YOUR M&S

Annual report and financial statements 2010

Quality, Value, Service, Innovation and Trust

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About M&S Marks & Spencer is one of the UK's leading retailers with over 21 million customers visiting our stores every week. We sell high quality, great value clothing and home products and outstanding quality food. We source our products responsibly from 2,000 suppliers around the world. Over 76,000 people work for M&S both in the UK and in 41 territories overseas, where we have a growing international business.

Our core values of **Quality, Value, Service, Innovation** and **Trust** are as important to us today as they were when M&S was founded over 125 years ago.

What we sell Our core UK business

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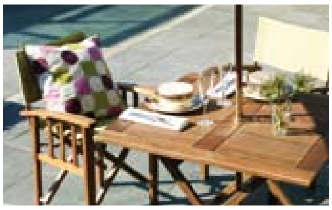
With an annual turnover of £8.4bn*, our UK business has a broadly even split between General Merchandise (clothing and home) and Food.

General Merchandise £4.1bn sales (+4.0%)*
With more than 1 in 10 clothing items bought from M&S, we remain the UK's largest clothing retailer and the first choice for stylish, great value clothes for the whole family. We lead the market in womenswear, lingerie and menswear and have an expanding kidswear and home business.

Market share (value)
11.0%

Market share (volume)
11.2%

Source: Kantar Worldpanel



Food £4.3bn sales (+1.8%)*
We are the UK's leading provider of high quality food, selling everything from fresh produce and groceries, to partly-prepared meals and ready meals and an award winning range of wines. Underpinning this is our commitment to healthy eating, ethical sourcing and innovation.

Market share
3.8%

Source: Kantar Worldpanel

How we sell Multi-channel

Page 28 →

Customers shop with M&S in many ways – in stores, online or over the phone. Our aim is that everyone receives the same consistently high level of service from purchase through to delivery.

Our UK stores
We have 690 stores across the UK – in a wide range of convenient locations – from high streets to retail parks, train stations to airports. Over the past four years we have transformed these stores into bright and contemporary destinations with a range of hospitality options.

690 UK stores:
- **10** Premiere
- **42** Major
- **242** High Street
- **46** Outlets
- **156** Simply Food wholly-owned
- **194** Simply Food franchises

M&S Direct £413m sales (+27%)*
M&S Direct is key to improving customer convenience and service including via our website and our newly launched 'Shop Your Way' facility. We are on target to achieve **£500m in sales by 2010/11.**

shop your way

M&S Direct:
- E-commerce website
- Home catalogue
- Flowers & wine delivery
- Hampers
- Food to Order
- lunchtogo

Where we sell International

Page 32 →

International £949m sales (+5.7%)*
With a portfolio of over 320 owned and franchised stores in 41 territories we continue to grow our International business. Our mix of ownership models and countries enabled us to perform well over the past year even when individual markets were weak.

How we do business Plan A

Page 36 →

Over the past three years, our eco and ethical plan, Plan A, has helped us reduce our environmental impact, develop new sustainable products and services and improve the lives of people in our local communities. This year we extended our plan to involve all our customers and employees and to set ourselves the ambitious goal of becoming the world's most sustainable major retailer by 2015.

*52 weeks.

Highlights from the past year

The statutory results for the year are for the 53 weeks ended 3 April 2010. In order to be able to compare these with last year's 52 week period, where appropriate, the 52 week results have been stated. The Finance Review on page 42 explains the calculation of the 52 week results.

In September 2009 Kantar Worldpanel adjusted its market share data for the period to March 2009. The market share data in this report is based on these more accurate figures.

Group revenue

£9.5bn
+5.2%
(53 weeks)

£9.3bn
+3.2%
(52 weeks)

Adjusted Group operating profit

£843.9m
+9.8%
(53 weeks)

£779.3m
+1.4%
(52 weeks)

Group profit before tax

£702.7m
–0.5%
(53 weeks)

£640.6m
–9.3%
(52 weeks)

Adjusted Group profit before tax

£694.6m
+14.9%
(53 weeks)

£632.5m
+4.6%
(52 weeks)

Interim + final dividend

5.5p+9.5p

Total dividend 2009/10

=15.0p

Adjusted earnings per share

33.0p
+17.9%
(53 weeks)

30.0p
+7.1%
(52 weeks)

For all our full and detailed key performance indicators See p10

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Why go online?

marksandspencer.com/annualreport2010

If you haven't already tried it, visit our easy-to-use, fully interactive online Annual Report. Many shareholders are now benefiting from more accessible information and helping the environment too.

- It's a more engaging and interactive experience
- It's printable as individual pages
- It saves paper and costs

Chairman's overview

by Sir Stuart Rose

Sir Stuart Rose Chairman

"Leading your very special business for the last six years has been a pleasure and a privilege."

A platform for growth

This year M&S returned to growth, demonstrating the resilience of the brand through difficult times. 2009/10 has been about leading the business through the recession without losing sight of our long-term plan or our core values.

We remain committed to building a world-class retailer through increasing the pace of change and driving operational excellence in the business; building our multi-channel capability; growing our international portfolio; and, as the economy returns to a stronger footing, reinvigorating our brand communications.

Our progress was interrupted – but not altered – by the recession. Last year, we continued to implement short-term objectives to guide M&S through the economic downturn. As a result of this decisive action our long-term strategy remains in place. We have built a strong platform for growth and have improved or maintained market share in all our core areas.

We grew because we managed our costs prudently, listened and responded to our customers' changing needs and stayed true to our core values of Quality, Value, Service, Innovation and Trust, reminding our customers of what makes M&S different. This year we have worked hard to further improve our quality and our customers have told us they have noticed this improvement.

A year ago, I told you the Board had cut the dividend by 20.9%. This was not an easy decision but it gave us the flexibility to continue to invest in the business despite the downturn. Although we scaled back investment in new stores we continued to invest in our infrastructure, particularly our supply chain and IT systems.

We also invested in our margins, to give customers the extra value they were looking for without compromising quality. Whilst some retailers attempted to meet this need by repositioning themselves as 'low cost', M&S continued to stand for value and not just price – an approach that is serving us well as consumer confidence returns.

Overview

Chairman's overview continued

QUALITY & INNOVATION

Above: Extending the asparagus season
John Chinn has been growing asparagus for M&S for over six years: "In 2003 I went to an asparagus growers' conference where an M&S buyer gave a talk and invited any growers interested in extending the season to come and see him."

Since then John, with the help of M&S, has doubled the length of the British season by growing early varieties on the south facing slopes of his Wye Valley farm. The later-cropping asparagus are planted on the north facing slopes which are still being harvested well into July.

QUALITY

Above: Wrapping up As Britain's coldest winter in decades took hold customers turned to M&S to keep them cosy. In December we sold enough knitwear to clothe every woman between the ages of 20 and 84 living in London, with sales of women's knitwear up 18%.

YOUR GREEN IDEA

PLAN A: YOUR GREEN IDEA

Trust In March we launched Your Green Idea a major Plan A competition, offering a chance to win £100,000 to 'green' an organisation, such as a school or a local community group.

Your Green Idea invited people to share their ideas for new, 'green actions' that M&S could implement under Plan A, so that all of our 21 million customers can get involved in helping the environment.

For more information about Plan A see p36 or visit marksandspencer.com/plana

Despite the economic challenges, we have also renewed our commitment to Plan A, our eco and ethical plan. We know environmental issues matter to our customers and that the recession has not altered their level of concern. They continue to look to M&S to lead the way, so this year we set out our vision to become the world's most sustainable major retailer by 2015.

Since its launch in 2007, we have moved from the implementation of Plan A to making it the key driver of how we do business. In doing so, we have become more efficient and in 2009/10 alone Plan A generated £50m additional profit, which has been invested back into the business.

This year I worked with the Board to identify Marc Bolland as my successor as Chief Executive. Though we remain cautious about the year ahead, the worst effects of the recession are behind us. Furthermore, M&S is in a stronger position and I am convinced that Marc is the right man to lead the business forward, as he brings a wealth of experience to the role. As Chairman, I will continue to work with the Board and with the management team to ensure a smooth transition until I leave the business.

Our performance this year*

Marks & Spencer has had a good year, with our adjusted profits up 4.6% on last year to £632.5m. Before the £80.9m bonus we paid to our colleagues to thank them for their extraordinarily hard work, profits were at £713.4m, a 17.5% increase on 2008/09.

You will see from Ian Dyson's finance review on page 8 that Group sales increased by 3.2%. Positive UK like-for-like sales have returned, up 0.9% and we have seen growth across all parts of the business, as the external market conditions improved and our customers became more confident.

Food has now delivered a sixth consecutive quarter of growth. As outlined in John Dixon's review on page 24 this has been achieved by better value, availability and product innovation, whilst continuing to deliver outstanding quality. The pace of development in Food will not slow and this year we committed to renewing 25% of our food range every year.

Our clothing market share continues to grow, up 0.3% to 11%, as our customers have started to invest in their wardrobes again. Feedback from them tells us we have got the products right and are in touch with the latest trends. As set out in Kate Bostock's clothing review on page 16 we've responded to customer requests for an easy to wear, casual range with the launch of Indigo Collection. We have also used our 'good', 'better' and 'best' pricing structure to ensure we continue to offer something for everyone, making it easy for our customers to trade up and down within M&S to suit their priorities and budgets.

INDIGO COLLECTION

* 52 weeks.

Well Suited Over the last 12 months we've strengthened our share of the menswear market to 10.4% by value. We've sharpened our brands, such as Collezione, featured left, which we relaunched in February. Find out more about the work we have done on page 21.

YOUR M&S

Find out more at
marksandspencer.com

Overview

Chairman's overview continued

INNOVATION

Left: Reversy Percy Customers told us they like to eat Percy Pigs jelly ears first so in March 2010 we reversed him to give fans more of their favourite bits. Percy Pig is exclusive to M&S and has his own Facebook Appreciation Society, with over 200,000 members and over 1.5 million Percy Pigs are eaten a week!

TRUST

Above: The Marks in Time exhibition was launched as part of our 125 celebrations. It showcased the M&S journey from market stall to international retailer, highlighting its role in British cultural history since Michael Marks opened his first stall in 1884. Held at the University of Leeds, it features nearly 200 items from the M&S Company Archive and marks the beginning of a unique partnership which will see the entire archive relocate to the University in 2011. Sir Stuart Rose and Twiggy opened the exhibition alongside University Vice-Chancellor, Michael Arthur.

See more at marksintime.marksandspencer.com

SERVICE & TRUST

Below: Three Lions One Tailor As World Cup fever hits the country this summer we'll be kitting out the England squad for their trip to South Africa. Fans won't be left out and they can get their hands on the same suits for £199 and waistcoat for £35.

ENGLAND OFFICIAL TAILOR

We remain focused on helping our customers shop with us whichever way they want, bringing together our various shopping channels to provide greater convenience and flexibility. As explained on page 28 of the report, this year we launched 'Shop Your Way', a new ordering service that has been rolled-out to over 300 stores, allowing customers to place orders either in stores, online or over the phone, for delivery to either a nominated address or free of charge to their nearest store.

Our International sales were up 5.7%, despite difficult trading conditions in the Republic of Ireland and Greece. We remain confident in our International growth plans and this year we have focused on building sustainable businesses in emerging economies such as India and China.

Improvements across M&S are a result of our consistent delivery of quality and value to our customers. Through good times and through adversity we have remained true to our core values. It is these values that continue to set M&S apart from the competition and I believe they are more relevant than ever before in our 125 year history.

Trust

Our customers know they can trust us to do the right thing and nowhere is this better demonstrated than through Plan A. This year we raised the bar – setting ourselves the ambitious goal of becoming the world's most sustainable major retailer by 2015.

Our extended Plan A will reach further and move us faster – covering every part of our business and reaching out to our 2,000 suppliers in the UK and overseas and into the homes of our 21 million customers.

We are also encouraging our 76,000 employees to live 'greener lifestyles' and this is explained in more detail in our people section on page 40. As part of this all M&S employees are now entitled to a paid volunteer day – so that we can give something back to the communities we serve.

By 2020 we aim to convert the 2.7 billion individual M&S food, clothing and home products sold each year, to 'Plan A products', so that each carries at least one sustainable or ethical quality. In doing so, we will make a positive contribution to the environment and society across everything we do and everything we sell.

Plan A is not just the right thing to do ethically, it also makes commercial sense. By further embedding sustainability into the way we do business we will continue to become more efficient, develop new markets and build customer loyalty.

125th anniversary

Against the backdrop of recession, our 125th anniversary celebrations served as a rallying call to remind both customers and employees of the values M&S has stood for throughout its 125 year history. To this effect, we brought back the Penny Bazaar under the original slogan – 'Don't ask the price it's a penny' – attracting over three million customers in just three days.
As part of the celebrations we also set our employees a target of raising £1.25m in just

INNOVATION

Above: Show stopping desserts This year our pudding experts created the inside-out trifle, with layers of swiss roll on the outside holding a filling of custard and raspberry jelly. Also popular was the Snow Storm – inspired by old fashioned snow globes it's made using transparent vanilla jelly interspersed with coconut flakes on a white chocolate panna cotta base.

QUALITY & TRUST

Left: Cashmere Goats John Worley, our knitwear product technologist conducted a fact-finding visit to Inner Mongolia to discover more about the age old production of cashmere, which we use in our luxury knits. John's hosts showed him how they comb and remove the goats' hair by hand to ensure it's of the highest quality. You have to comb one and a half goats to collect enough fibre to produce one men's jumper.

