measured over the three-year period to the end of the 2016/17 financial year. To the extent to which performance is met, awards will vest on 23 June 2017. Further details of PSP awards made in 2014/15 are detailed below.

### Basis of award

<table>
<thead>
<tr>
<th>Director</th>
<th>Face value of award £000</th>
<th>End of performance period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marc Bolland</td>
<td>2,437</td>
<td>01/04/2017</td>
</tr>
<tr>
<td>Patrick Bousquet-Chavanne</td>
<td>1,312</td>
<td>01/04/2017</td>
</tr>
<tr>
<td>John Dixon</td>
<td>1,500</td>
<td>01/04/2017</td>
</tr>
<tr>
<td>Steve Rowe</td>
<td>1,312</td>
<td>01/04/2017</td>
</tr>
<tr>
<td>Laura Wade-Gery</td>
<td>1,380</td>
<td>01/04/2017</td>
</tr>
</tbody>
</table>

1. The face value of awards is calculated as the number of nil-cost options/conditional shares awarded multiplied by the average mid-market share price on the five dealing days prior to the date of grant. For this year, the share price was calculated as being £4.37, being the average share price between 16 June 2014 and 20 June 2014. Further details of these awards are shown in the table on pages 70 and 71.
2. For threshold performance, 20% of the shares awarded will vest.

### Performance target

Threshold performance targets:

<table>
<thead>
<tr>
<th>Performance target</th>
<th>Cumulative EPS</th>
<th>ROCE (%)</th>
<th>Revenue (£ 2014/15)</th>
<th>Total vesting (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>10% of award</td>
<td>11p</td>
<td>15.0%</td>
<td>£1,070m</td>
<td>0.0%</td>
</tr>
<tr>
<td>20% of award</td>
<td>10% of award</td>
<td>18.5%</td>
<td>£1,600m</td>
<td>4.7%</td>
</tr>
<tr>
<td>30% of award</td>
<td>10% of award</td>
<td>18.5%</td>
<td>£1,700m</td>
<td>4.7%</td>
</tr>
</tbody>
</table>

Maximum performance targets:

<table>
<thead>
<tr>
<th>Performance target</th>
<th>Cumulative EPS</th>
<th>ROCE (%)</th>
<th>Revenue (£ 2014/15)</th>
<th>Total vesting (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>10% of award</td>
<td>10% of award</td>
<td>18.5%</td>
<td>£1,600m</td>
<td>4.7%</td>
</tr>
<tr>
<td>20% of award</td>
<td>20% of award</td>
<td>18.5%</td>
<td>£1,700m</td>
<td>4.7%</td>
</tr>
<tr>
<td>30% of award</td>
<td>30% of award</td>
<td>18.5%</td>
<td>£1,700m</td>
<td>4.7%</td>
</tr>
</tbody>
</table>

Maximum performance achieved:

<table>
<thead>
<tr>
<th>Performance target</th>
<th>Cumulative EPS</th>
<th>ROCE (%)</th>
<th>Revenue (£ 2014/15)</th>
<th>Total vesting (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>10% of award</td>
<td>10% of award</td>
<td>18.5%</td>
<td>£1,600m</td>
<td>4.7%</td>
</tr>
<tr>
<td>20% of award</td>
<td>20% of award</td>
<td>18.5%</td>
<td>£1,700m</td>
<td>4.7%</td>
</tr>
<tr>
<td>30% of award</td>
<td>30% of award</td>
<td>18.5%</td>
<td>£1,700m</td>
<td>4.7%</td>
</tr>
</tbody>
</table>

Percentage of maximum achieved:

<table>
<thead>
<tr>
<th>Performance target</th>
<th>Cumulative EPS</th>
<th>ROCE (%)</th>
<th>Revenue (£ 2014/15)</th>
<th>Total vesting (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>10% of award</td>
<td>10% of award</td>
<td>18.5%</td>
<td>£1,600m</td>
<td>4.7%</td>
</tr>
<tr>
<td>20% of award</td>
<td>20% of award</td>
<td>18.5%</td>
<td>£1,700m</td>
<td>4.7%</td>
</tr>
<tr>
<td>30% of award</td>
<td>30% of award</td>
<td>18.5%</td>
<td>£1,700m</td>
<td>4.7%</td>
</tr>
</tbody>
</table>

1. 20% of an award vests for threshold performance with full vesting for achieving or exceeding maximum performance. Vesting is a straight line between these two points.
2. Actual performance achieved has been re-stated to Pre-IAS 19 values, to allow a like-for-like measurement against targets.
3. Excluding Multi-channel.
5. Excluding Multi-channel (including Republic of Ireland).
6. Details of the number of shares awarded to each director in 2012 are shown in the table on pages 70 and 71. As described above, 47% of these awards will vest.

The estimated value of these awards, including the dividend equivalents, are set out in the single figure table on page 62.
PERFORMANCE SHARE PLAN CONTINUED

PSP AWARDS TO BE MADE IN 2015/16
Subject to shareholder approval of the replacement Plan at the forthcoming AGM, awards of nil-cost options/conditional shares will be made in July 2015.

As described earlier, following a thorough review of the directors’ remuneration arrangements during the year, the Committee concluded that no significant changes to the current Plan were required. Awards will continue to be assessed against a number of measures and the maximum value of awards at the time of grant will remain at 300% of salary.

The Committee will continue to reference awards at 250% of salary and it is intended that executive directors will receive awards in 2015/16 of 250% of salary.

Performance measures have historically been set as those which appropriately reflect the key drivers of the strategic plan which takes into account shareholder value as well as bottom-line and top-line growth.

During its review, the Committee determined that EPS and ROCE performance measures continue to appropriately reflect the key drivers of shareholder value for M&S and as such no changes to the measures and weightings have been proposed, 70% of awards made in 2015/16 will continue to be measured against stretching EPS and ROCE targets.

As with all other PSP measures, targets for cash flow and gross margin have been set such that they are stretching yet achievable for the delivery of consistent, ambitious long-term performance.

Measures and targets for the 2015/16 PSP awards are disclosed in the table below. At this time, targets relating to UK GM gross margin are deemed by the Board to be too commercially sensitive to disclose. All targets, including GM gross margin will be fully retrospectively disclosed in the report relating to the end of the relevant three-year performance period.

At the end of the performance period, Committee judgement will be applied in determining overall vesting on the four measures comprising the strategic financial scorecard element of the PSP. The Committee, in using its judgement, will take into account the extent of outperformance or underperformance of the targets, their relative importance in the circumstances, and any other matters it sees fit.

The remaining 30% of awards will be set against a financial strategic scorecard of measures designed to drive growth in key areas for the business. Measurement of performance against International and M&S.com sales will be retained as before, as M&S continues to grow these areas of the business. This focus will continue to support the delivery of the strategy to be a leading international, multi-channel retailer. Sales growth targets for awards to be made in 2015/16 have been calibrated to be as challenging as the equivalent revenue targets for 2014/15.

During the review process, the Committee determined that the inclusion of two additional, equally weighted performance measures would further enhance the alignment between the PSP and the business’s current strategic priorities. As such, three-year cumulative free cash flow and UK GM gross margin targets are being introduced in the 2015/16 Plan. These measures reflect the increased importance of cash generation and the desire to return cash to shareholders in addition to the absolute importance of long-term improvements in GM for the sustainable success of the Company. The four targets of International and M&S.com sales, UK CM gross margin and three-year cumulative free cash flow are consistent with the top four strategic priorities communicated to shareholders for the coming year.