125 days. Across the country, employees rose to the challenge, more than doubling this target to raise £2.8m benefiting over 500 local charities.

Foundations for the future

In October we held an Investor Day to explain in more detail our long-term change programme, which we launched a year ago as Project 2020. This year we have begun to accelerate the pace of activity to fundamentally transform the way M&S does business. It is:

- delivering a step-change in the way we service our customers' needs and the way we operate our business;
- increasing the pace of change and operational execution;
- accelerating Multi-channel; and
- driving our International business.

Our investment will not only create a solid platform for future growth but will also deliver tangible customer benefits – from improved on shelf availability to more convenient delivery times.

Handing over a stronger business

As we welcome Marc Bolland as our new Chief Executive, I would like to reflect briefly on what has been achieved over the past six years. Marks & Spencer is a significantly stronger business today than it was when I became Chief Executive in 2004.

We have taken the business back to its core values of Quality, Value, Service, Innovation and Trust. We reconnected with our customers and employees by focusing on these values and launching the successful 'Your M&S' campaign, as well as Plan A.

Our revenues have grown by £1.9bn, with International revenues doubling since 2004. We have significantly expanded our UK store base, from 375 stores to almost 700 today including putting M&S in previously under-represented locations – like out-of-town and retail parks.

We have revitalised our clothing offer, filling the gaps in our ranges, keeping up to date with key trends and making our prices much more competitive. We now offer stylish, good value and great quality products for all our customers – regardless of their age, lifestyle or budget. Six years ago, for example, only 12% of our total clothing offer was at our opening price points, compared to just under a third today.

The growth we've seen in our market share shows us that this approach is working. We have strengthened our performance across all areas of clothing – in womenswear, lingerie, menswear and kidswear – and our market share has risen to 11%.

QUALITY & INNOVATION

Left: In print Our Limited Collection geometric print dress was our take on the graphic prints displayed on the 2009/10 catwalk. Using the latest digital print technology, it was a hit with both customers and the fashion press, named by Sunday Times Style Magazine as 'the best print dress on the high street – ever.'

Overview

Chairman's overview continued

MANAGEMENT BOARD

1. **Sir Stuart Rose** Chairman*
2. **Marc Bolland** Chief Executive**
3. **Ian Dyson** Group Finance and Operations Director***
4. **Steven Sharp** Executive Director, Marketing
5. **Kate Bostock** Executive Director, General Merchandising
6. **John Dixon** Executive Director, Food
7. **Clem Constantine** Director, International, Property and Store Development
8. **Tanith Dodge** Director, Human Resources
9. **Nayna McIntosh** Director, Store Marketing and Design
10. **Steve Rowe** Director, Retail and M&S Direct
11. **Andrew Skinner** Trading Director, per una
12. **Darrell Stein** Director, IT and Logistics

* From 31 July 2010, will handover CEO role, leaving the Company by March 2011
** Joined 1 May 2010
*** Resigned from the Company on 5 May 2010. Ian will step down from the Board following the AGM on 14 July and will leave the Company on 31 August 2010.

We have also built up our position as the UK's leading retailer of good quality, fresh food. We have driven innovation while staying true to our quality and ethical sourcing principles. We have improved our pricing and made our Food offer more convenient. We now have 350 Simply Food stores across the UK – in locations such as high streets, railway stations and airports – up from 100 in 2004.

Meanwhile we have made significant, long overdue investment in the business. Our total capital expenditure has been around £3.5bn of which £2.2bn has been invested in stores. Over 80% of our store portfolio has been completely renovated and we are building new logistics and delivery systems, which are essential to the future of our business – especially our two key areas of growth, Multi-channel and International.

We have also invested in our people – with training and career paths – and we reinstated an active customer feedback programme. We know our customer service has improved because of this. Our mystery shopping scores currently stand at 89%, up from 70% when we introduced this measure in 2006.

Finally, over the same period, I am pleased to say that we have given back around £4.6bn to our shareholders in dividends and buy-backs.

The M&S team

Marc will be able to benefit from the wealth of experience within the management team that has led M&S over the last year.

In 2009, I announced that Kate Bostock would take responsibility for our Home division, bringing our entire General Merchandise offer under her leadership. Over the last 12 months we have seen the benefits of this, with greater collaboration and shared learning across the GM business units. Similarly, the management of all our shopping channels transferred to Steve Rowe, allowing us to better focus on our ambitions as a multi-channel retailer.

In September 2009, John Dixon was promoted to the Board as Executive Director of Food. Since his appointment as Director of Food in July 2008, John has been instrumental in improving the performance of the Food division and returning it to positive like-for-like sales.

Introduction

Marks & Spencer is a great brand and I am very proud to have the opportunity to lead a company with such a unique heritage. Since I arrived in May I have been getting to know the business and our customers and I am looking forward to working with the team as we continue to build on the strong foundations that have been put in place by Stuart.

Marc Bolland Chief Executive Joined 1 May 2010

In May 2010, Ian Dyson resigned from his position as Group Finance & Operations Director to join Punch Taverns plc as its Group Chief Executive. On behalf of the M&S Board, I would like to thank Ian for the significant contribution he has made to M&S over the last five years and wish him well with his future career.

Our management team has worked together throughout the recession, focusing on both our long and short-term priorities, enabling the business to emerge stronger and ready to capitalise as the economy recovers.

The progress we have made would not have been possible without the hard work and commitment of our dedicated workforce – particularly during the challenge of a recession. I am delighted that we have been able to pay all our staff a bonus this year. I would like to say a personal thank you to all of them.

It has been a great pleasure and a privilege to lead your very special business over the past six years. I am confident that with strong foundations in place, our core values revitalised and a brand that inspires confidence and recognition worldwide, M&S is poised for an exciting new era of growth under the direction of a new Chief Executive.

Sir Stuart Rose Chairman

QUALITY

Above: Super sweet carrots M&S organic carrots are grown exclusively by Steven Jack on the wild Moray coast in the shadow of the Grampian Mountains. Long daylight hours in the summer mean sweeter, better tasting carrots and the light sandy soils ensure carrots with a fine skin that just need a gentle brushing before cooking, so there is no need to peel them.

Performance overview

by Ian Dyson

Ian Dyson Group Finance and Operations Director

Last year we took decisive action to give us the strength and flexibility we needed to navigate the recession. As a result we have emerged in a stronger position and delivered an improved performance, with an adjusted 52 week profit before tax of £632.5m up 4.6% from £604.4m in 2008/09. Whilst we have tackled the short-term issues caused by the downturn we have remained focused on our long-term strategy. Over the last 12 months, we have continued to invest in M&S, building a platform for future growth through Project 2020.

Underlying cost savings
£145m

Group capital expenditure
£389m

Net debt
£2.1bn

PLAN A: UK ECO FACTORY

Since its opening in 2008, our furniture supplier's first UK eco factory – the 150,000 sq ft Westbridge Furniture factory in Holywell, Wales – has reduced its CO_2 emissions by 48%, energy use by 56% and water consumption by 30%. The factory is also on target to send no waste to landfill by 2012. At the same time it produces some of the most stylish pieces in the M&S range.

For more information about Plan A see p36 or visit marksandspencer.com/plana

Our performance*

This year our Group sales were up 3.2% to £9.3bn. A combination of improving market conditions and our own efforts helped us achieve an increase in UK sales of 2.9%, with a strong performance in all areas of our business. Despite tough trading conditions, particularly in Republic of Ireland and Greece, our International business delivered a strong performance, with sales up 5.7%.

GM has seen market share growth in both value and volume, with sales up 4.0%. Continued investment in our margins has helped Food return to positive like-for-like sales of +0.3%.

M&S Direct has delivered another good performance, with sales increasing to £413m and remains on track to deliver £500m by 2010/11.

Margins*

Our UK gross margin was 41.2%, down 5 bps. This reflects our continued investment in Food margins to provide our customers with the value they want, without compromising quality. Food gross margin was down 95 bps at 30.6%, with investment in prices and promotions partly offset by better buying and a reduction in food waste. GM margin was up 70 bps at 52.5%, despite the weak sterling performance this year. Over the last 12 months we have worked with our suppliers to manage currency pressures in our supply chain and delivered tighter stock control and management of markdowns.

Cost management*

Total UK operating costs, excluding bonuses, were £2,769m, an increase of 1.0%. Despite the pressure of increased volumes, depreciation and inflation on our cost base, through prudent cost management we delivered savings of 5.3% representing an underlying saving of £145m.

In addition, due to our significant outperformance against our plan we have paid a bonus of £81m to be shared by employees across M&S.

Balance sheet management

Throughout 2009/10 we have remained focused on improving our cash flows. We reduced capital expenditure to £389m, down from £652m in 2008/09 and have a working capital inflow of £78m.

As a result we have generated a net cash inflow of £412m after tax and dividend. Focus on cash flow management has enabled us to further reduce our net debt to £2.1bn, from £2.5bn in 2008/09.

INNOVATION

Right: Click to watch In December we launched our iViewer TV – a British high street first. Viewers can get BBC iPlayer straight to their screen with the touch of a button. The TV also doubles as a digital photoframe.

* 52 weeks.

SERVICE

Above: Say it with flowers On Valentines Day this year we delivered just under 30,000 bouquets of flowers to customers up and down the UK.

QUALITY

Above: Store design We have now completed our modernisation programme in over 80% of stores.

Refinancing

We completed a buy-back of £200m worth of bonds, enabling us to issue a new longer term bond, taking advantage of the favourable conditions in the debt capital market. This has allowed us to strengthen our long term position by extending the average maturity life of our debt capital.

Defined Benefit Pension Scheme

In May 2010 we and the Trustees of our UK Defined Benefit Pension Scheme agreed a funding plan with a present value of £800m, following the outcome of the Scheme's triennial actuarial valuation which showed a deficit of £1.3bn at 31 March 2009.

The funding plan includes the following contributions from M&S:

- cash contributions of £35m per annum for the first three years of the funding plan increasing to £60m per annum until 2018. This has a present day cash value of £376m;
- £300m of value through the granting of a further interest in the property-backed partnership established between M&S and the Pension Scheme in 2007. This new interest entitles the Pension Scheme to a fixed annual distribution of c. £36m for 15 years commencing in 2017 and a capital sum in 2031 equal to the lower of £350m or any funding deficit in the Pension Scheme at that point in time; and
- £124m of value through the transfer of assets from existing US$ debt hedge contracts held by M&S.

Dividend

In May 2009 the Board made the difficult decision to rebase the Group's dividend payment for 2009/10 to 15.0p per share to provide us with greater flexibility during the downturn. This decision resulted in a final dividend of 9.5p per share (last year 9.5p). Having rebuilt cover to two times, our policy is to grow dividends in line with adjusted earnings per share.

Investing for the future

In the midst of a recession, when it was easy to focus only on the short-term, we decided to re-examine our long-term strategy and gave it a renewed sense of purpose, resulting in the creation of Project 2020, which has the following aims:

- increase the pace of change and operational execution
- accelerate towards becoming a multi-channel retailer
- drive our International business

The overall objective of the programme is to create long term sustainable growth in shareholder value. This year we have focused on three priorities – restructuring our supply chain, implementing new IT systems and driving operational execution. There is more detail about our progress in these specific areas on page 36. These changes will deliver long-term benefits including:

Improving our cost efficiency The implementation of changes in our supply chain and systems requires a capital investment of £1bn by 2015/16. We expect this to deliver cost efficiencies of around £175m per year by 2012/13, rising to £250m per year by 2015/16, made up of £150m savings from our supply chain and £100m from systems. We are on track and this year we have achieved cost savings of £35m.

Driving sales growth Through better cataloguing and product control we will be able to deliver improvements in on-shelf availability. Customers have also started to see tangible benefits, such as better fulfilment in our online ordering.

Provide a platform for future profitable growth Our current systems are outdated and we need a better support infrastructure so that we can grow profitably in both Multi-channel and International. This year we have made substantial progress, including signing the lease on our new dedicated e-commerce warehouse due to open in 2012.

Looking ahead

Though market conditions have improved, we remain cautious about the year ahead. We are confident that the actions we have taken have put the business in good financial shape to weather uncertainty and emerge strongly as the economy improves.

Throughout 2010/11 we will continue our delivery of Project 2020, focused on our goal of creating long-term sustainable growth.

Ian Dyson Finance and Operations Director

Performance overview

Key performance indicators

Financial performance

These financial performance indicators are based on the statutory 53 week period ended 3 April 2010.

Group revenue

£9.5bn
+5.2%

£m	06/07	07/08	08/09	**09/10**
UK	7,977.5	8,309.1	8,164.3	**8,567.9**
International	610.6	712.9	897.8	**968.7**
Total	8,588.1	9,022.0	9,062.1	**9,536.6**

Adjusted Group operating profit*

£843.9m
+9.8%

£m	06/07	07/08	08/09	**09/10**
UK	956.5	972.9	652.8	**701.2**
International	87.5	116.4	116.1	**142.7**
Total	1,044.0	1,089.3	768.9	**843.9**

Performance against our strategy

What we sell
Growing our core UK business

p16 →

UK market share Clothing and footwear

Analysis: During the year we grew our value market share and held on volume, see **page 16** onwards for details of our clothing business.

Source: Kantar Worldpanel

Value market share

11.0%

2008/09 **10.7%**
2007/08 **11.0%**
2006/07 **11.1%**

Volume market share

11.2%

2008/09 **11.2%**
2007/08 **11.3%**
2006/07 **10.7%**

UK market share Food

Analysis: Our market share is slightly down, reflecting the fact we were the only retailer to lower prices during what was an inflationary period. See **page 24** for details on how we are working to further improve our Food business.

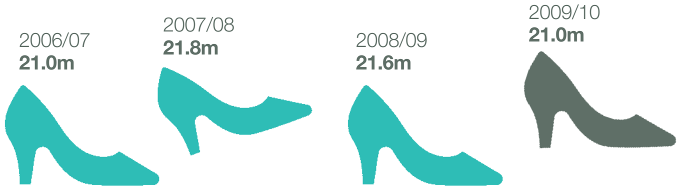
Source: Kantar Worldpanel

3.8%

2008/09 **3.9%**
2007/08 **4.3%**
2006/07 **4.2%**

Average weekly UK footfall

Analysis: Around half of UK stores have cameras fitted at the entrance to allow us to track customer visits. We calculate our average footfall by analysing the ratios between visits and sales in these stores and then applying it to stores without cameras.

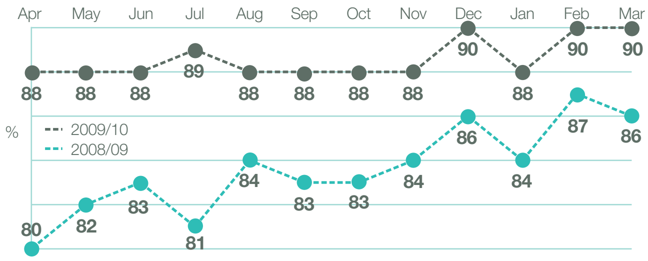


Average weekly footfall

21.0m

UK mystery shopping programme

Analysis: Mystery shoppers anonymously visit all of our UK stores once a month – twice for flagship stores – to evaluate the levels of service, scoring factors such as how staff welcome customers and the management of store environment. This year over 6,500 visits were conducted and we have seen a 5% increase in service scores.

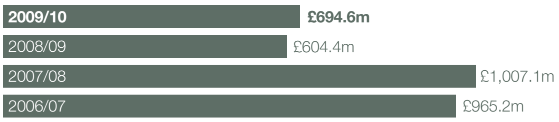


Visits completed

6,500
average score 89%

Adjusted Group profit before tax*

£694.6m
+14.9%



Group profit before tax

£702.7m
-0.5%

2008/09 **£706.2m**
2007/08 **£1,129.1m**
2006/07 **£936.7m**

Adjusted earnings per share*

33.0p

2008/09 **28.0p**
2007/08 **43.6p**
2006/07 **40.4p**

*The adjusted profit measures are stated before property disposals and exceptional items.

How we sell
Building our Multi-channel business

p28

M&S Direct sales

Analysis: We continue to invest in our Direct business as part of our commitment to become a multi-channel retailer and remain firmly on track to reach our £500m target next year. See more on **page 28**.

£413m*
+27%

Percentage of our stores refurbished since 2005

Analysis: Since 2005 we have refurbished over 80% of our stores. This year we opened 30 new stores, adding approximately 3.2% of trading space. We continue to invest in our stores to ensure they offer a bright, contemporary shopping environment.

However, this year our capital expenditure has been focused on laying the foundations for future growth under Project 2020.

80%

Where we sell
Expanding our International business

p32

International revenue as proportion of Group revenue

Analysis: Expanding our International business is a key part of our future plan and in 2007/08 we set a target for it to account for 15-20% of Group revenues within five years. Our investment under Project 2020 will support this growth.

10.2%*
+0.3% pts

* 52 weeks.

How we do business
Integrating Plan A across the business

p36

Improve carbon efficiency tonnes CO_2e per 1000 sq ft

Store, office, warehouse, business travel and logistics carbon dioxide emissions in tonnes CO_2e per 1000 sq ft of salesfloor. Residual emissions will be offset in 2012.

Why carbon efficiency?
Improving carbon efficiency reduces green house emissions and costs.

2009/10
41* -20%

2006/07
51*

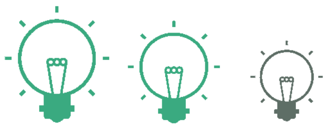
2012 target
0

Improve store energy efficiency kWhs/sq ft

Store energy usage in kWhs/sq ft of sales floor

Why energy efficiency?
Improving energy efficiency reduces costs and helps to meets the requirements of new legislation effective from 2010.

2006/07	2009/10	2012 target
67.9	**54.8† -19%**	**51 -25%**



Send no operational waste to landfill tonnes

Waste sent to landfill from M&S stores, offices and warehouses in tonnes

Why no waste to landfill?
Sending no waste to landfill will reduce costs in the longer term and help reduce carbon emissions.

2006/07
69,000

2012 target
0

2009/10
46,000 -25%

* Recalculated in accordance with 2009 DEFRA/DECC carbon conversion factors and reporting guidelines.

† Gas usage included in this calculation has been adjusted using standard degree days to reflect the cold winter of 2009/10.

Our brand

by Steven Sharp

Steven Sharp Executive Director, Marketing

Our marketing campaigns remain a visible – and important way – of communicating with our customers. Over the last 12 months we have responded to the difficult market conditions by refocusing and increasing our marketing activity, keeping the M&S brand fresh and relevant to our customers' changing needs. We are already seeing returns on this investment, with improving sales across the business.

SERVICE

Above: Christmas wouldn't be Christmas
Our 'Christmas wouldn't be Christmas without…' campaign appealed to those customers – both regular and occasional shoppers – who find it impossible to imagine Christmas without M&S. The result was our highest ever customer recognition for an advertisment.

PLAN A: DOING THE **RIGHT THING**

In Summer 2009 we reflected our status as one of Britain's most trusted brands through our Plan A campaign – 'Doing the right thing'. Launched with a 'manifesto' setting out our commitment to the highest ethical credentials, the campaign included a series of ads displaying no nonsense user friendly expressions of why we do what we do.

For more information about Plan A see p36 or visitmarksandspencer.com/plana

Quality worth every penny

In 2009 we looked back over our 125 year history and the core values M&S has always stood for. 'Quality Worth Every Penny' is a simple message that demonstrated the continued relevance of our founding principles of Quality, Value, Service, Innovation and Trust.

The campaign launched with a TV ad to celebrate our 125th anniversary, taking customers back to where M&S began at Leeds Kirkgate market. In the midst of a recession, the campaign resonated particularly well, reassuring our customers that M&S is a brand they can trust to deliver quality and value.

We believe 'Quality Worth Every Penny' has ongoing relevance, reinforcing the value for money M&S offers and this message continues to underpin our 2010 campaigns.

New directions

In recent years our advertising has achieved iconic status – however, though our core values remain the same, M&S has not stood still. As the economic situation slowly improved in the latter part of the year, we felt the time was right to refresh our marketing activity and invest in a new look across our advertising to better reflect our customers' growing confidence.

This year we decided to take M&S Food back into the heart of family life, with a lighter, brighter campaign, fronted by actress Caroline Quentin. The campaign wraps up all of our core values in a single story, capturing all the reasons why customers turn to M&S – quality, innovative products, provenance or simply good value – in our new strap line – 'Just because'.

As consumers showed greater willingness to invest in their wardrobes, our clothing campaign demonstrated the versatility of the M&S range, encouraging customers to 'make your wardrobe earn its keep'.

Delivering

Our brand communications extend beyond advertising – from our in-store promotions through to our website they help us show customers that we are in tune with their changing needs. Investment in our marketing activity delivers tangible benefits across the business, with our internal measures pointing to a direct correlation between improved consumer perception of the M&S brand and positive sales and profit growth.

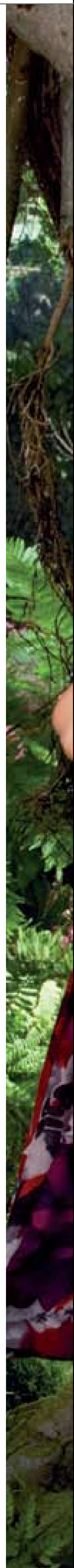
Trust

M&S occupies a special place with the British public and is repeatedly voted as one of the UK's most trusted brands. This is demonstrated in the success of M&S Money – which is celebrating 25 years. It continues to perform strongly as consumers turn to trusted brands like M&S for their financial services. This year we launched our Premium Club, which offers shopping and travel benefits to M&S credit card holders.

Looking ahead

The strength of the M&S brand has enabled us to weather the recession and as we move into 2010/11 we will continue to communicate with our customers, delivering engaging, relevant campaigns that bring our core values to life.

Steven Sharp Executive Director, Marketing

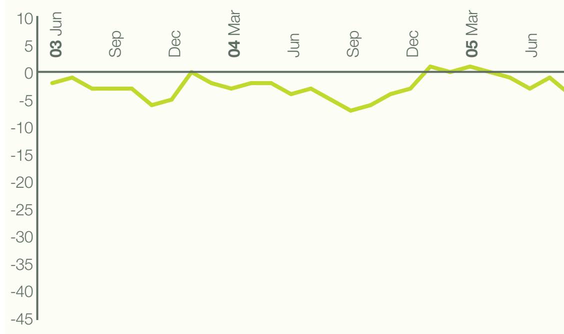


New faces This year, Twiggy was joined by a new line-up of celebrity faces – popstar VV Brown, featured on page 17, joins X-Factor judge Dannii Minogue, Capital FM presenter Lisa Snowdon and Brazilian supermodel Ana Beatriz Barros (featured). Customers responded well to the upbeat, energetic feel of the new ad and said it demonstrates how M&S is in touch with fashion for women of all ages.

Our marketplace

And how we have responded

CONSUMER CONFIDENCE INDEX



Source: CFK Consumer Confidence Index March 2010.

Customers are the heart of our business so it's essential we understand what they want from M&S. Our Customer Insight Unit (CIU) makes sure we are listening to our customers, understanding what they think and how they behave. Through a combination of market data analysis, research and customer feedback, our CIU identifies emerging trends and how external factors are impacting consumer behaviour. This ensures our customers' needs are always recognised in business decisions.

M&S CLOTHING RESPONSE

Our 'good', 'better', 'best' pricing structure caters for 'clever spending', allowing consumers to trade up or down to suit their priorities. We've encouraged customers to trade up by focusing on detailing and quality fabrics in brands such as Autograph and have extended Portfolio across footwear and accessories so customers can update their wardrobe and experiment with new trends. See womenswear on page 16.

M&S HOME RESPONSE

The style credentials of M&S clothing have been translated into our soft furnishings offer to appeal to customers looking to spruce up their home. We have focused on providing great value, co-ordinated homeware so customers can easily build an updated look. See more on page 23.

This section sets out some of the key trends of the last year and outlines how M&S has responded to them.

2009/10 MARKET OVERVIEW

Though Britain has returned to low levels of economic growth, concerns about the economy meant uncertainty continued to be the main characteristic of the marketplace.

Consumer sentiment is that they've 'weathered the storm' and adapted well in a difficult economic climate. As a result consumer confidence levels have doubled over the last 12 months, though as illustrated in the index above, they remain in negative territory.

However, increasing confidence has not marked a return to frivolous spending. Consumers remain cautious and have adopted a trend for 'clever spending', flexing their budget according to personal priorities. Put simply, they are willing to spend more, but only on the things that matter to them.

CLOTHING MARKET TRENDS

Improving consumer confidence has seen the clothing market return to growth this year.

Price remains one of the main drivers for purchases, resulting in the continued growth of the value market. However, after a year of economising consumers have moved beyond a wardrobe made up of cheaper staples and started to invest in quality versatile pieces, this trend is particularly strong among the over 45s.

A greater appetite for investment pieces has translated into growth in the mid-priced clothing market and a strengthening position in premium clothing.

Customers have sought easy, affordable ways to experiment with key trends, such as footwear and accessories.

In 2008/09 the lingerie market suffered as women deemed luxurious underwear an unnecessary extravagance and stuck to basics, but this year women started to treat themselves again.

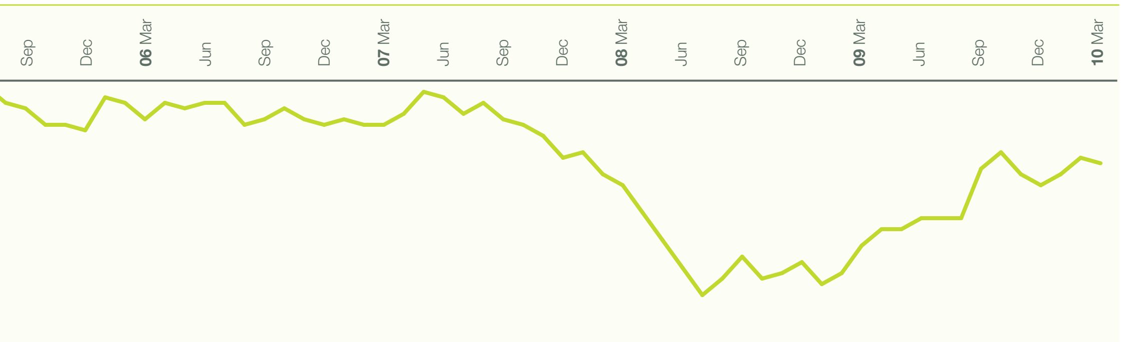
HOME MARKET TRENDS

Mortgage lending remained broadly flat for the year, providing little improvement to the housing market.

Sales of large furniture and white goods declined, as homeowners opted to stay put and improve their existing home rather than move.

In a slow market, consumers wanted to 'individualise' their home to give it a distinctive stylish look – mixing and matching a range of soft furnishings and accessories.