FIGURE 17: PERFORMANCE TARGETS 2015/16

<table>
<thead>
<tr>
<th>% vesting</th>
<th>% of award</th>
<th>50% of award</th>
<th>20% of award</th>
<th>75% of award</th>
<th>75% of award</th>
<th>75% of award</th>
</tr>
</thead>
<tbody>
<tr>
<td>Threshold performance</td>
<td>20%</td>
<td>5.0%</td>
<td>15.0%</td>
<td>5.0%</td>
<td>11.0%</td>
<td>–</td>
</tr>
<tr>
<td>Maximum performance</td>
<td>100%</td>
<td>12.0%</td>
<td>16.5%</td>
<td>15.0%</td>
<td>18.0%</td>
<td>–</td>
</tr>
</tbody>
</table>

1. Vesting is a straight line between threshold and maximum performance.
2. Excluding M&S.com including Republic of Ireland.
3. Net of VAT and post store returns.
4. Pre dividends and returns.
FIGURE 18: PERFORMANCE CONDITIONS FOR OUTSTANDING PSP AWARDS (audited)

The details of outstanding PSP awards are set out in the table on pages 70 and 71. These awards vest subject to the extent that the following three-year performance conditions are met.

<table>
<thead>
<tr>
<th>Performance target</th>
<th>Annualised EPS growth (%)</th>
<th>ROCE (%)</th>
<th>Revenue (£)</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of award</td>
<td>50% of award</td>
<td>20% of award</td>
<td>10% of award</td>
</tr>
<tr>
<td>2013/14 Award</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Threshold performance</td>
<td>20%</td>
<td>5.0%</td>
<td>15.0%</td>
</tr>
<tr>
<td>Maximum performance</td>
<td>100%</td>
<td>12.0%</td>
<td>18.5%</td>
</tr>
<tr>
<td>2014/15 Award</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Threshold performance</td>
<td>20%</td>
<td>5.0%</td>
<td>15.0%</td>
</tr>
<tr>
<td>Maximum performance</td>
<td>100%</td>
<td>12.0%</td>
<td>16.5%</td>
</tr>
</tbody>
</table>

1. Vesting is a straight line between ‘threshold’ and ‘maximum’ performance.
2. Excluding Multi-channel.
4. Excluding Multi-channel/including Republic of Ireland.

SHARESAVE (Save As You Earn) (audited)

As outlined in the remuneration policy on pages 54 to 55, executive directors may participate in ShareSave, the Company’s Save As You Earn scheme, on the same basis as all other eligible employees. Marc Bolland, Patrick Bousquet-Chavanne, John Dixon and Steve Rowe all participate in existing schemes, saving the maximum of £250 per month. Further details of the Scheme are set out in note 13 to the financial statements on pages 108 to 109.

FIGURE 19: DIRECTORS’ SHAREHOLDINGS (audited)

The table below sets out the total number of shares held at 28 March 2015 or date of retirement by each executive director serving on the Board during the year. There have been no changes in the current directors’ interests in shares or options granted by the Company and its subsidiaries between the end of the financial year and 19 May 2015. No director had an interest in any of the Company’s subsidiaries at the statutory end of the year.

<table>
<thead>
<tr>
<th>Name</th>
<th>Shares owned outright</th>
<th>Performance Share Plan</th>
<th>Deferred Share Bonus Plan</th>
<th>Restricted Share Plan</th>
<th>Unvested</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marc Bolland</td>
<td>611,436</td>
<td>1,865,329</td>
<td>196,790</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Patrick Bousquet-Chavanne</td>
<td>2,000</td>
<td>747,499</td>
<td>26,195</td>
<td>174,258</td>
<td>0</td>
</tr>
<tr>
<td>John Dixon</td>
<td>328,196</td>
<td>1,118,672</td>
<td>124,704</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Steve Rowe</td>
<td>165,447</td>
<td>833,598</td>
<td>83,210</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Alan Stewart†</td>
<td>51,622</td>
<td>29,461</td>
<td>0</td>
<td>0</td>
<td>39,789</td>
</tr>
<tr>
<td>Laura Wade-Gery</td>
<td>172,955</td>
<td>1,047,603</td>
<td>91,126</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

1. Shareholding at 10 July 2014, the date Alan Stewart resigned from the Board. Please refer to footnote 3 on page 71 for further information on Alan Stewart’s shareholdings.
2. Includes shares held by connected persons.
3. Comprises all unexercised awards under these Plans.
FIGURE 20: SHAREHOLDING REQUIREMENTS (audited)

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

The chart below shows the extent to which each director has met their target shareholding as at 28 March 2015.

For the purposes of the requirements, the net number of unvested shares awards not subject to performance conditions is included and is reflected in the chart below. The Committee is satisfied that the current level of shareholding requirements is sufficiently robust, providing an appropriate level of investment in M&S for each director. The Committee will continue to keep this issue under review and will amend accordingly if necessary.

<table>
<thead>
<tr>
<th>Director</th>
<th>Shares owned outright</th>
<th>Vested and unexercised shares</th>
<th>Unvested DSBP/RSP shares</th>
<th>Shareholding requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marc Bolland</td>
<td></td>
<td></td>
<td></td>
<td>389%</td>
</tr>
<tr>
<td>Patrick Bousquet-Chavanne</td>
<td></td>
<td></td>
<td></td>
<td>109%</td>
</tr>
<tr>
<td>John Dixon</td>
<td></td>
<td></td>
<td></td>
<td>212%</td>
</tr>
<tr>
<td>Steve Rowe</td>
<td></td>
<td></td>
<td></td>
<td>418%</td>
</tr>
<tr>
<td>Laura Wade-Gery</td>
<td></td>
<td></td>
<td></td>
<td>223%</td>
</tr>
</tbody>
</table>

Key: 10% Shareholding requirement

SHARE CAPITAL & DILUTION

Dilution of share capital by employee share plans: Awards granted under the Company’s Save As You Earn scheme and the Executive Share Option scheme are met by the issue of new shares when the options are exercised.

All other share plans are met by market purchase shares. The Company monitors the number of shares issued under these schemes and their impact on dilution limits. The Company’s usage of shares compared to the dilution limits set by The Investment Association in respect of all share plans (10% in any rolling ten-year period) and executive share plans (5% in any rolling ten-year period) as at 28 March 2015 was as follows:

FIGURE 21: ALL SHARE PLANS

<table>
<thead>
<tr>
<th></th>
<th>Actual</th>
<th>Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shares</td>
<td>5.76%</td>
<td>10%</td>
</tr>
</tbody>
</table>

FIGURE 22: EXECUTIVE SHARE PLANS

<table>
<thead>
<tr>
<th></th>
<th>Actual</th>
<th>Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shares</td>
<td>0%</td>
<td>5%</td>
</tr>
</tbody>
</table>
### FIGURE 23: EXECUTIVE DIRECTORS’ INTERESTS IN THE COMPANY’S SHARE SCHEMES (audited)

<table>
<thead>
<tr>
<th>Name</th>
<th>Scheme/Plan</th>
<th>Date of grant</th>
<th>Maximum receivable at 30 March 2014 (or date of appointment)</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 2015 (or date of retirement)</th>
<th>Option price (p)</th>
<th>Share price on date of grant (p)</th>
<th>Share price on date of exercise (p)</th>
<th>Exercise period/ vesting date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marc Bolland</td>
<td>Performance Share Plan¹</td>
<td>25/07/11</td>
<td>687,200</td>
<td>–</td>
<td>52,227</td>
<td>634,973</td>
<td>–</td>
<td>0.0</td>
<td>354.7</td>
<td>469.9</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td></td>
<td>18/06/12</td>
<td>749,769</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>749,769</td>
<td>0.0</td>
<td>325.1</td>
<td>–</td>
<td>18/06/15 – 17/06/22</td>
</tr>
<tr>
<td></td>
<td></td>
<td>24/06/13</td>
<td>557,780</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>557,780</td>
<td>0.0</td>
<td>437.0</td>
<td>–</td>
<td>24/06/16 – 23/06/23</td>
</tr>
<tr>
<td></td>
<td></td>
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<td>–</td>
<td>–</td>
<td>557,780</td>
<td>–</td>
<td>557,780</td>
<td>0.0</td>
<td>437.0</td>
<td>–</td>
<td>23/06/17 – 22/06/24</td>
</tr>
<tr>
<td></td>
<td>Deferred Share Bonus Plan</td>
<td>09/06/11</td>
<td>162,263</td>
<td>–</td>
<td>162,263</td>
<td>–</td>
<td>–</td>
<td>0.0</td>
<td>378.4</td>
<td>469.9</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td></td>
<td>18/06/12</td>
<td>101,968</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>101,968</td>
<td>0.0</td>
<td>325.1</td>
<td>–</td>
<td>18/06/15 – 17/06/22</td>
</tr>
<tr>
<td></td>
<td></td>
<td>24/06/13</td>
<td>94,822</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>94,822</td>
<td>0.0</td>
<td>437.0</td>
<td>–</td>
<td>24/06/16 – 23/06/23</td>
</tr>
<tr>
<td></td>
<td>SAYE</td>
<td>25/11/10</td>
<td>2,821</td>
<td>–</td>
<td>2,821</td>
<td>–</td>
<td>–</td>
<td>319.0</td>
<td>397.6</td>
<td>439.5</td>
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</tr>
<tr>
<td></td>
<td></td>
<td>21/11/13</td>
<td>2,222</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>2,222</td>
<td>405.0</td>
<td>505.6</td>
<td>01/01/17 – 30/06/17</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td></td>
<td>2,358,845</td>
<td>557,780</td>
<td>217,311</td>
<td>634,973</td>
<td>2,064,341</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Patrick Bousquet-Chavanne²</td>
<td>Performance Share Plan¹</td>
<td>05/12/12</td>
<td>230,735</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>230,735</td>
<td>389.4</td>
<td>–</td>
<td>05/12/15</td>
<td></td>
</tr>
<tr>
<td></td>
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<td>24/06/13</td>
<td>216,421</td>
<td>–</td>
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<td>–</td>
<td>216,421</td>
<td>437.0</td>
<td>–</td>
<td>24/06/16</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>23/06/14</td>
<td>–</td>
<td>300,343</td>
<td>–</td>
<td>–</td>
<td>300,343</td>
<td>–</td>
<td>437.0</td>
<td>–</td>
<td>24/06/17</td>
</tr>
<tr>
<td></td>
<td>Deferred Share Bonus Plan</td>
<td>24/06/13</td>
<td>26,195</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>26,195</td>
<td>437.0</td>
<td>–</td>
<td>24/06/16</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Restricted Share Plan</td>
<td>13/09/12</td>
<td>174,258</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>174,258</td>
<td>368.0</td>
<td>–</td>
<td>13/09/15</td>
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<tr>
<td></td>
<td>SAYE</td>
<td>21/11/13</td>
<td>2,222</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>2,222</td>
<td>405.0</td>
<td>505.6</td>
<td>01/01/17 – 30/06/17</td>
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<tr>
<td></td>
<td><strong>Total</strong></td>
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<td>–</td>
<td>950,174</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>John Dixon</td>
<td>Performance Share Plan¹</td>
<td>25/07/11</td>
<td>380,603</td>
<td>–</td>
<td>28,925</td>
<td>351,678</td>
<td>–</td>
<td>0.0</td>
<td>354.7</td>
<td>438.5</td>
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<tr>
<td></td>
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<td>18/06/12</td>
<td>432,174</td>
<td>–</td>
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<td>–</td>
<td>432,174</td>
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<td>18/06/15 – 17/06/22</td>
</tr>
<tr>
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<td>–</td>
<td>343,249</td>
<td>0.0</td>
<td>437.0</td>
<td>–</td>
<td>24/06/16 – 23/06/23</td>
</tr>
<tr>
<td></td>
<td></td>
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<td>–</td>
<td>343,249</td>
<td>–</td>
<td>–</td>
<td>343,249</td>
<td>0.0</td>
<td>437.0</td>
<td>–</td>
<td>23/06/17 – 22/06/24</td>
</tr>
<tr>
<td></td>
<td>Deferred Share Bonus Plan</td>
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<td>98,039</td>
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<td>98,039</td>
<td>–</td>
<td>–</td>
<td>378.4</td>
<td>438.5</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td></td>
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<td>62,233</td>
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<td>–</td>
<td>–</td>
<td>62,233</td>
<td>0.0</td>
<td>325.1</td>
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<td>18/06/15 – 17/06/22</td>
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<td>62,471</td>
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<td>0.0</td>
<td>437.0</td>
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<td>24/06/16 – 23/06/23</td>
</tr>
<tr>
<td></td>
<td>SAYE</td>
<td>21/11/13</td>
<td>2,222</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>2,222</td>
<td>405.0</td>
<td>505.6</td>
<td>01/01/17 – 30/06/17</td>
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<tr>
<td></td>
<td><strong>Total</strong></td>
<td></td>
<td>1,380,991</td>
<td>343,249</td>
<td>126,964</td>
<td>351,678</td>
<td>1,245,598</td>
<td></td>
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</tr>
</tbody>
</table>
## EXECUTIVE DIRECTORS’ REMUNERATION

<table>
<thead>
<tr>
<th>Name</th>
<th>Performance Share Plan</th>
<th>Deferred Share Bonus Plan</th>
<th>Restricted Share Plan</th>
<th>SAYE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Steve Rowe</td>
<td>25/02/11</td>
<td>18/06/12</td>
<td>25/02/11</td>
<td>21/11/13</td>
</tr>
<tr>
<td></td>
<td>205,243</td>
<td>232,912</td>
<td>126,225</td>
<td>2,222</td>
</tr>
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<td></td>
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<td>–</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td>15,598</td>
<td>232,912</td>
<td>126,225</td>
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</tr>
<tr>
<td></td>
<td>189,645</td>
<td>232,912</td>
<td>126,225</td>
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<td>300,343</td>
<td>331,235</td>
<td>3,488</td>
</tr>
<tr>
<td></td>
<td>300,343</td>
<td>–</td>
<td>331,235</td>
<td>–</td>
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<tr>
<td></td>
<td>–</td>
<td>–</td>
<td>331,235</td>
<td>–</td>
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<td>–</td>
<td>331,235</td>
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<td>–</td>
<td>331,235</td>
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<td>331,235</td>
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<td>300,343</td>
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<td>331,235</td>
<td>3,488</td>
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<td>–</td>
<td>331,235</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td>–</td>
<td>–</td>
<td>331,235</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td>18/06/12</td>
<td>32,753</td>
<td>331,235</td>
<td>56,310</td>
</tr>
<tr>
<td></td>
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<td>–</td>
<td>331,235</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td>32,753</td>
<td>–</td>
<td>331,235</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td>–</td>
<td>–</td>
<td>331,235</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td>–</td>
<td>–</td>
<td>331,235</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td>24/06/13</td>
<td>50,457</td>
<td>53,684</td>
<td>3,488</td>
</tr>
<tr>
<td></td>
<td>–</td>
<td>–</td>
<td>53,684</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td>50,457</td>
<td>–</td>
<td>53,684</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td>–</td>
<td>–</td>
<td>53,684</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td>24/06/13</td>
<td>331,235</td>
<td>53,684</td>
<td>3,488</td>
</tr>
<tr>
<td></td>
<td>–</td>
<td>–</td>
<td>53,684</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td>331,235</td>
<td>–</td>
<td>53,684</td>
<td>–</td>
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<td>–</td>
<td>53,684</td>
<td>–</td>
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<td>24/06/13</td>
<td>331,235</td>
<td>53,684</td>
<td>3,488</td>
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<tr>
<td></td>
<td>–</td>
<td>–</td>
<td>53,684</td>
<td>–</td>
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<tr>
<td></td>
<td>331,235</td>
<td>–</td>
<td>53,684</td>
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<td>53,684</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td>24/06/13</td>
<td>331,235</td>
<td>53,684</td>
<td>3,488</td>
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<tr>
<td></td>
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<td>53,684</td>
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<td>53,684</td>
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<td></td>
<td>331,235</td>
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<tr>
<td></td>
<td>–</td>
<td>–</td>
<td>53,684</td>
<td>–</td>
</tr>
</tbody>
</table>

### Table Notes

1. The number of options/conditional shares shown under the Performance Share Plan is the maximum (100%) number that could be receivable by the executive director if the performance conditions are fully met. The 2011 award vested in July 2014 at 7.6% and 2012 award will vest in June 2015 (December 2015 for Patrick Bousquet-Chavanne) as set out on page 66.