Shifting household demographics have resulted in more people in their 20s living with their parents, along with a rise in older single households. This change has seen greater demand for furniture offering flexible living solutions, such as combined bedroom/living and work space



M&S FOOD RESPONSE

In 2008/09 a demand for value saw many food retailers attempt to reposition themselves as low cost providers. However, we invested in margins to provide customers with better value, without compromising quality. This has served us well as customers began to trade up. Quality remains the point of difference between our 'Dine In' promotion and market imitations. To keep the promotion fresh we regularly include our newest products, mainly from our Cook! range. See page 24 for more detail.

M&S ONLINE RESPONSE

M&S is committed to becoming a multi-channel retailer, integrating its online business with other shopping channels. We launched 'Shop Your Way', explained fully on page 28, to offer customers more flexible purchasing and delivery options. We have also appointed a Director of Multi-channel Development to help us exploit the opportunity in this area.

shop **your** way

FOOD MARKET TRENDS

Over the year price inflation has worked its way out of the market to the point of deflation, with falling food prices masking the fact UK customers were buying more.

Deals continued to be a key driver, with 30% of the market sold on promotion. However, copycat deals across the market meant consumers responded well where quality and innovation were the point of difference, as they looked for deals that offered something new and/or special.

As confidence improved consumers started to trade up to an alternative supermarket or switched to better, premium ranges within their supermarket of choice.

Consumers also began to treat themselves again, resulting in growth in confectionery and bakery markets. They also adopted a sense of nostalgia, creating a revival in retro products with a modern update.

ONLINE MARKET TRENDS

Online market growth remains strong at around 20%, but the rate of growth has begun to stabilise as the market matures.

Consumers now expect a more engaging experience from online shopping, as retailers add more editorial, interactive content to sites.

Developing technologies have meant consumers expect greater flexibility and tailored choices in both purchase and delivery options.

The strongest opportunity for growth lies with retailers that can integrate an online offer with other shopping channels, such as stores and call centres, to provide a multi-channel service.

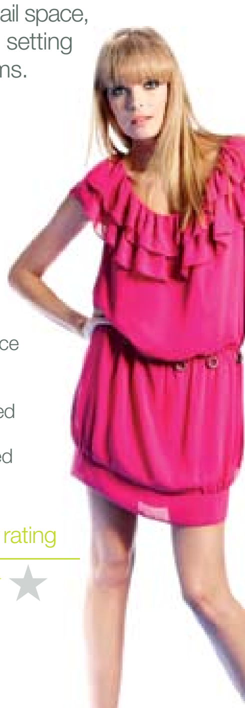
FUTURE TRENDS

As we move into 2010/11, macro-economic conditions will continue to influence consumer behaviour. However, our current research suggests the following trends are likely:

The pace of mobile technology and growing acceptance of its 'intrusion' into everyday lives, means consumers will expect brands to be ready to interact when they want, requiring brands to be 'on' 24/7.

Retailers that allow consumers to have input into product development will be well placed in the future. Increasingly consumers want to personalise purchases, through colour, style and functionality, as well as providing feedback to both retailers and peers about how they believe products and services could be enhanced.

Changes to family dynamics mean UK consumers are looking for alternative communities, either 'real' or 'virtual' to achieve a sense of belonging. In the retail space, this may lead to more brands setting up community pages or forums.



TRUST

Above: Share your views To provide a more interactive experience we increased the prominence of customer product reviews on our website. Customers have responded well to the peer-to-peer feedback and conversion rates have increased as a result.

Average customer rating

★★★★☆

What we sell

Womenswear

Kate Bostock Executive Director, General Merchandising

M&S remains the nation's favourite in womenswear and over the last 12 months we've grown our market share to 10.7% by value, up 0.2%, as women of all ages continue to turn to us for great value, stylish clothing. This year we've expanded our market share in casualwear, through the launch of Indigo Collection and have listened and responded to our customers' demands for more versatile investment pieces. We've remained focused on refining our brands to deliver the right looks for all our customers.

Womenswear value market share

10.7%
+0.2% pts

Volume market share

9.1%
–0.1% pts

QUALITY

Above: Speziale Our per una Speziale label is inspired by chic Italian design

Year in review

Over the last year our customers have continued to weather the difficult economic environment. Though they remain cautious about the outlook, women have begun to show signs that they feel more confident about spending on their wardrobes again, searching out investment pieces that offer long-term value, such as coats and leather boots collectively growing by 14% on last year.

In response to this trend our Autograph range, known for its luxurious fabrics and high level of detailing, has performed well with sales increasing by 3.9% over the last 12 months. We've introduced customers to the two top Italian designers behind the per una, Speziale label, Lorella and Cinzia de Rosa and produced a new couture inspired collection to cater for customers looking for unique investment items.

However, our customers still want the option of good opening price points, so they can be flexible with how they spend their individual clothing budgets. We continue to differentiate ourselves from other womenswear brands through our pricing hierarchy, offering something for everyone through our 'good', 'better' and 'best' price points.

For example, at £15, a cashmilon™ long sleeve knitted cardigan falls into our 'good' pricing category. A chunky knit open front black cardigan at £29.50 is an example of 'better' pricing; while an Autograph pure cashmere scoop neck cardigan at £59 is a 'best' price point.

Over the last 12 months, we have reviewed the pricing mix in womenswear in response to changing shopping habits. We've maintained our level of competitive opening price points but have strengthened our position in 'better' and 'best' in categories such as knitwear, as customers have shown more willingness to trade up.

Versatility

Women have told us they want their wardrobe to work harder for them and our emphasis on quality and value has served us well. We used our spring 2010 advertising campaign to highlight the versatility of our womenswear range, demonstrating how a simple pair of black cropped stretch trousers at £18 can be styled from day to evening.

Over the last year, products that lend themselves to both dressed-up and dress-down looks have proved popular with customers and wardrobe staples such as tunics, leggings, and casual shirt dresses have been among our best sellers. This year has also marked the return of the day dress as customers responded to the value offered by a one piece item that can be transformed using simple accessories.

VALUE

Right: Wardrobe Solution Our Indigo Collection day dress at £39.50 can easily be dressed up or down.

Tribal prints Hot off the catwalk tribal and animal prints are a fierce fashion trend for Summer 2010. We've translated this look across our womenswear range, such as the featured linen Blend Abstract Print Textured Tulip Skirt at £25. Modelled by VV Brown.

YOUR M&S

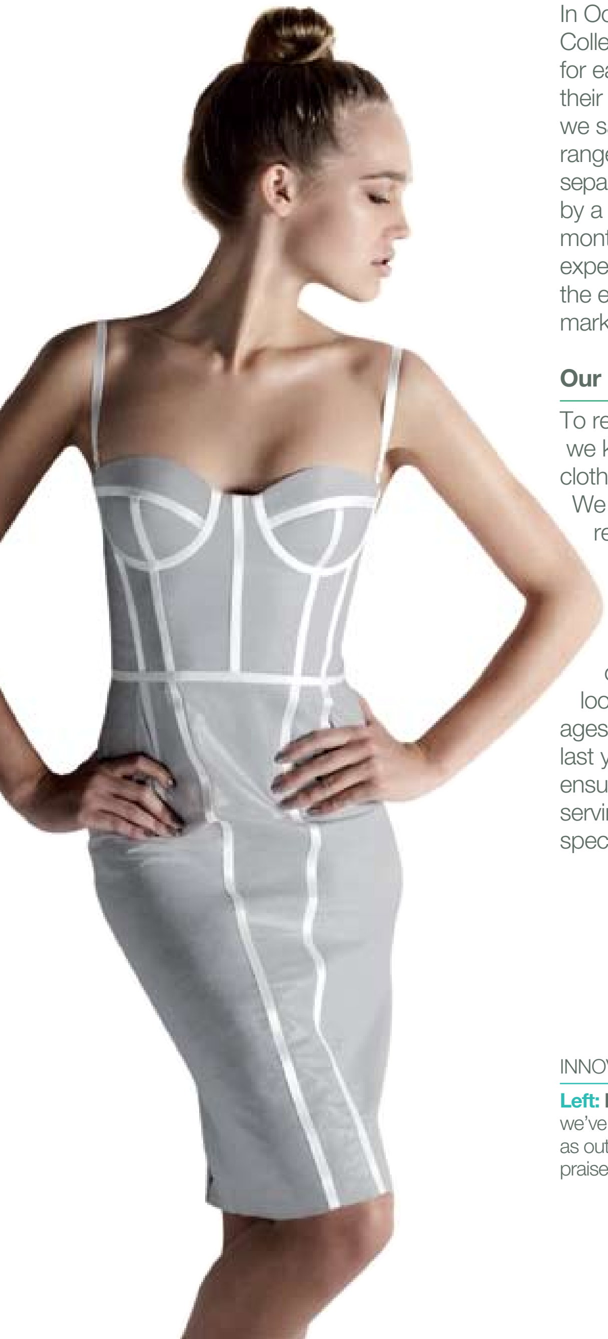
Find out more at
marksandspencer.com

What we sell

Womenswear continued

VALUE

Right: Quick fix Women loved these on trend studded leather ankle boots, a simple solution to bring an outfit right up to date.



Indigo Collection

In October 2009 we launched Indigo Collection to meet our customers' requests for easy-to-wear outfit solutions that fit with their busy lifestyles and to address the gap we saw in the casualwear market. The new range provides a selection of co-ordinated separates in a soft colour palette, underpinned by a strong denim collection. In its first six months, Indigo Collection has exceeded our expectations and its success has been at the expense of our competitors, as our market share in casualwear strengthened.

Our brands

To retain our position as market leaders we know we must continue to deliver clothing for 'Every Woman, Every Time'. We can only do this by listening and responding to our customers, so we continually assess our clothes through focus groups with women of all ages and lifestyles. It is through our brands that we can deliver on this promise – providing looks that appeal to women of different ages and with different budgets. Over the last year we have continued to work hard to ensure that each brand has a clear identity, serving a different customer and addressing specific needs.

Autograph A contemporary range, defined by luxurious fabrics, a high level of detailing and sleek modern silhouettes. It remains popular among customers in search of stylish career, occasional and weekend wear.
Classic Aimed at our more mature shopper who wants comfortable, co-ordinated designs for all occasions.
Indigo Collection This new brand provides a complete casualwear range. Myleene Klass promoted the launch with an Indigo Collection roadshow giving shoppers across the UK practical tips on putting together a relaxed, casual look.
Limited Collection Our fast fashion range is always first with the key catwalk trends of the season. Over the last 12 months it has continued to deliver a bold, confident look, which is regularly refreshed in store. The range sells to fashion devotees of all ages, but has enabled us to further grow our younger customer base.
per una This remains our most popular brand and last summer saw the launch of the first full collection designed by our in-house team. We have taken the brand back to its Italian roots and returned per una to its core values of being feminine and confident, with an emphasis on vibrant colour, embellishment and quality fabrics.
Portfolio Now in its second year, this stylish collection has successfully met our core customers' requests for a flattering, feminine range that was appropriate for their age and lifestyle and delivered a polished look.

INNOVATION

Left: Limited Collection corset dress This year we've responded quickly to trends such as 'underwear as outerwear' with our corset dress which was praised by the fashion press.

VALUE

Left: The year of the leg Hero products don't get more heroic than leggings, treggings and even jeggings. These lycra-based garments have become wardrobe staples for women of all ages and shapes. Combining comfort and fashion, they are a quick fix to update outfits and form the basis of lots of different looks.

Outfit building

Sales of footwear and accessories have increased during the economic downturn as women used them as a quick and easy way to update a tired wardrobe. We responded to this trend by selling more of our accessories alongside our clothing to better show customers how a whole outfit can be brought together.

Over the last year we have aligned our branded clothing ranges with footwear and accessories, making it easier for customers to build a wardrobe within their favourite brand.

Style credentials

Our style credentials underpin our entire womenswear range and in the autumn we took part in Vogue's Fashion Night Out, a global event where high fashion met high street. The year also included our collaboration with Zandra Rhodes, who designed two collections for us, based on the bright prints for which she is best known.

We marked our 125th year with our 'Dress of the Decade' campaign, a range of dresses inspired by our archives and the styles of bygone years. From Forties inspired polka dots to Eighties power dressing, we had something for everyone – proving that style and quality never goes out of fashion.

Responding to trends

Over the last 12 months we have built on our successful quick response supply base in Limited Collection. These improvements mean we are now able to add further embellishments as well as finer fabrics and yarns, bought from the Far East and India. Collections are regularly refreshed in stores, keeping our ranges firmly on trend. Our regional offices in Sri Lanka, India, Hong Kong and Turkey have played a large part in this strategy. They have helped streamline the approval process and enabled us to drive product development forward.

Better availability

As part of our 'Every Woman, Every Time' commitment we want to make sure our customers can have the product they want, in the right size, colour and style every time they shop with M&S. As part of our wider Business Foundation Programme, discussed on page 34, we have invested in our stock management systems. This will help us improve how we tailor products to individual stores and therefore improve availability.

Looking ahead

We are not complacent about our market leading position and we will continue to consult our customers to make sure we are delivering the right products for them. We will ensure our brands retain distinct identities, translating them across footwear and accessories, making it easier for customers to find the products they want in store. The investment we are making in improving availability will also help customers find exactly what they are looking for every time they shop with us.

The foundations we have laid mean we are well placed to capitalise on opportunities in the womenswear market. We will build on the success of Indigo Collection, which presents a great opportunity to grow casualwear over the next 12 months.

PLAN A: SWAP SHOP

Since the launch of our Oxfam Clothing Exchange in January 2008 our customers have recycled over 4 million garments. The scheme offers donors money-off vouchers each time they recycle their M&S clothes at Oxfam and following the successful launch we have extended the scheme to include soft furnishings.