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

3. Alan Stewart resigned from the Board on 10 July 2014 and left the Company on 22 September 2014. Details of his leaving arrangements are set out on page 73. Awards made in 2012, 2013 and 2014 and his SAYE award all lapsed on leaving the Company. PSP and DSBP awards made in 2011 vested and were exercisable until he left the Company. These were exercised after he resigned from the Board (but before he left the Company) and so do not appear in the ‘exercised during the year’ column.

4. Laura Wade-Gery’s RSP award was made in connection to her appointment to executive director to compensate her for incentive awards that were forfeited on cessation from her previous employer.

5. The aggregate gains of directors arising in the year from the exercise of options granted under the PSP, DSBP, RSP, ESOS and SAYE totalled £2,976,739. The market price of the shares at the end of the financial year was 530.0p; the highest and lowest share price during the financial year were 542.0p and 383.9p respectively.
This graph illustrates the Company’s performance against the FTSE 100 over the past six years. The FTSE 100 has been chosen as the appropriate comparator as M&S is a constituent of this index. The calculation of TSR is in accordance with the relevant remuneration regulations. As required by the new regulations, the table below the TSR chart sets out the remuneration data for directors undertaking the role of CEO during each of the last six financial years.

<table>
<thead>
<tr>
<th>% change 2013/14 – 2014/15</th>
<th>Base salary</th>
<th>Benefits</th>
<th>Annual bonus</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEO</td>
<td>0.0%</td>
<td>-46.3%</td>
<td>-</td>
</tr>
<tr>
<td>UK employees (average per FTE)</td>
<td>20%</td>
<td>0.1%</td>
<td>-</td>
</tr>
</tbody>
</table>

1. Marc Bolland was appointed CEO on 1 May 2010. His single figure for 2010/11 includes recruitment awards made to him at that time to compensate him for incentive awards forfeited on cessation from his previous employer. Sir Stuart Rose undertook the role of CEO from 31 May 2004 to 30 April 2010.

The table opposite sets out the change in the CEO’s remuneration (i.e. salary, taxable benefits and annual bonus) compared with the change in our UK-based employees. This group has been chosen as the majority of our workforce is UK-based. As can be seen, average FTE salaries for UK employees increased by 2%, in excess of that provided to the CEO.

In line with the new regulations, the table opposite illustrates the Company’s expenditure on pay in comparison to profits before tax and distributions to shareholders by way of dividend payments.

The figures are as set out on pages 90, 103 and 104 in the financial statements to the accounts. Total employee pay is the total pay for all Group employees. Underlying Group Profit Before Tax has been used as a comparison as this is the key financial metric which the Board consider when assessing Company performance.
As detailed on page 57 of the remuneration policy, all executive directors have rolling contracts which may be terminated by the Company giving 12 months’ notice or the director giving six months’ notice.

### FIGURE 27: SERVICE AGREEMENTS

<table>
<thead>
<tr>
<th>Director</th>
<th>Date of appointment</th>
<th>Notice period/unexpired term</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marc Bolland</td>
<td>01/05/2010</td>
<td>12 months/6 months</td>
</tr>
<tr>
<td>Patrick Bousquet-Chavanne</td>
<td>10/07/2013</td>
<td>12 months/6 months</td>
</tr>
<tr>
<td>John Dixon</td>
<td>09/09/2009</td>
<td>12 months/6 months</td>
</tr>
<tr>
<td>Steve Rowe</td>
<td>01/10/2012</td>
<td>12 months/6 months</td>
</tr>
<tr>
<td>Laura Wade-Gery</td>
<td>04/07/2011</td>
<td>12 months/6 months</td>
</tr>
</tbody>
</table>

### EXECUTIVE CHANGES TO THE BOARD DURING 2014/15

#### Directors appointed to the Board
There were no directors joining the Board during the year.

#### Directors retiring from the Board
**Alan Stewart** Chief Finance Officer, resigned from the Board on 10 July 2014 and left the Company after a period of garden leave on 22 September 2014. In line with his contractual arrangements, Alan received no further payments. Any awards which had not vested prior to the date he left the business lapsed at this time.

#### Payments to past directors (audited)
As reported last year, Steven Sharp retired from the Board on 9 July 2013 and had two outstanding awards under the Performance Share Plan. In accordance with the rules of the Performance Share Plan, 7.6% of his 2011 award (35,085 shares) vested in May 2014. Steven has one outstanding award. After the completion of the performance period, it has been determined that 4.7% of the original 2012 award (24,396 shares) will vest in May 2015.

#### Payments for the loss of office (audited)
There were no payments for loss of office made to directors during the year.

#### Changes to the Board in 2015/16
**Helen Weir** joined the Board on 1 April 2015 as Chief Finance Officer. Her remuneration is in line with the approved recruitment policy detailed on page 57 and approved in July 2014. On appointment, Helen’s basic annual salary is £590,000. Helen will receive benefits in line with those provided to the other executive directors. In the first year, she will receive a payment totalling £188,500 to compensate for the annual differential in contractual pension that she will forfeit to join M&S. This payment will be made in 12 equal instalments, payable monthly. No share awards have been granted to Helen in relation to her appointment although she is eligible for a PSP grant in July 2015 in accordance with the annual remuneration policy.

### FIGURE 28: EXTERNAL APPOINTMENTS

The Company recognises that executive directors may be invited to become non-executive directors of other companies and that these appointments can broaden their knowledge and experience to the benefit of the Company. The policy is for the individual director to retain any fee.

The table opposite sets out the details for these fees earned up to 28 March 2015.

For Marc Bolland, fees for Manpower Inc. relate to the period to 11 February 2015, the date at which he retired from Manpower Inc. Board. Marc Bolland joined the Board of The Coca-Cola Company on 18 February 2015. Fees are paid quarterly in cash and shares and so the fees shown in the table represent those earned in respect of the period 18 February 2015 to 28 March 2015. These were paid on 1 April 2015.

<table>
<thead>
<tr>
<th>Director</th>
<th>Company</th>
<th>Fee £000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Marc Bolland</strong></td>
<td>Manpower Inc.1</td>
<td>109</td>
</tr>
<tr>
<td></td>
<td>The Coca-Cola Company2</td>
<td>42</td>
</tr>
<tr>
<td><strong>Patrick Bousquet-Chavanne</strong></td>
<td>Brown-Forman3</td>
<td>171</td>
</tr>
</tbody>
</table>

1. Fees up until 11 February 2015 when Marc Bolland retired from the Manpower Inc. Board. Fees were paid in cash and stock units in US dollars.
2. Marc Bolland joined the Board of The Coca-Cola Company on 18 February 2015. Fees are paid in cash and stock units in US dollars and due for the period from his appointment to 28 March 2015.
3. Patrick Bousquet-Chavanne’s fees are paid in cash and stock units in US dollars.
4. For the purposes of this table, cash payments have been converted to UK sterling using the appropriate £: $ exchange rates for the respective periods. Stock units have been converted to UK sterling using the appropriate £: $ spot rate at the end of the relevant period.
FIGURE 29: NON-EXECUTIVE DIRECTORS TOTAL SINGLE FIGURE REMUNERATION (audited)

As detailed in the remuneration policy on page 59, non-executive directors receive fees reflective of the time commitment, demands and responsibilities of the role.

The table opposite details the fees paid to the non-executive directors for 2014/15 and 2013/14.

There was no increase to the fees during the year.

<table>
<thead>
<tr>
<th>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>Robert Swannell</td>
<td>2014/15</td>
<td>70</td>
<td>380</td>
<td>18</td>
</tr>
<tr>
<td></td>
<td>2013/14</td>
<td>70</td>
<td>380</td>
<td>21</td>
</tr>
<tr>
<td>Vindi Banga</td>
<td>2014/15</td>
<td>70</td>
<td>12</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>2013/14</td>
<td>70</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Alison Brittain</td>
<td>2014/15</td>
<td>70</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>2013/14</td>
<td>18</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Miranda Curtis</td>
<td>2014/15</td>
<td>70</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>2013/14</td>
<td>70</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Martha Lane Fox</td>
<td>2014/15</td>
<td>70</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>2013/14</td>
<td>70</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Andy Halford</td>
<td>2014/15</td>
<td>70</td>
<td>15</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>2013/14</td>
<td>70</td>
<td>11</td>
<td>0</td>
</tr>
<tr>
<td>Steven Holliday</td>
<td>2014/15</td>
<td>19</td>
<td>4</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>2013/14</td>
<td>70</td>
<td>15</td>
<td>0</td>
</tr>
<tr>
<td>Jan du Plessis</td>
<td>2014/15</td>
<td>64</td>
<td>28</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>2013/14</td>
<td>70</td>
<td>30</td>
<td>0</td>
</tr>
</tbody>
</table>

1. The amounts shown reflect that Vindi Banga was appointed as Remuneration Committee Chair on 8 July 2014 and Senior Independent Director from 4 March 2015.
2. The amounts shown for 2013/14 reflect that Alison Brittain joined the Board on 1 January 2014.
3. The amounts shown for 2013/14 reflect that Andy Halford was appointed as Audit Committee Chair on 1 July 2013.
4. The amounts shown for 2014/15 reflect that Steven Holliday retired from the Board on 28 March 2015.
5. The amounts shown for 2014/15 reflect that Jan du Plessis retired from the Board on 4 March 2015.

FIGURE 30: NON-EXECUTIVE DIRECTORS SHAREHOLDINGS (audited)

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

Figure 30 opposite details the shareholding of the non-executive directors who served on the Board during the year as at 28 March 2015 (or upon their date of retiring from the Board).

There have been no changes in the current non-executive directors’ interests in shares in the Company and its subsidiaries between the end of the financial year and 19 May 2015.

<table>
<thead>
<tr>
<th>Number of shares held</th>
</tr>
</thead>
<tbody>
<tr>
<td>Robert Swannell</td>
</tr>
<tr>
<td>Vindi Banga</td>
</tr>
<tr>
<td>Alison Brittain</td>
</tr>
<tr>
<td>Miranda Curtis</td>
</tr>
<tr>
<td>Martha Lane Fox</td>
</tr>
<tr>
<td>Andy Halford</td>
</tr>
<tr>
<td>Steven Holliday</td>
</tr>
<tr>
<td>Jan du Plessis</td>
</tr>
</tbody>
</table>

1. Shareholding as at the date of retirement from the Board.
2. Includes shares held by connected persons.

FIGURE 31: NON-EXECUTIVE DIRECTORS’ AGREEMENTS FOR SERVICE

Non-executive directors have an agreement for service for an initial three-year term which can be terminated by either party giving three months’ notice (six months’ for the Chairman).

The table opposite sets out these terms for all current members of the Board.

<table>
<thead>
<tr>
<th>Date of appointment</th>
<th>Notice period/unexpired term</th>
</tr>
</thead>
<tbody>
<tr>
<td>Robert Swannell</td>
<td>23/08/2010</td>
</tr>
<tr>
<td>Vindi Banga</td>
<td>01/09/2011</td>
</tr>
<tr>
<td>Alison Brittain</td>
<td>01/01/2014</td>
</tr>
<tr>
<td>Miranda Curtis</td>
<td>01/02/2012</td>
</tr>
<tr>
<td>Martha Lane Fox</td>
<td>01/06/2007</td>
</tr>
<tr>
<td>Andy Halford</td>
<td>01/01/2013</td>
</tr>
</tbody>
</table>
NON-EXECUTIVE DIRECTORS’ CHANGES TO THE BOARD DURING 2014/15

Directors appointed to the Board
No directors were appointed to the Board during the year.

Directors retiring from the Board
Steven Holliday Chairman of the Remuneration Committee, retired from the Board on 8 July 2014. There were no payments for loss of office payable to Steven.

Jan du Plessis Senior Independent Director, retired from the Board on 4 March 2015. There were no payments for loss of office payable to Jan.

Directors changing roles within the Board
Vindi Banga became Chairman of the Remuneration Committee on 8 July 2014, upon Steven Holliday’s retirement from the Board. From this date, Vindi received additional fees in accordance with the responsibility of this role. In addition, Vindi undertook the role of Senior Independent Director upon Jan du Plessis’ retirement from the Board. Vindi received additional fees in accordance with the responsibility of this role, as described in the remuneration policy on page 59.

From his appointment as Senior Independent Director, he no longer received additional fees for the Remuneration Committee chairmanship role.

Changes to the Board in 2015/16
Richard Solomons joined the Board on 13 April 2015 as a non-executive director. Richard is a member of the Nomination Committee. In accordance with the non-executive director fees policy, Richard receives an annual fee of £70,000.

REMUNERATION COMMITTEE

REMUNERATION COMMITTEE REMIT

The role of the Remuneration Committee is to make recommendations regarding the senior remuneration strategy and framework to the Board to ensure the executive directors and senior management are appropriately rewarded for their contribution to the Company’s performance, taking into account the financial and commercial position of the Company.

KEY RESPONSIBILITIES

- Setting a senior strategy that ensures the most talented leaders are recruited, retained and motivated to deliver results.
- Reviewing the effectiveness of the senior remuneration policy with regard to its impact.
- Considering the appropriateness of the senior remuneration policy when reviewed against the policy and arrangements throughout the rest of the organisation.
- Determining the terms of employment and remuneration for executive directors and senior managers including recruitment and termination arrangements.
- Approving the design, targets and payments for all annual incentive schemes that include executive directors and senior managers.
- Agreeing the design, targets and annual awards made for all share incentive plans requiring shareholder approval.
- Assessing the appropriateness and subsequent achievement of performance targets relating to any share incentive plan.

In line with its remit, the Committee considered a number of key matters during the year.

REMUNERATION COMMITTEE AGENDA FOR 2014/15

Regular items
- Approval of the Directors’ Remuneration Report for 2013/14 and review of the AGM voting outcome for the report.
- Annual review of all executive directors’ and senior managers’ base salaries and benefits in line with Company policy and approval of any salary increase.
- Review of achievement of Annual Bonus Scheme profit against target.
- Review of the design and targets for the 2015/16 Annual Bonus Scheme including the approval of individual objectives for directors.
- Review and approval of all awards made under the PSP taking into account the total value of all awards made under this plan.
- Half year and year end review of all share plan performance against targets.
- Approval of the vesting level of the 2012/13 PSP awards.
- Consideration of the performance measures and targets to be applied to the 2015/16 PSP awards.
- Clear articulation of the Committee’s reasoning and consideration for vesting and payment levels to executive directors.