Oxfam

For more information about Plan A see p36 or visitmarksandspencer.com/ plana

What we sell

Lingerie

Lingerie value market share

25.9%
+0.7% pts

Lingerie volume market share

18.9%
+0.2% pts

SERVICE

Above: Perfect fit We fit more bras than any other retailer and stock sizes to fit 99% of the UK's female population from 28AA to 40J. Over the last year we have retrained our fitting room staff across the country and conducted mystery shops to improve our service. During this time we've seen our market share continue to increase.

PLAN A: ECO FACTORY

Our supplier's Sri Lanka factory was the world's first 'eco factory' devoted to making lingerie. From its compressed earth bricks, which require no kiln burning, to its rooftop of grass and medicinal plants, this revolutionary building is designed to use less electricity and water than other clothing factories. We now have four General Merchandise eco factories supplying M&S products.

For more information about Plan A see p36 or visit marksandspencer.com/plana

When it comes to lingerie we are the UK's number one choice, with one in four women buying M&S underwear. In an ever competitive market we have grown our volume market share to 18.9% and value market share to 25.9%. We make sure we stay half a step ahead of the market by responding quickly to trends and delivering innovation.

Our brands

A clear, confident approach drives our lingerie business and this year we've worked to better align lingerie with our womenswear brands so customers can more easily recognise their preferred brand:

Autograph A sophisticated collection with detailed finishes and luxurious fabrics.
Limited Collection Our most fashion focused collection, which over the next year will replace the existing Ceriso range.
per una A vibrant collection, which now has a greater focus on pretty detailing.
Portfolio Launched last year, the range offers flattering, feminine styles. The Adored range has now been brought under the Portfolio label.
Body Solutions Our shaping range, famous for its innovative 'secret support'. This year we've worked to make the range prettier, as well as practical.

Pricing

We understand that different women invest different amounts in their lingerie and we cater for this. They can purchase cotton knickers for just £1.50 and a bra for £7 at the M&S quality they expect. However, for those in search of something more special, we offer luxurious, silk collections, especially under the Autograph brand.

Trends

Last year we reduced our lead times to eight weeks in some areas, allowing us to respond more quickly to trends. This year we've focused on turning around key fashion looks to bring more Womenswear shoppers into Lingerie and vice versa. For example, 'Worn to be seen' (featured above) capitalises on the trend for underwear as outerwear. Although this range is stocked in our Lingerie departments it is showcased on womenswear mannequins to improve cross-selling.

Driving footfall

Hosiery remains a key footfall driver for us and sales have again grown year on year. Sales of coloured and patterned tights have fared well in a tougher climate, offering women an easy and affordable way to update their wardrobes. Sales also received a boost during the cold snap in early 2010.

Innovation

Our success in lingerie is founded on our continued emphasis on innovation. New for summer 2010 is our backless bra – the design uses pivotal technology, anchoring the bra to the body through silicone lined straps. A first to the UK market, it provides the ideal lingerie solution for dramatic low backed designs.

We have developed our shapewear lingerie through the introduction of body solution products such as an anti-cellulite waist and thigh clincher. The range responds to fashion trends and this year we've launched skinny jeans shaping shorts and 'secret support' magic leggings to help give customers the confidence to wear the styles they want. Sales of our 'No VPL' range have also benefited from slim fit fashions, up 30% this year.

Looking ahead

We will continue to lead the way in innovation, developing the lingerie solutions women want. Our customers will experience the benefits of the improvements we have made in our fitting service this year. A closer alignment with womenswear has created a stronger brand identity and we will continue to build on this. As ever, we will listen and respond to our customers, ensuring we remain their favourite for underwear.

What we sell

Menswear

Menswear value market share
10.4%
+0.2% pts

Menswear volume market share
13.0%
Level

INNOVATION

Above: Before the gym kicks in The post-Christmas launch of our Bodymax Shaping Vest grabbed the media's attention, featuring on the front page of the Daily Telegraph and even making waves Down Under, with a ten minute slot on the product featured on Australia's Channel Nine.

Above: New face in Menswear In March 2010, Jamie Redknapp was named as the new face across our menswear range.

We remain the market leaders in menswear and this year have grown market share by 0.2% to 10.4% by value and maintained 13% by volume. Our leadership position is underpinned by our ongoing commitment to quality, value, and innovation. This year we have focused on improving our style credentials, sharpening our market leading tailoring offer and brands. As a result we have broadened our customer base both in terms of age and lifestyle.

Our brands

This year we have used lessons from womenswear, to help us refine our menswear portfolio to ensure it meets the needs of all our customers.

Autograph This collection is sharp and contemporary and throughout the year we have used designer collaborations to inject freshness into the brand.
Blue Harbour We have taken Blue Harbour back to its roots, providing classic casual styles aimed at our core customer.
Collezione In February we re-launched Collezione, reviving its Italian inspired origins. Designed to help men pull together a sophisticated, co-ordinated wardrobe, it has been extended to include leisurewear and accessories.
Limited Collection Following a successful trial in January, the brand will roll-out during 2010. Focused on tailoring, it provides fast fashion suits with a modern, slim silhouette aimed at a younger male customer.
North Coast Re-launched this year to address a similar need for casualwear as Indigo Collection has in womenswear. Focused on soft colour palettes, knitwear and denims, its revamp has strengthened our position in the casualwear market.

Responding to customers

With M&S comes an expectation of quality and in Menswear this extends across our fabrics, styling and fit. This year, some of our customers told us they loved our shirts but wanted a slimmer fit option. In response we worked with our tailors to deliver a slim-fit range and within a week of launch, two of our new shirts were among our top five best-sellers, delivering incremental sales. We have now introduced a slim-fit cut to other ranges, including tailoring and denim.

Innovation

Continued innovation has helped maintain our position as market leaders. This year we developed Bodymax, a revolutionary range of shapewear for men. Products contain a hidden 'stomach control panel' to help create a slimmer silhouette. The range lends itself to the slim-fit styles we've translated from the catwalks.

Design

Designer collaborations offer our style conscious customers key seasonal pieces that are affordable and great quality.
Our collaboration with leading London based designer, Jsen Wintle, combined the contemporary Autograph look with the designer's use of subtle colours and couture cuts. To mark our 125th anniversary we celebrated the best of British tailoring with our 125 Collection, designed by Savile Row tailor Timothy Everest.

Accessories

This year we have seen a move to outfit building and believe accessories and footwear offer a growth opportunity.
We are market leaders in formal tailoring, with a 20% market share and this year we have focused on delivering a stylish formal footwear range, with a view to bringing our footwear market share in line.

Looking ahead

With clear brands in place we remain on track to grow our Menswear business.
We will continue to refine our ranges to ensure we are offering what our customers want. Quality is increasingly important to our menswear shoppers and we will continue to drive innovation to ensure M&S remains not only good value, but delivers something extra special.

What we sell

Kidswear

Kidswear value market share

6.1%
+0.7% pts

Kidswear volume market share

6.3%
+0.4% pts

INNOVATION

Above: Living the Dream In April 2010 we launched our Living the Dream boyswear range, in association with the Vodaphone McLaren Mercedes Formula 1 team and World Champions Jenson Button and Lewis Hamilton.

PLAN A: ECO SCHOOL UNIFORM

Our top-to-toe recycled school uniform was a high street first, which used polyester made from recycled plastic bottles in the blazer, shirt, skirt and trousers. Our E-leather shoes are made from leather waste that would usually end up in landfill.

For more information about Plan A see p36 or visit marksandspencer.com/plana

It has been another strong year for kidswear and we have grown market share to 6.1% by value, up 0.7% and to 6.3% by volume. We are number four in the kidswear market and have retained our number one spot for schoolwear, against stiff competition from the supermarkets. We are committed to reclaiming our position as the first choice store for parents in search of quality, on-trend, great value kidswear.

Brand clarity

Parents come to M&S for all the landmark stages – for newborn clothing and school uniforms, partywear and teenage outfits. Our kidswear must deliver the right products for all these phases, as well as the practical, everyday clothing kids need, like our essentials, nightwear and footwear.

Over the last 12 months we have worked to make our kidswear brands easier for parents to identify and more closely aligned to our adult clothing ranges.

Autograph Stylish pieces for both boys and girls. This range provides, high quality, contemporary style that is perfect for special occasions.

Indigo Collection In January we launched the Indigo Collection brand across boys and girlswear, providing parents with mix and match casualwear that offers easy, everyday outfit solutions.

Girls Limited Like our adult Limited Collection, this is a trend-led range with an emphasis on providing accessible fashion.

Value and quality

Our focus remains fixed on delivering the best quality, hardwearing clothes for children, at great value. As always at M&S, value is never at the expense of quality and our schoolwear range is a good example of this. The starting price point for an entire school uniform remains at £6.50 and this includes a 100% cotton jumper, a polo shirt and a crease resistant skirt or pair of non-iron trousers.

Parents come to M&S above the competition for school uniform, so there is a natural opportunity to be the first choice for kids' essentials like underwear, socks and nightwear too. This year we have focused on growing our market position in this area, with sales up 16.9%.

Fashionability

We know from speaking to our customers that the 'fashionability' of kidswear is increasingly important to them. To keep our ranges firmly on trend, we've worked closely with our regional office in Turkey to help us reduce our lead times. As a result, the entire process of designing a product, making it and delivering it to store can take as little as eight weeks.

Destination shopping

Busy parents want to quickly browse and buy and with this in mind, our Home division launched 'Kids at Home' in November 2009 in 37 stores. 'Kids at Home' displays our clothing, toys and kids interior collections in a lifestyle setting to make it easier for parents to shop. Further to this, Kidswear collaborated with the Home division to launch 'My Unusual Friends' – a nursery and babywear range designed by children's illustrator and author of Humphrey's Corner, Sally Hunter.

Our research has told us that many parents like to shop at home online, once their children have gone to bed. As a result, we are placing more emphasis on developing our multi-channel kidswear offer and are increasing sales as a result.

Looking ahead

We remain committed to becoming the number one destination for kidswear in the UK. We will do this by building on our achievements so far continuing to refresh our ranges and providing excellent choice, fashion and value for money.

What we sell
Home

Total Home Sales

£546.1m*

+2.1%

includes Beauty, which was not stated as part of the 2008/09 Home sales figure.

M&S Home has performed well in a difficult market with sales up 2.1% on last year. During 2009/10 we have improved the way we showcase our offer, selling more home products in a lifestyle setting alongside food and clothing ranges. A new management structure has also helped us build closer links between our clothing and home design teams. The strength of the M&S brand has enabled us to expand further in energy and technology, launching a new Home Energy Services division this year.

The market

The static housing market meant more customers embraced the 'Improve don't Move' trend. From tableware to bedding, we provide co-ordinated mix and match products to help customers build an updated look for their home in line with their budget, with sales of core products such as curtains increasing by up to 85% on some ranges.

Fashion and design

Our Home and Clothing divisions now sit under the same management structure, enabling us to better apply the lessons we've learnt in clothing. This year we've worked with our regional offices in Turkey to reduce lead times and respond more quickly to trends. Closer links with clothing have ensured we better reflect the latest fashions, colours and fabrics in our products.

Showcasing the range

Displaying our entire Home range is a challenge given the square footage requirements. We have continued to address this, opening two new M&S Home stores in Aberdeen and Cheltenham, with Tunbridge Wells due to open in autumn. There are now five M&S Home stores, with a further 413 carrying homeware products.

Our Home catalogue and website play a vital role in helping customers browse our range. We have improved the online experience, introducing fabric swatches and e-catalogues, as well as offering more exclusive online deals. As a result online sales increased by 20% and 11% year on year across Home and Beauty respectively.

We have collaborated with other M&S divisions to showcase our Home offer better. We launched a Spa range in partnership with Lingerie, selling bathroom favourites like towels and sponges as well as spa wear. We also launched 'Kids at Home' explained on page 22.

Extending the range

Technology: Customers trust us to provide an easy to shop, edited technology range, including the best quality branded goods and M&S own label products. This year we set a target that all of our home electrical products will carry a credible energy efficiency rating by 2015.
Energy: This year M&S Energy customers have grown from 65,000 to almost 300,000. In January, we launched a Home Energy Service division offering a range of energy efficient products such as loft insulation and solar panels.
Beauty: In spring we re-launched our skincare offer in 30 stores and brought our existing cosmetic ranges, under one new brand Perfection. We've also improved our bath and body products offer, with sales up 14%.

Looking ahead

We will continue to strengthen our Home offer so we are in the best possible position when confidence returns to the housing market. We will build on our work with other parts of the business to showcase products to customers better and will continue to take advantage of growth opportunities. All of this will be supported by our online offer, which will play an even bigger role in helping customers make buying decisions.

QUALITY

Above: Sally Bendelow, Head of Home Design at M&S. "Working closely with our clothing design team, we've translated the key trends of 2009/10 into our Home range, such as our 'In Bloom' selection, which picked up on the floral prints and vibrant colour palettes seen on the catwalk this year."

INNOVATION

Above: Tess Daly In October we launched our award-winning range of Tess Daly beauty products designed to help skin glow. Over Christmas a product from the range was sold every 30 seconds.

* 52 weeks.

What we sell

Food

John Dixon Executive Director, Food

Over the last year we have strengthened our position as the leading retailer of fine quality fresh food in the UK. Our Food business has now returned to growth and we have delivered consistent improvements in like-for-like sales over every quarter. At the same time we delivered volume growth of 3% as customers put more of our food in their baskets than they did a year ago. We have achieved this by listening to our customers and giving them the best quality food at great value for money, while continuing our focus on innovation, healthy eating and ethical sourcing.