Other items
- Review of director shareholding guidelines and achievement of these for each executive director.
- Significant consideration of institutional investors’ current guidelines on executive compensation.
- Consideration of remuneration arrangements for the wider workforce.
- Assessment of the external environment surrounding the Company’s current remuneration arrangements.
- Consideration of external market developments and best practice in remuneration.
- Review of Committee terms of reference.

Note: The full terms of reference for the Committee can be found on the Company’s website at marksandspencer.com/thecompany.
REMUNERATION COMMITTEE CONTINUED

REMUNERATION COMMITTEE ACTION
PLAN 2015/16

→ Ensuring the continued strategic alignment of the directors’ incentive arrangement with business strategy.

→ Debating the appropriateness of the senior remuneration framework in the context of the rest of the organisation and the external environment.

→ Ensuring that the remuneration policy continues to be appropriate to attract and retain exceptional senior leaders as required.

→ Assessing and mitigating against potential risk in the senior remuneration framework.

COMMITTEE ADVISERS

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

Further, the Committee reviews the advice it receives and determines whether it is appropriately independent.1

PwC were 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 £119,800 for Remuneration Committee matters. Deloitte’s fees were similarly charged on an hourly basis. Their fees for Remuneration Committee matters for the period to 28 March 2015 were £28,500. PwC has provided tax, consultancy and risk consulting services to the Group in the financial year.

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

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

REMUNERATION COMMITTEE STAKEHOLDER ENGAGEMENT

The Committee is committed to ensuring that executive pay remains competitive, appropriate and fair in the context of the external market, Company performance and the pay arrangements of the wider workforce. In collaboration with the Head of Reward & Global Mobility, the Committee gives employees, through employee representatives, the opportunity to raise questions or concerns regarding the remuneration of the executive directors. During the year, the Head of Reward & Global Mobility met with employee representatives to discuss 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. Upon reporting back on the discussions and outcome of this meeting, the Committee is satisfied that the pay arrangements for 2014/15 and 2015/16 remain appropriate for M&S.

SHAREHOLDER CONSULTATION

The Committee is committed to a continuous, open and transparent dialogue with shareholders on the issue of executive remuneration. The Committee held a Governance Event in June 2014 to review and debate remuneration with shareholders and representative bodies. In addition, Vindi Banga met with a number of investors as part of the handover process and ahead of consulting with the Company’s largest shareholders on proposals for the 2015/16 remuneration arrangements for executive directors.

SHAREHOLDER SUPPORT FOR THE 2013/14 DIRECTORS’ REMUNERATION REPORT

At the Annual General Meeting on 8 July 2014, 99.18% of shareholders voted in favour of approving the Directors’ Remuneration Report for 2013/14 with 98.27% of shareholders approving the remuneration policy. The Committee believes this illustrates the strong level of shareholder support for the senior remuneration framework.

The table below shows full details of the voting outcomes for the 2014/15 Directors’ Remuneration Report and Remuneration Policy.

<table>
<thead>
<tr>
<th>FIGURE 32: VOTING OUTCOMES FOR 2013/14 REMUNERATION REPORT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Votes for</td>
</tr>
<tr>
<td>Remuneration report</td>
</tr>
<tr>
<td>Remuneration policy</td>
</tr>
</tbody>
</table>

APPROVED BY THE BOARD

Vindi Banga Chairman of the Remuneration Committee
London, 19 May 2015

This remuneration policy and these remuneration reports have been prepared in accordance with the relevant provision of the Companies Act 2006 and on the basis prescribed in the large and medium-sized Companies and Groups (Accounts and Reports) (Amendments) Regulations 2013 (the Regulations).

Where required, data has been audited by Deloitte and this is indicated appropriately.

1. On the appointment of Deloitte as external auditors, a transition plan was put in place while a new Committee advisor was selected. This ensured that the remuneration advice provided by Deloitte was consistent with ethical auditing guidelines and that their independence as auditors was not compromised.
The Group operates a defined benefit pension scheme (the ‘Scheme’) for employees with an appointment date prior to 1 April 2002.

The results of the triennial actuarial valuation of the Scheme as at 31 March 2012 revealed a deficit of £290m. This represents a substantial reduction in deficit from £1.3bn as at 31 March 2009. The next valuation is due as at 31 March 2015. Funding progress is closely monitored and the investment derisking journey has continued since the last valuation.

The assets of the pension scheme, which are held under trust separately from those of the Group, are managed by the Board of the Pension Trust ('Trustee Board'). The Trustee Board comprises four company nominated directors, including the Chairman, Graham Oakley; three member nominated directors and two independent directors. All directors are appointed for a five-year term and may stand for a second term. The Trustee Board operates three main committees: Management and Governance, Investment, and Actuarial Valuation, which has been convened earlier this year in preparation for the 2015 valuation.

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

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

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

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

The Scheme is a signatory to the UN Principles for Responsible Investment and the Trustee has partnered with a specialist engagement service, Hermes Equity Ownership Services (EOS), to exercise its global equity voting rights in accordance with a detailed Trustee policy, which addresses a range of governance, social and environmental issues. EOS has also enhanced the Trustee’s stewardship and governance oversight of investee companies by engaging with companies, on a global basis, where management is considered not to be acting in the best long-term interests of investors. The results of these voting and engagement activities are published quarterly on the M&S Pension Scheme’s website. The Scheme is also a signatory to the Financial Reporting Council’s UK Stewardship Code.
GOVERNANCE

DIRECTORS’ REPORT

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

The Directors’ Report (also the Management Report) for the year ended 28 March 2015 comprises pages 26 to 82 and page 127 of this report, together with the sections of the Annual Report incorporated by reference. As permitted by legislation, some of the matters normally included in the Directors’ Report have instead been included in the Strategic Report on pages 1 to 25, as the Board considers them to be of strategic importance. Specifically, these are:

→ Future business developments (throughout the Strategic report)
→ Research and development p21
→ Risk management on p23-25

Details of branches operated by the Company can be found on pages 28 and 29 of the Directors’ Report.

Both the Strategic Report and the Directors’ Report have been drawn up and presented in accordance with and in reliance upon applicable English company law, and the liabilities of the directors in connection with that report shall be subject to the limitations and restrictions provided by such law. For information on our approach to social, environmental and ethical matters please refer to our Plan A Report, available to view online at marksandspencer.com/plana2015.

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

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</td>
<td>N/A</td>
</tr>
<tr>
<td>(5-14) (A) (18)</td>
<td>Long-term incentive schemes</td>
<td>54-55 and 66-67</td>
</tr>
</tbody>
</table>

BOARD OF DIRECTORS

The membership of the Board and biographical details of the directors are given on pages 34 and 35 and are incorporated into this report by reference. Details of directors’ beneficial and non-beneficial interests in the shares of the Company are shown on pages 68 and 74. Options granted under the Save As You Earn (SAYE) Share Option and Executive Share Option Schemes are shown on pages 70 to 71. Further information regarding employee share option schemes is given in note 8 to the financial statements.

Alan Stewart stepped down from the Board as Chief Finance Officer on 10 July 2014 and left the Company on 23 September 2014. Helen Weir was appointed Chief Finance Officer on 1 April 2015. Vindi Banga, who joined the Board on 1 September 2011, was appointed Chairman of the Remuneration Committee following the retirement of Steven Holliday at the ACM on 8 July 2014. Vindi was also appointed Senior Independent Director following the retirement of Jan du Plessis on 4 March 2015. Richard Solomon joined the Board as a non-executive director on 13 April 2015 and was appointed a member of the Nomination Committee with immediate effect: Miranda Curtis, who joined the Board on 1 February 2012, was appointed a member of the Audit Committee on 4 March 2015. Robert Swannell, who joined the Board as Chairman on 4 October 2010, was appointed as a member of the Remuneration Committee on 4 March 2015.