UK Food sales

£4.3bn*

+1.8%

Food value market share

3.8%

-0.1% pts

QUALITY

Above: Christmas wouldn't be Christmas without your M&S. Our Christmas and party food was awarded the top rating in a Daily Mail comparison against all the UK's supermarkets.

PLAN A: BRITISH GROWN MELONS

Exclusive to M&S, the first ever British melons were grown reusing the soil bed and plastic tunnels from the earlier British strawberry crop – so it is not only a great tasting fruit but it also allows the farmers to produce two crops from their land.

For more information about Plan A see p36 or visitmarksandspencer.com/plana

Year in review

Last year we laid down our plans to drive the M&S Food business out of the recession based on our founding principles of Quality, Value, Service, Innovation and Trust. We invested in margins to offer our customers even better value while retaining our commitment to deliver the best quality food on the high street. We launched new ranges like Simply Fuller Longer, improved our service by making our offer more convenient and more complete, and remained focused on our strong environmental and ethical principles. This approach has seen us return the business to positive like-for-like growth for the first time since Q2 2007/08.

Our customers remain cautious about the economic outlook, but we have seen signs of increased confidence in their spending. This has translated into a renewed trend for buying treats and greater indulgence around special occasions. Celebration and Eventing categories delivered 8% growth on last year and the new ranges of luxury cupcakes and layer cakes have driven significant additional sales.

Our lower prices allowed customers to both indulge and economise across the M&S Food offer. Our 'Wise Buys' range continues to underpin our value proposition – demonstrating our price competitiveness on everyday products, whilst retaining the highest M&S quality credentials.

Customers turn to us for restaurant quality food and inspiration as they opt to dine at home more often, rather than eating out.

We also provide a range of cooking solutions. For customers cooking from scratch, we have expanded our range of raw ingredients and also introduced ranges of authentic pastes and marinades. For those in search of a more convenient option, we have increased choice in our Cook! range and remain the market leaders in restaurant quality, fully prepared ready meals.

QUALITY

Delivering great quality food has always been at the heart of our business and this year we have given our customers the highest quality without cutting corners. We are the UK's leading quality food retailer and independent research from Millward Brown shows that customers turn to M&S ahead of the competition when they want food that delivers something special.

M&S leads the field in home cooking solutions and convenient ready meals. Against an increased level of competition our quality sets us apart. We achieve this through first to market launches, like 1234 Cook, which allows customers to build the meal from a selection of the finest, easy to cook mix and match products and by the continual upgrading of core ranges. This year we improved our Gastro Pub Shepherds Pie, moving from lamb mince which included a selection of cuts – to slow cooked, shredded lamb shoulder. The change provided more texture and a deliciously rich home-cooked flavour and sales have increased by 11%.

In autumn we began a trial of fresh meat and fish counters in Meadowhall, Sheffield, and Bluewater, Kent. Not only is this a great way to showcase the quality of fresh meat, fish and rotisserie chickens; it also offers our customers a more personalised service and improved in-store ambience.

* 52 weeks.

Clickstart to health The launch of our Simply Fuller Longer range, pictured below was accompanied by our first ever health website. Designed to encourage customers to manage weight sensibly through balanced menu planning the site offers healthy recipe ideas, nutritional advice and practical tools.

YOUR M&S

Find out more at marksandspencer.com/health

What we sell

Food continued

VALUE

Above: Budgeting – At M&S customers can opt for Pork Sausages at 97p or Outdoor Bred Pork Sausages at £2.69

SERVICE

Above: Hospitality Our customers can also enjoy M&S food in store at one of our deli bars or M&S cafés – the UK's third largest coffee chain.

VALUE

Last year we invested in margin to improve our prices whilst maintaining or improving the quality of our food.

We extended 'Wise Buys' to highlight our great value on every day products with guaranteed M&S quality. There are now around 600 items in this range representing about 10% of our offer, including milk, eggs, bread and meat. We run a weekly price check against the competition to ensure they remain competitive and customers can see this comparison in store on our price tickets.

Over the last 18 months the wider food market has experienced high levels of price inflation. As we expanded 'Wise Buys' and continued to improve our values, we were the only food retailer to reduce prices during this period.

Much imitated by competitors, our original 'Dine in for two for £10' promotion remains a firm favourite among M&S customers. We have built on the success of this promotion, adding new lines and expanding the deal at special occasions such as a Mother's Day roast dinner for four at £15 and a stunning Valentine's Day menu that included treats like scallops, champagne soufflé, fine wine and a gift. Over half a million couples celebrated with the Valentine's menu all for just £20.

Dine-in promotions remain one of the key drivers of footfall and we continue to look at new ways of encouraging our more occasional Dine-in shoppers to become more regular ones. For example, this year we extended this promotional format to more everyday meal combinations, such as casserole, mash and vegetables for £5.

SERVICE

Range

We aim to deliver a service that matches the high quality of our food and we are doing this by listening and responding to our customers. We know how important it is to meet the needs of our regular shoppers, giving them an enjoyable shopping experience every time.

Feedback showed that customers love M&S food and wanted to do more of their weekly shop with us. To help them do this we have broadened our food range by extending our own label products such as dried herbs and ingredients and introduced a greater choice of frozen goods. Following a successful trial, we are also rolling out a selection of 400 carefully chosen branded products to all our stores by the end of this summer, so customers can now pick up their favourite brands like Coke or Ariel, alongside all the M&S ranges.

Branded products will be focused in areas where we have lower market share such as beers and pet food or where we have no equivalent product, like Marmite. Importantly, no M&S products have been discontinued to make way for branded goods. All branded products have been price matched against the competition and we are confident that any own label equivalent products compare favourably alongside these brands, demonstrating clearly to customers the great value of the M&S products.

Since launch, branded goods have been a welcome addition, improving convenience for customers and increasing the average number of items bought during each visit.

Better availability

This year we have improved on shelf availability largely through restructuring and retraining our merchandising and allocation teams. At the same time as delivering improved sales and better availability we have managed to reduce levels of waste. Over the next three years we believe there is a big opportunity to improve this further and we are introducing new IT systems to improve our forecasting and ordering processes.

We want to make sure we display our ranges in the best possible way to demonstrate the breadth of our offer. We have now put in place a new Ranging & Display team to ensure we achieve this.

INNOVATION

M&S is recognised as a leader in product innovation and this year we have set ourselves the ambitious target of renewing 25% of our total food range every year. This keeps many customers coming back, as they return to see what is new and exciting in store. This year we launched first to market ranges, pioneering products and updated old favourites, as well as adding 1,700 new lines. In January 2010 we launched Simply Fuller Longer – a new, exclusive to M&S range developed with the Rowett Institute at Aberdeen University, to provide meals that are nutritious and keep you feeling full.

QUALITY

Above: The Great British Breakfast This year we committed to sourcing all our bacon, sausages and eggs from British farmers. It reflects our confidence in the quality of these products, and makes us the first retailer to offer 100% British across these ranges.

TRUST & INNOVATION

Above: Chocolate Butterflies We pride ourselves on being first to market with innovative, sustainable products. We were first to launch a chocolate wrapper that grows into flowers. The wrapper's paper packaging includes seeds that grow into Candytuft flowers, which attract butterflies.

INNOVATION

Below: Soft Brews Available in citrus, apple and blackcurrant flavours, soft brews are produced in the same way as beer. However, by stopping the process before fermentation they have all the taste but none of the alcohol.

Each dish contains a carefully calculated balance of proteins and carbohydrates to help you lose weight as part of a calorie controlled eating plan.

We know health is a consideration in 40% of all food purchases and we are already seeing new customers buying the range, with hearty portion sizes appealing to men. Its popularity has not been at the expense of Count on Us, where sales have increased by 13%.

In September 2009 we launched the M&S Sweet Shop, complete with the first ever confectionery range to be 100% free from artificial flavours and colours. The range includes old favourites like cola cubes and milk bottles. Our confectionery performance has subsequently improved by over 5%.

We also introduced customers to black apricots and peppers with high levels of vitamins A, C and E, as well as baby pears and the flower sprout – a cross between a brussel sprout and kale, named exclusively by Good Housekeeping readers.

TRUST

From clear product labelling to our dealings with suppliers, customers trust us to do the right thing. As we set out on page 36 of our Plan A section, our environmental and ethical credentials are an essential feature of the food we sell.

We have had a sustainable fishing policy for over a decade and this year became the first UK company to sign the World Wildlife Foundation (WWF) Seafood Charter to work towards our objective of sourcing all seafood from Marine Stewardship Council or other sustainable fisheries by 2012. Over the next year WWF will work with us to evaluate the sustainability of our fish products and identify and develop more sustainable sources.

We continue to source our fresh produce from the UK and wherever possible locally. For example, we now sell UK grown flowers all year round, such as our Autograph bloom chrysanthemums grown in Cheshire. We have also sourced sugar snap peas from British growers for the first time.

Looking ahead

M&S has always been synonymous with innovation and we will deliver on our promise to renew 25% of our range each year, by anticipating and setting new food trends. We will ensure our stores offer the breadth of goods required by our customers, while continuing to build on our improved value position and further developing our promotional offers, to give our customers the best quality and excellent value for money.

Over the next two years, operational improvements will ensure we get more of the right products on to our shelves at the right time. By enhancing on shelf availability we will improve our customer service proposition so that it matches the high quality of our Food offer.

How we sell

Multi-channel

Our Stores, Total UK Portfolio:

690
10 Premiere
42 Major
242 High Street
46 Outlets
156 Simply Food (wholly-owned)
194 Simply Food (franchises)

New UK stores opened in 2009/10

30

Total square footage

15.4m

M&S Direct Sales

£413.3m*
+27%

Includes: Website, home catalogue, flower and wine delivery, Food to Order party catering service, lunchtogo and call centres

SERVICE

Above: Catwalk style Customers told us they loved shopping online with us, but that static images made it hard to tell if an item of clothing would suit them. As a result, we've introduced catwalk style videos so customers can view the product from every angle and better envisage how it might look on them.

Multi-channel: This year we have brought all of our shopping channels under the same management to allow us to focus on becoming a seamless multi-channel business, providing customers with the same high quality service every time and whichever way they choose to shop with us. We've delivered another strong performance in our Direct business, increasing sales by 27% to £413.3m and remain on target to achieve £500m by 2010/11. This year we've also launched 'Shop Your Way', to provide customers with more flexibility and choice in their delivery options.

Driving a Multi-channel business

Customers shop with M&S in many ways. Whether they are shopping in store, at home, in the office or over the phone, our aim is that every customer receives the same consistently high level of service from purchase through to delivery.

Shop Your Way

Launched on a trial basis in July 2009, our 'Shop Your Way' service enables customers to place clothing, beauty and homeware orders either in stores, online or over the phone. They can then opt for delivery to either a nominated address or free to their nearest store for collection.

Since roll-out, the latter has proved very popular, with around 13% of customers who order online choosing to collect in store and driving footfall as a result.

'Shop Your Way' has been welcomed by smaller stores, as the service brings the wider M&S product catalogue to their local customers. Weekly orders now stand at £2.5m and following the successful trial, 'Shop Your Way' has been rolled-out to over 300 UK stores, with a roll-out to Simply Food stores underway in 2010.

Online

In October 2009 we relaunched our website, responding to customer demands for a more engaging, interactive web experience.

The refresh included the introduction of catwalk videos and rotating images to enable customers to see clothes from every angle. We also introduced a more powerful and flexible search facility allowing customers to search by department for faster and more accurate results. The upgrade includes stock availability information to help avoid disappointment. A pop-up shopping basket means customers can now automatically view and buy their selection without being diverted from their shopping page.

Following the upgrade, the site was ranked the UK's most user-friendly retail website in the 2009 Webcredible survey, up from eighth in 2008. The improvements have also increased revenues, with conversion rates up 9% since launch. Online clothing market share has also increased from 5.3% to 5.6%.

QUALITY

Left: Swatch this space As part of our website upgrade customers can now view actual fabric swatches for products across our Home range. The high clarity images provide a more accurate depiction of colour and pattern, giving customers greater confidence in their purchase. Since launch Home sales online have increased by 20%.

* 52 weeks.

Green stores In line with our Plan A commitments all our new stores are built to the highest environmental standards. Our Westfield store (featured below) includes a displacement ventilation system, low energy lighting accompanied by sensors and controls and CO_2 food refrigeration.

Find out more at
marksandspencer.com

How we sell

Multi-channel continued

Above: Wine Club The M&S Wine Club has gained a loyal following since its launch in 2008, with over 10,000 subscribers. Our Wine Plan now offers customers the choice of a contemporary or premium plan, providing a hand picked selection of fine wines conveniently delivered direct to their door on a monthly basis.

Launched in February 2009, M&S TV is part of our website and uses video to showcase our latest products and services, using M&S experts to give advice on everything from how to accessorise an outfit to cooking the perfect Christmas dinner.

M&S TV features a Click-to-Buy function that allows customers to quickly buy what they see on screen, with click-through rates as high as 30%. M&S TV content has appeared on Facebook and Twitter and in December we launched a YouTube channel, to further extend the reach.

Talking to customers

As part of the site refresh we also increased the prominence of our customer product ratings and reviews. We know our customers value these independent views and that they can boost conversation rates, as customers that have read a product review are twice as likely to buy than customers that haven't.

We have also embraced broader social networking opportunities such as Facebook and Twitter. We currently have over 112,000 fans on our Facebook site, which provides the ideal forum for us to test new product ideas and tap into the opinions of an engaged customer base.