The appointment and replacement of directors is governed by the Company’s Articles, the UK Corporate Governance Code (the ‘Code’), the Companies Act 2006 and related legislation. The Articles may be amended by a special resolution of the shareholders. Subject to the Articles, the Companies Act 2006 and any directions given by special resolution, the business of the Company will be managed by the Board who may exercise all the powers of the Company. The Company may by ordinary resolution declare dividends not exceeding the amount recommended by the Board. Subject to the Companies Act 2006, the Board may pay interim dividends, and also any fixed rate dividend, whenever the financial position of the Company, in the opinion of the Board, justifies its payment.

DIRECTORS’ CONFLICTS OF INTEREST

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

DIRECTORS’ INDEMNITIES

The Company maintains directors’ and officers’ liability insurance which gives appropriate cover for any legal action brought against its directors. The Company has also granted indemnities to each of its directors and the Group Secretary to the extent permitted by law. Qualifying third-party indemnity provisions (as defined by section 234 of the Companies Act 2006) were in force during the year ended 28 March 2015 and remain in force, in relation to certain losses and liabilities which the directors (or Group Secretary) may incur to third parties in the course of acting as directors or Group Secretary or employees of the Company or of any associated company.

APPOINTMENT AND RETIREMENT OF DIRECTORS

The directors may from time to time appoint one or more directors. The Board may appoint any person to be a director (so long as the total number of directors does not exceed the limit prescribed in the Articles). Under the Articles, any such director shall hold office only until the next ACM and shall then be eligible for election. The Articles also require that at each ACM at least one-third of the current directors should retire as directors by rotation. All those directors who have been in office at the time of the two previous ACMs and who did not retire at either of them must retire as directors by rotation. In addition, a director may at any ACM retire from office and stand for re-election. However, in line with the UK Corporate Governance Code 2012, all directors will stand for annual election at the 2015 AGM.

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PROFIT AND DIVIDENDS

The profit for the financial year, after taxation, amounts to £661.2m (last year £662.9m). The directors have declared dividends as follows:

- **Ordinary shares**
  - Paid interim dividend of 6.4p per share (last year 6.2p per share) £104.5m
  - Proposed final dividend of 11.6p per share (last year 10.8p per share) £191.2m
  - Total ordinary dividend of 18.0p per share (last year 17.0p per share) £296.7m

The final ordinary dividend will be paid on 10 July 2015 to shareholders whose names are on the Register of Members at the close of business on 29 May 2015.

SHARE CAPITAL

The Company’s issued ordinary share capital as at 28 March 2015 comprised a single class of ordinary share. Each share carries the right to one vote at general meetings of the Company.

During the period, 15,566,772 ordinary shares in the Company were issued as follows:

- 918,578 shares under the terms of the 2002 Executive Share Option Scheme at prices between 347p and 352p.
- 14,602,805 shares under the terms of the United Kingdom Employees’ Save As You Earn Share Option Scheme at prices between 203p and 405p.
- 45,389 shares under the terms of the ROI Employees’ Save As You Earn Share Option Scheme at prices between 258p and 405p.

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

RESTRICTIONS ON TRANSFER OF SECURITIES

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

VARIATION OF RIGHTS

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

RIGHTS AND OBLIGATIONS ATTACHING TO SHARES

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

POWERS FOR THE COMPANY ISSUING OR BUYING BACK ITS OWN SHARES

The Company was authorised by shareholders, at the 2014 AGM, to purchase in the market up to 10% of the Company’s issued share capital, as permitted under the Company’s Articles. No shares have been bought back under this authority during the year ended 28 March 2015. This standard authority is renewable annually; the directors will seek to renew this authority at the 2015 AGM. It is the Company’s present intention to cancel any shares it buys back, rather than hold them in treasury.

The directors were granted authority at the 2014 AGM to allot relevant securities up to a nominal amount of £136,089,559. This authority will apply until the conclusion of the 2015 AGM. At this year’s AGM, shareholders will be asked to grant an authority to allot relevant securities (i) up to a nominal amount of £137,372,598.67 and (ii) comprising equity securities up to a nominal amount of £274,745,197.33 (after deducting from such limit any relevant securities allotted under (i)), in connection with an offer of a rights issue (the Section 551 amount), such Section 551 amount to apply until the conclusion of the ACM to be held in 2016 or, if earlier, on 27 September 2016.

A special resolution will also be proposed to renew the directors’ powers to make non pre-emptive issues for cash in connection with rights issues and otherwise up to a nominal amount of £20,605,889.80. A special resolution will also be proposed to renew the directors’ authority to repurchase the Company’s ordinary shares in the market. The authority will be limited to a maximum of 164 million ordinary shares and sets the minimum and maximum prices which will be paid.

INTERESTS IN VOTING RIGHTS

Information provided to the Company pursuant to the Financial Conduct Authority’s (FCA) Disclosure and Transparency Rules (DTRs) is published on a Regulatory Information Service and on the Company’s website. As at 28 March 2015, the following information has been received, in accordance with DTR5, from holders of notifiable interests in the Company’s issued share capital.

<table>
<thead>
<tr>
<th>Notifiable interests</th>
<th>Ordinary shares</th>
<th>% of capital</th>
<th>Nature of holding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Blackrock, Inc</td>
<td>81,834,738</td>
<td>5</td>
<td>Indirect (49.7%)&amp; CFD (0.04%)</td>
</tr>
<tr>
<td>The Capital Group Companies, Inc</td>
<td>66,681,922</td>
<td>4.049</td>
<td>Indirect Interest</td>
</tr>
<tr>
<td>The Wellcome Trust</td>
<td>47,464,282</td>
<td>3.01</td>
<td>Direct Interest</td>
</tr>
</tbody>
</table>

Notifications were also received from William Adderley and Majedie Asset Management Limited during the year to disclose that they no longer held a notifiable interest.
DEADLINES FOR EXERCISING VOTING RIGHTS

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

SIGNIFICANT AGREEMENTS – CHANGE OF CONTROL

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

→ The £400m Medium Term Notes issued by the Company on 30 November 2009, the £300m Medium Term Notes issued by the Company on 6 December 2011 and the £400m Medium Term Notes issued by the Company on 12 December 2012 to various institutions (MTN) and under the Group’s £3bn euro Medium Term Note (EMTN) programme contain an option such that, upon a change of control event, combined with a credit ratings downgrade to below sub-investment level, any holder of an MTN may require the Company to prepay the principal amount of that MTN.

→ The £500m US Notes issued by the Company to various institutions on 6 December 2007 under Section 144a of the US Securities Act contain an option such that, upon a change of control event, combined with a credit ratings downgrade to below sub-investment level, any holder of such a US Note may require the Company to prepay the principal amount of that US Note.

→ The £1.325bn Credit Agreement dated 29 September 2011 between the Company and various banks contains a provision such that, upon a change of control event, unless new terms are agreed within 60 days, the facility under this agreement will be cancelled with all outstanding amounts becoming immediately payable with interest; and

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

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

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

EMPLOYEE INVOLVEMENT

We remain committed to employee involvement throughout the business. Employees are kept well informed of the performance and strategy of the Group through personal briefings, regular meetings, email and broadcasts by the Chief Executive and members of the Board at key points in the year to all head office and distribution centre employees and store management. Additionally, many of our store colleagues can join the briefings by telephone to hear directly from the business. These types of communication are supplemented by our employee publications including ‘Your M&S’ magazine, Plan A updates and DVD presentations. More than 3,500 employees are elected onto Business Involvement Groups (BIGs) across every store, distribution centre and head office location to represent their colleagues in two-way communication and consultation with the Company. They have continued to play a key role in a wide variety of business changes.