INNOVATION & SERVICE

Left: M&S goes mobile As traditional online retail matures, mobile is expected to become the growth area for internet retailing and in May 2010 M&S become the first major UK high street retailer to launch a mobile shopping site. Customers on the move are able to search, browse and buy easily from any web-enabled mobile phone or device. The site is always in sync with the main M&S website so that customers can log into their regular online account and manage their shopping basket from their mobile.

Home catalogue

The circulation of our Home Catalogue continues to grow, reaching over 1.6 million customers this year and acting as a source of ideas and inspiration. Given the square footage requirements of furniture, it's not possible to showcase our full Home offer in all stores but our Home catalogue is an opportunity for customers to view the entire range at their leisure.

M&S Home Catalogue was named Best Catalogue at the 2009 Association of Publishing Agencies (APA) International Customer Publishing Awards.

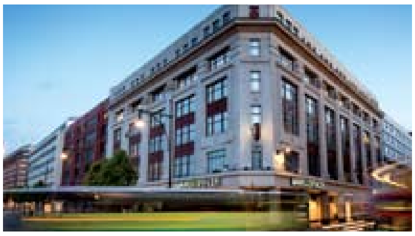
International delivery

In October 2009 we expanded our international delivery service and we now deliver to 80 international destinations, from France, Germany and Spain to Africa, USA, New Zealand, Australia and Canada.

Store strategy

Our stores remain the most popular way for customers to shop with M&S, with 21 million customers visiting us each week. There are five main elements to our store strategy:

- add new and extend existing major out of town stores
- enhance our position in major cities
- extend our presence in retail parks
- continue and complete our high street modernisation strategy and review stores that underperform
- continue to build on our successful long-term Simply Food business.



SERVICE

Above: Putting customers first Customer service has improved throughout the year, according to our mystery shopper scores, which are up 5% on last year to 89%.

Our stores

Over the last five years we have conducted an extensive modernisation programme and to date almost 80% of the M&S chain has been updated. Our aim is to deliver a bright, contemporary shopping environment where goods are easy to find and where a range of hospitality options are on offer.

Where possible we have added additional space to our existing sites. Over the last 12 months we have undertaken major developments of both our Liverpool store and Pudsey store in Leeds, adding over 27,000 sq ft to these two sites alone.

This year we obtained planning permission for a new 150,000 sq ft store in Cheshire Oaks. Due to open in autumn 2012, Cheshire Oaks will be a state of the art store, designed in line with our environmental credentials. It will be our largest store outside London – our flagship Marble Arch store (pictured above) is 170,000 sq ft, whereas an average M&S store is around 45,000 sq ft.

We have responded to the popularity of retail park shopping, opening at four new retail park sites in Swindon, Bristol, Cheltenham and Aberdeen. We now have 30 stores in retail parks and plan to open new stores at Haverford West and Tunbridge Wells during 2010/11.

Our Simply Food stores, which are a mixture of wholly-owned and franchised stores, continue to perform well. With our franchise partner SSP we have expanded our Simply Food offer into hospital sites, opening three successful stores at St Georges' in Tooting, St Thomas' in London and the Royal Berkshire in Reading.

Our cafés and restaurants now offer coffee and snacks as well as a sit down meal. They are inviting and encourage our customers to relax and spend longer in our stores.

Service in store

We are committed to maintaining the highest standards of customer service and to do so, all of our stores are visited once a month – twice in the case of flagship stores – by mystery shoppers. Staff are scored on a number of factors, such as service at the point of sale, body language and how they welcome customers into store. Over the last 12 months customer service has improved, with an average mystery shopper score of 89%, up 5% on last year.

Foundations for growth

Our distribution network supports all of our shopping channels, ensuring we can fulfil customer orders and deliver efficiently.

In September 2009 we announced plans for a dedicated e-commerce warehouse, due to open in 2012. You can find more on the improvements we have made in this area on page 34 of the IT & logistics section of this report.

Looking ahead

Our aim is to make shopping with M&S as convenient as possible for our customers – from the way they buy through to the way products are delivered. By bringing together our channels we will provide them with even greater flexibility and choice, allowing them to shop in the way that best suits their lifestyle.

Integrating the channels also represents a significant opportunity for us, if we can grow the number of people that shop online with us to be equal to the number that shop in store. We will continue to capitalise on this opportunity by developing our services in line with changing shopping habits and emerging technologies. The M&S brand values also put us in a strong position to grow and develop in this area, as trust is essential in remote purchasing, be it via a mobile or on the internet. Our customers trust us to deliver, whichever way they shop with us.

INNOVATION

Right: Cheshire Oaks At 150,000 sq ft Cheshire Oaks store will be the largest new store built by Marks & Spencer for over 10 years. Due to open in autumn 2012 the store will offer extensive hospitality options, including a M&S café, restaurant and deli. It will also feature a 950-space car park.

Where we sell

International

SERVICE

Above: Product tailoring In India we sell polo shirts in three times the number of colour variations as we do in the UK, to cater for the local market's taste for bright colours.

M&S International sales*

£949.4m
+5.7%

M&S International as a share of Group revenue

10.2%
+0.3% pts

During 2009/10 sales in our International business grew by 5.7%, accounting for 10.2% of total Group revenues. This year we have focused on developing our partnership in India and growing our Central and Eastern European business. Over the last 12 months we have invested in our operational capabilities, resulting in a better product offer, tailored to meet the needs of specific markets, as well as building a platform for future growth.

SERVICE

Above: International mystery shopping This year we rolled out our successful mystery shopping programme to our international stores. We produced a tailored service manual and have seen continued improvement across the year, with scores now at 80% and we will be keeping up this momentum with regular visits.

SERVICE

Above: Fresh food Trading from 1,400 sq ft, the new standalone food store in Wan Chai, Hong Kong offers over 800 food and drink products. 300 of these are fresh chilled foods, including a choice of traditional British and international ready meals such as Italian and Indian. The store also boasts an in-store bakery that freshly bakes pastries and bread each day.

Growing our international business

In 2007/08 we set a target to grow our International business to between 15 to 20% of total Group Revenue within five years and over the last 12 months we have focused on four key elements to help us achieve this namely:

- growing our Central and Eastern European partnerships;
- building sustainable businesses in India and China;
- accelerating growth with our franchise partners; and
- continuing to explore new opportunities.

This year we have continued to expand our global footprint. We now have 327 stores in 41 territories (includes Republic of Ireland), with the average square footage of our international stores increasing from 10,773 to 11,129.

Our International business model is made up of partly and wholly-owned subsidiaries and franchises. This broad spread of ownership models and countries has enabled us to perform well throughout a difficult global economic environment even when individual markets have been impacted.

Improving efficiency

Operational efficiency is key to building a platform for growth. The introduction of our International Range Planner last year has improved our ability to tailor the product offer for individual markets. It enables us to plan for regional variations and accurately stock the right colours and sizes to meet the specific needs of our international customers, responding to seasonal requirements in Russia or greater colour variations in India for example.

Improvements in our supply chain have enabled us to move products through our network faster and more efficiently. We now move over 21% of our stock through our four international hubs in Hong Kong, Singapore, Sri Lanka and Istanbul direct to their destination, as opposed to shipping international stock via the UK.

PARTLY OWNED

Indian subcontinent

Expanding our Indian operation with our partner Reliance Retail has enabled us to transform our position in the market. Under our previous franchise relationship we were a small premium retailer selling UK products at higher prices from small stores. Through our partnership with Reliance Retail we have been able to open larger stores and realign our prices by locally sourcing up to 38% of our products, with an aim to reach over 60% by 2012. Local sourcing provides us with the flexibility to respond to market needs, for example in India pockets on shirts are common, as jackets are rarely worn in the heat, so we add these to locally sourced shirts.

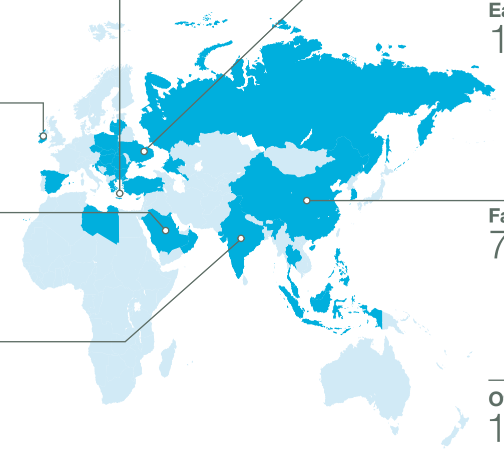
We have opened four new stores in India this year, giving us a total of 16 stores. We now have a strong platform in place from which to significantly expand our presence in this market.

India presents us with a huge opportunity – with a population of 1.2 billion and economic (GDP) growth at 7.2%. With the right product and the right partner we are well placed to take advantage of this.

* 52 weeks.

Our International operations

A net total of 34 new stores in 2009/10.



SERVICE

Above: Isha Tambe is store manager of our Mumbai store – our first store in India with partners Reliance Retail, which opened in April 2009.

Eastern Europe

In 2008 we bought controlling stakes in our Czech and Greek businesses and since then we have strengthened the management teams on the ground to create the right mixture of local and M&S knowledge.

Over the last 12 months our business with our Czech partner has grown, opening 10 new stores across the Czech group in Poland, Slovakia and Estonia, taking the total number to 36. Over the next year, we will continue to develop our presence in these regions, focusing on key cities in the Czech Republic, Poland and The Baltics.

Greece has been hit hard by the economic downturn. But we continue to work closely with our partner Marinopoulos Group to keep stocks tight and manage the business, to give us more flexibility in this environment.

WHOLLY-OWNED

The Far East

In 2008/09 we opened our first store in Shanghai. Since its opening, we have developed our knowledge of local trading and put in place an infrastructure to support sustainable growth in this market, including a new warehouse and a strong head office team. In the short-term, we will focus on developing our presence in Shanghai and plan to open a second store in the city in summer 2010, with an aim of opening a third by the end of the 2010/11.

The potential in China is similar to that of India, with a large population and economic (GDP) growth at 8.7%. This year we have focused on adapting our product to suit the needs of the local market. For example, we have introduced size 6 and size 4 across womenswear to cater for smaller size requirements and are developing 'Asian fit' bras for the market. We will continue to improve our product tailoring, through increased local sourcing.

Our Hong Kong stores have delivered a strong performance, despite the economic pressures in the region. Following the successful Food to Go trial, in May 2010 we opened our first standalone food store in Hong Kong. The new store offers a comprehensive range of chilled products, a first for M&S in the international market. We now have 11 stores in the region and plan to open a further store later in 2010.

Republic of Ireland

The economic environment in Republic of Ireland continued to be challenging. However, our pricing remains competitive and we responded to the changes in alcohol duty and VAT, offering an immediate reduction to our customers ahead of our competitors.

FRANCHISING

Our franchise operations now account for around 31% of total International sales.

With Fiba, our franchise partner in Turkey, the Ukraine and Russia, we have had a very good year and have opened eight new stores.

Al-Futtaim, our partner in the Gulf, has had a tougher year. Our stores there performed strongly until the autumn, when the Dubai economy faltered. However, we remain confident about this market – there is an affluent customer base and we have a strong property portfolio, including a number of larger stores, enabling us to showcase more of the product range.

We have a long established franchise business in The Channel Islands, with the rest of our franchise business located in a variety of locations, including Tenerife, Marbella, Gibraltar, Bermuda, Cyprus and Hungary.

Looking ahead

We want to build a platform for long-term growth and to do this we know we must continue our international expansion at a sensible pace. Emerging markets represent a great opportunity for M&S and we will focus on creating sustainable businesses in these countries. We will ensure our products are right, editing ranges to suit our markets and responding to the unique price architecture of each country, locally sourcing wherever possible. We will continue to grow our property footprint, increasing the average square footage of our stores. All of this will be underpinned by an efficient operating model.

Efficient delivery

IT, Logistics & Supply Chain

PLAN A – TEAR DROP TRUCKS

The fuel used in logistics transport accounts for around 8% of our operational carbon emissions. We've already achieved our 2012 Plan A target – a 20% improvement in delivery fuel efficiency to our stores – and this year extended it to a 35% improvement by 2015. We've introduced a number of initiatives to help as achieve this such as a dual fuel trial for our Tear drop trucks. We've also adopted 'loose loading', enabling us to increase the stock carried on each truck by 50%, reducing the number of journeys required.

For more information about Plan A see p36 or visit marksandspencer.com/plana

QUALITY & TRUST

Below: The Cape flora bouquet is arranged from seasonal flowers sustainably harvested from the Agulhas region of South Africa. The Cape floral kingdom is the smallest plant kingdom in the world but contains the highest known concentration of plant species – more than 9,000 plant species make up the region, 6,000 of which are found nowhere else on Earth.

In October – under Project 2020 – we set out a clear plan to deliver long-term sustainable growth through creating a more efficient IT and supply chain infrastructure. In recent years we have invested in upgrading the inefficient, 20 year old systems that supported the business. This year we have begun to accelerate the pace of activity to fundamentally transform the way M&S does business.

Over the last 12 months we have focused on our immediate priorities – restructuring our supply chain, implementing new information systems and improving operational execution. These investments will lay down the foundations for future growth, especially in Multi-channel and International, as well as delivering tangible customer benefits, such as better availability and more flexible delivery options.

Supply chain

Our business operations have changed dramatically in the last decade – there are faster lead times, a wider range of products and extensive growth in both our International and e-commerce businesses. This year, we set out plans to restructure our supply chain to better support these changes. Our aim is to build a simpler supply chain that will improve customer availability and create a more efficient platform for growth. In addition these changes will deliver annual savings of £150m.