The 20th meeting of the European Works Council (EWC) established in 1995 will take place in September 2015. This Council provides an additional forum for informing, consulting and involving employee representatives from the countries in the European Community. The EWC includes representatives from France, The Netherlands, Czech Republic, Slovakia, Greece, Bulgaria, Slovenia, Romania, Croatia, Hungary, Lithuania, Latvia, Estonia, Poland, the Republic of Ireland and the UK. The EWC has the opportunity to be addressed by the Chief Executive and other senior members of the Company on issues that affect the European business. This includes the Directors of International and Multi-channel and the Director of Plan A, who all have an impact across the European Community.

Directors and senior management regularly attend the national Business Involvement Group (BIG) meetings. They visit stores and discuss with employees matters of current interest and concern to both employees and the business through meetings with local BIG representatives, specific listening groups and informal discussions. The business has continued to engage with employees and drive involvement through a scheme called The BIG Idea. On a quarterly basis the business poses a question to gather ideas and initiatives on a number of areas including how we can better serve our customers. Several thousand ideas are put forward each time and the winning employee receives an award and the chance to see how this is implemented by the Company.

Share schemes are a long-established and successful part of our total reward package, encouraging and supporting employee share ownership. In particular, around 24,000 employees currently participate in Sharesave; the Company’s all employee Save As you Earn Scheme. Full details of all schemes are given on pages 70 to 71.
We have a well established interactive wellbeing website designed exclusively for M&S employees. It gives any employee the opportunity to access a wealth of information, help and support. We cover all areas of wellbeing, from healthy eating and exercise to help in overcoming issues such as stress, financial challenges, achieving a positive work-life balance and problems with sleeping. Using this service, employees can access our personal support teams, such as counselling, as well as take part in a calendar of wellbeing events and initiatives.

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

We maintain contact with retired staff through communications from the Company and the Pension Trust. Member-nominated trustees have been elected to the Pension Trust board, including employees and pensioners. We continue to produce a regular Pensions Update newsletter for members of our final salary pension scheme and have a fully interactive website for members of the defined contribution M&S Pension Savings Plan.

EQUAL OPPORTUNITIES

The Group is committed to an active equal opportunities policy from recruitment and selection, through training and development, performance reviews and promotion to retirement. It is our policy to promote an environment free from discrimination, harassment and victimisation, where everyone will receive equal treatment regardless of gender, colour, ethnic or national origin, disability, age, marital status, sexual orientation or religion. All decisions relating to employment practices will be objective, free from bias and based solely upon work criteria and individual merit. The Company is responsive to the needs of its employees, customers and the community at large. We are an organisation which uses everyone’s talents and abilities and where diversity is valued. We were one of the first major companies to remove the default retirement age in 2001 and have continued to see an increase in employees wanting to work past the state retirement age. Our oldest employee is 88 years old and joined the business at age 80. In April 2015 the Company once again featured in The Times Top 50 Employers for Women, highlighting how equal opportunities are available for all at M&S.

EMPLOYEES WITH DISABILITIES

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

TOTAL GLOBAL M&S GREENHOUSE GAS EMISSIONS 2014/15

The disclosures required by law relating to the Group’s greenhouse gas emissions are included in the table below. For full details of calculations and adjustments, as well as performance against 2006/07 voluntary baseline, see our 2015 Plan A Report.

<table>
<thead>
<tr>
<th></th>
<th>2014/15 000 tonnes</th>
<th>2013/14 000 tonnes</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct emissions (scope 1)</td>
<td>167</td>
<td>168</td>
<td>-1</td>
</tr>
<tr>
<td>Indirect emissions from energy (scope 2)</td>
<td>367*</td>
<td>340</td>
<td>+8*</td>
</tr>
<tr>
<td>Total statutory emissions (scope 1+2)</td>
<td>534</td>
<td>508</td>
<td>+5</td>
</tr>
<tr>
<td>Transport, energy, waste and business travel (scope 3)</td>
<td>58</td>
<td>59</td>
<td>-2</td>
</tr>
<tr>
<td>Total gross/location-based emissions</td>
<td>592</td>
<td>567</td>
<td>+5</td>
</tr>
<tr>
<td>Carbon intensity measure (per 1,000 sq ft of salesfloor)</td>
<td>30</td>
<td>30</td>
<td>L</td>
</tr>
<tr>
<td>Green tariffs and carbon offsets</td>
<td>592</td>
<td>567</td>
<td>+4.4</td>
</tr>
<tr>
<td>Total net/marketplace emissions</td>
<td>0</td>
<td>0</td>
<td>-</td>
</tr>
</tbody>
</table>

Calculated based on operational control in accordance with 2014 DECC/DEFRA using Guidelines WRI/WBCSD GHG Reporting Protocols (Revised edition) and 2014 Scope 2 Guidance.

*Increase caused by higher UK grid electricity carbon intensity.

ESSENTIAL CONTRACTS OR ARRANGEMENTS

The Company is required to disclose any contractual or other arrangements which it considers are essential to its business. We have a wide range of suppliers for the production and distribution of products to our customers. Whilst the loss of, or disruption to, certain of these arrangements could temporarily affect the operations of the Group, none are considered to be essential, with the exception of certain warehouse and logistic operators and providers of services relating to the Company’s e-commerce platform.

GROCERIES SUPPLY CODE OF PRACTICE

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

M&S submitted its report to the Audit Committee on 14 May 2015 covering the period from 1 April 2014 to 31 March 2015. In accordance with the Order, a summary of that compliance report is set out below. M&S believes that it has complied in full with GSCOP and the Order during the relevant period. No formal disputes have arisen during the reporting period. Four allegations regarding potential breaches of GSCOP were made by suppliers during the relevant period, but all complaints have been withdrawn/resolved.
M&S operates systems and controls to ensure compliance with the Order and GSCOP including the following:

- The terms and conditions which govern the trading relationship between M&S and those of its suppliers that supply groceries to M&S incorporate GSCOP.
- New suppliers are issued with information as required by the Order;
- M&S has a Code Compliance Officer as required under the Order, supported by our in-house legal department; and
- Employee training on GSCOP is provided, including annual refresher programmes and new starter training.

**POLITICAL DONATIONS**

No political donations were made during the year ended 28 March 2015. 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 1 to 22 as well as the Group’s principal risks and uncertainties as set out on pages 23 to 25. 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.

**AUDITOR**

Resolutions to reappoint Deloitte LLP as auditor of the Company and to authorise the Audit Committee to determine their remuneration will be proposed at the 2015 AGM.

**ANNUAL GENERAL MEETING**

The AGM of Marks and Spencer Group plc will be held at Wembley Stadium, London on 7 July 2015 at 11am. The Notice of Meeting is given, together with explanatory notes, in a booklet which accompanies this report.

**DIRECTORS’ RESPONSIBILITIES**

The Board 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 performance, business model and strategy. This cannot be achieved by merely reviewing the final document at the end of the preparation process. The Board ensured that its requirements were clearly communicated from the outset to each of the departments involved in the production of the Annual Report.

The Board has advised that the narrative reports should contain the key information needed by investors and other users of the report and should avoid being promotional in nature. Furthermore, the narrative reports in the front and the accounting information in the back of the report should be consistent and the teams involved in its production work closely together to achieve this. For an independent opinion, the Board also requested the Audit Committee review the Annual Report and provide feedback. The Committee’s opinion on whether the report is fair, balanced and understandable is on page 49.

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

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

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

Each of the directors, whose names and functions are listed on pages 34 and 35 of the Annual Report, confirm that, to the best of their knowledge:

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

**DISCLOSURE OF INFORMATION TO AUDITORS**

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

The Directors’ Report was approved by a duly authorised committee of the Board of Directors on 19 May 2015 and signed on its behalf by

Amanda Mellor
Group Secretary
London, 19 May 2015