We have made good progress in 2009/10 and have saved £35m by consolidating some of our warehouses and implementing a number of efficiency projects.

Consolidation of warehouses

One of our biggest projects is the consolidation of our GM warehouse network, moving from 110 smaller warehouses to a small number of 'super' warehouses, based in prime central locations and a dedicated e-commerce distribution centre in the Midlands.

This is a long-term project but the first phase is well underway and we have begun the closure of 21 sites. Work has progressed quickly and the first of the new 'super' warehouses, a 1 million sq ft site in Bradford, is due to open in summer 2010. Our e-commerce site in the Midlands has been identified and we plan to start construction this year. All of our new warehouses will have a state of the art design, with the aim of achieving an excellent rating under BREEAM, a voluntary measurement rating for 'green' buildings.

Simplification

In addition to our consolidation programme, we have simplified operating processes in our warehouses to enable us to move products through our supply chain more quickly. We have done this in two ways, firstly by streamlining day-to-day processes –

SERVICE

Above: On shelf service Staff across our stores are receiving training on the new stock management software, which provides real time data to help us improve on shelf availability.

SERVICE

Above: Our new GM Warehouse in Bradford is 1 million sq ft – it could fit 12 Wembley pitches inside and it's a one mile walk around the outside of the building. In the service yard there is a 2.1 metre diameter rainwater storage tank, which when full holds 4 million litres of water.

such as reviewing the floor layout of warehouses to reduce picking times and introducing a loose loading initiative, which has enabled us to carry more products on our trucks – and secondly by reducing the number of times we handle stock. Currently all stock goes to a sorting centre and then a regional distribution centre before being moved to a store. Following a successful trial this year, all stock will go via just one place in the future.

Our international supply chain

To support future international growth, over the next three years we will make our international supply chain more cost efficient and deliver more products direct to our international partners as opposed to going via the UK. This year we have made good progress and delivered 9.8 million singles direct to our overseas stores, our plan is to increase this to 30 million by 2013.

IT and systems

This year we completed the in-store pilot of a new Point of Sale System (POS) and will begin the roll-out to all stores later this year. The new system is not only more cost efficient but also helps deliver a better customer experience, through a simplified process for transactions and refunds.

Following another pilot, we have introduced new software to improve stock management. Staff representatives from all stores are receiving training in the new system and this will be rolling-out during 2010. The new centralised system provides real-time data from stores to a head office team, providing an accurate picture of stock levels at all times.

Business Foundation Programme

Having reviewed the operational processes across the business we established that our old core head office systems were no longer suitable to support the business' needs. We decided the best way to solve this was to launch a Business Foundation Programme, rolling out a new integrated software application called SAP Retail.

The roll out of the new system will mean that M&S data is held in just one centralised location, replacing a myriad of old systems and will standardise core business processes across Clothing, Home and Food. The new systems will improve our visibility of sales, stock and margin data leading to better decision making and improvements in the way we manage our promotional spend. To ensure a smooth transition the project is being phased in and to date, we have successfully implemented SAP software across finance, purchasing and International.

Looking ahead

Our work to date has already achieved cost savings and efficiencies. But there is still more we need to do to build an infrastructure that will enable us to meet our ambitions of becoming a truly multi-channel retailer, with a stronger international presence.

We are confident we have an experienced team in place to implement these changes, without disruption to the day-to-day running of the business. The result will be a simplified, more efficient business that can respond flexibly to changing customer demands and give M&S a solid platform for growth.

SERVICE

Right: Meeting customers' needs 'Shop your Way' is underpinned by our new improved customer ordering system, delivering greater flexibility to customers and improving fulfilment.

How we do business

Plan A

Visit the Plan A website at
marksandspencer.com/ plana

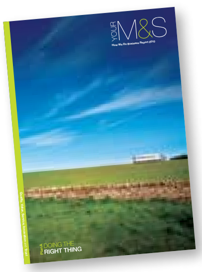
New commitments added in 2009/10
80

Total commitments
180

Number of original 100 commitments achieved so far
62

TRUST

Above: Digging Deep Working with environmental charity Groundwork we developed a wildlife habitat at Paddington Recreation Ground in London. The money was raised from profits from our 5p carrier bag charge and the project transformed an under-used area of the park into wetland meadow, making it a great educational destination for local children. This is one of 79 Greener Living Spaces created as a result of the charge.



TRUST

Above: Find out more our performance in our full How We Do Business Report 2010 at **corporate.marksandspencer.com/ howwedobusiness**

Plan A is our five year eco and ethical plan which we launched in 2007. We have already achieved 62 of our original 100 commitments and are on track to meet a further 30, leaving only eight commitments where we face additional challenges. Our success gave us the confidence to extend Plan A in 2010, adding 80 new commitments and extending existing commitments further. The new plan involves all our customers and employees and sets ourselves the ambitious goal of becoming the world's most sustainable major retailer by 2015.

Over the past three years Plan A has helped us improve our environmental performance, develop more sustainable products and services and improve the lives of people in communities where we trade. As well as being the right thing to do, it's also been good for business and over the past year alone Plan A generated £50m additional profit, which we invested back into the business.

In 2009/10, Plan A highlights:

- a reduction in CO_2 emissions of 50,000 tonnes;
- 1.8 million used clothing garments recycled via Oxfam;
- 20,000 tonnes of waste diverted from landfill;
- a reduction in 400 million food carrier bags being used by our customers;
- 130 million clothing hangers recycled or reused;
- £13.2m invested in community programmes;
- launch of new products and services, including 300,000 customers from M&S Energy;
- certified to the Carbon Trust Standard; and
- awarded Platinum status in the Business in the Community Corporate Responsibility Index.

Climate change

We're determined to play our part to help tackle climate change and we remain committed to making our UK and ROI operations carbon neutral by 2012.

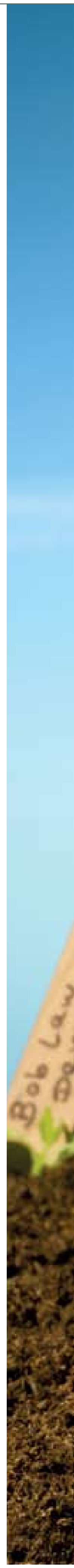
We've cut our carbon emissions by 8%, equivalent to 20% per sq ft by improving our energy efficiency and reducing emissions from our store refrigeration systems. Our improvements in energy efficiency were achieved by rolling out the lessons learned at our five energy efficiency stores to other stores. This will help us improve on this figure in future. Additionally the efficiency of our General Merchandise delivery fleets has improved by 30%.

To help our customers reduce their carbon footprint we've continued to extend our range of energy efficient electrical products and developed M&S Energy which is now helping 300,000 customers cut their energy use.

By 2015 we've committed to reduce our energy use by 35% per sq ft, help our suppliers significantly reduced environmental impact and broaden our action on climate change to include more ways to get our customers and employees involved.

INNOVATION

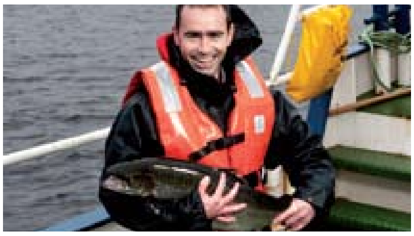
Carrier bag use in 2009/10
400 million reduction




YOUR GREEN IDEA
John Smith
LONDON
Martin Reilly
Manchester

How we do business

Plan A continued



TRUST & QUALITY

Left: From farm to fork Paul Luney is one of our food technologists, specialising in fish. As part of his role he regularly visits our suppliers to ensure they adhere to our industry leading code of practice. He is pictured here on a visit to a sea farm in Oban on the west coast of Scotland.

TRUST

Above: Model factories In our Brandix Seeduwa factory in Sri Lanka workers enjoy a subsidised canteen and store, medical facilities, an on site counseller and free financial advice.

PLAN A RECYCLING ALL OUR WASTE

Our Birstall store in Yorkshire has become the first M&S store in the UK to send none of its waste to landfill. All the waste from the store – which is one of our biggest Simply Foods – is now segregated and returned in our lorries for recycling.

For more information visit marksandspencer.com/plana

Waste

We're reducing waste and recycling wherever possible and have committed to send no operational or construction waste to landfill by 2012. We're pleased to be able to report good progress.

By the end of 2009/10 we'd achieved an 88% recycling rate and reduced the total amount of waste we generate in our operations by 16%. Food waste has been reduced by 29% with over a quarter of what is left being sent to generate energy. We collected 133 million clothes hangers in-store and reused 76% with the remainder being recycled. We also recycled 89% of our construction waste up from 65% in 2006/07.

We've continued to reduce packaging – General Merchandise packaging by 36% and Food by 20% – whilst also using more sustainable materials such as recycled plastics. We encourage recycling and waste reduction in the communities we work in and this year, we are signing deals with four local authorities, including Somerset Waste Partnership, which will help us to close our packaging 'loop'. These deals will bring us two clear benefits – we will receive more recycled materials to use in our food packaging and we will ensure that the equivalent amount of food packaging we use every year is recycled.

Through the M&S and Oxfam Clothes Exchange, some 500,000 customers have raised £700,000 for Oxfam by returning 1.8 million used M&S garments. The success of our work with Oxfam led to the expansion of the scheme last summer to encourage people to recycle their soft furnishings, including cushions, curtains, throws and bed linen.

A further £1.4m has been raised for Groundwork thanks to donations for our Food carrier bag charging, with their use down by 81% since 2006/07. The money raised is being used to fund 79 parks and play areas, including our 125th anniversary town centre project in Leeds.

We have stretched our waste targets even further and by 2015 our aim is to increase the number of M&S garments recycled annually by Oxfam from 2 million to 20 million and increase the percentage of hangers we recycle to 70%. We will also work with our suppliers to improve their performance on waste and we aim to source 25% of our food (by turnover) from factories that send no waste to landfill within the next five years.

Natural resources

We want to ensure our key raw materials come from the most sustainable sources possible, so we protect the environment and the world's natural resources. We have already done much work in this area, including becoming the first major UK food retailer to source only pole or line caught tuna for all the tuna products we sell, from sandwiches to steaks, and we also became the first retailer to sign the WWF's Seafood Charter to ensure our entire range of seafood products comes from sustainable sources. Over 60% of our wild seafood is now either Marine Stewardship Council (MSC) certified or undergoing MSC assessment.

In October 2009 we purchased GreenPalm certificates to cover all the palm oil used in M&S products and committed to use only sustainable palm oil by 2015, with the first eight 'sustainable palm oil' products launched in March this year. We also improved our sourcing of wood materials so that 72% of

INNOVATION

Left: PET wine bottles We became the first retailer to convert its entire range of mini (25cl) still wine bottles to PET, a material traditionally used in-flight catering where turnover is very fast. Working in partnership with Paul Sapin and Roger Harris Wines, we developed a new oxygen barrier technology, guaranteed to keep wine fresh for at least 12 months. 88% lighter than glass bottles, PET bottles require less energy to manufacture and reduce the carbon footprint in transport and distribution.

the wood we use in our products (and 90% of wood products used in construction and store fit-outs) are Forest Stewardship Council certified, recycled or from sources that otherwise protect forests and communities.

Under our new phase of Plan A we are committed to becoming the first major retailer to ensure traceability of all the key raw materials used in our clothing and home products including cotton, wool, polyester, nylon, leather and wood. We will also increase the amount of cotton we source from sustainable sources to 25% by 2015 and 50% by 2020. In Food our aim is to become the first major retailer to ensure that the five key raw materials we use – palm oil, soya, coca, beef, coffee – come from sustainable sources that do not contribute to deforestation.

Fair partner

One of the things that sets us apart from other retailers is the way we work with our suppliers. This year we've helped our suppliers to set up 10 Ethical Model Factories to demonstrate how good employment practices can result in a more productive workforce and allow for higher wages. We provided over 80,000 hours of supplier training (four times more than last year) and held best practice conferences around the world.

2009/10 was the sixth year of our Marks & Start work experience programme – providing work experience to some 700 participants who otherwise would face barriers to employment, with 40% of them subsequently finding jobs.

We've helped our customers and employees raise £2.1m for Breakthrough Breast Cancer during 2009, with £13.1m raised for the charity over the past nine years. This figure, 15% of Breakthrough Breast Cancer's 2009/10 funding, is used to part fund the Breakthrough Generations Study into long-term causes of the disease. We've also supported the Prostate Cancer charity for four years, helping to raise nearly £200,000 in 2009/10 to part-fund a UK-wide helpline.

New developments with our suppliers include our new commitment to become the first major retailer to actively tackle and bring clarity to the 'living' wage debate. We will do this by determining and agreeing a fair, living wage before implementing a process to ensure our clothing suppliers pay this wage to their workers in Bangladesh, Sri Lanka and India.

In Clothing and Homeware, we have pledged to work with our suppliers to provide training and education programmes that will include basic healthcare and workers' rights, for 500,000 workers in their factories. Meanwhile in Food, we are encouraging 10,000 farmers who supply our fresh produce to join our sustainable agriculture programme.

Health and wellbeing

Promoting active, healthier lifestyles for our customers and employees has always been important to us. This year one of our major new launches was our Simply Fuller Longer range, developed in collaboration with the Aberdeen University, to help people eat less by feeling full for longer. Healthier food now makes up 38% of M&S Food ranges.

Since we launched Plan A in 2007 we've removed artificial colours and flavouring from all M&S food and soft drinks and met 91% of the Food Standards Agency's (FSA) 2010 salt reduction targets.

We use traffic light nutritional food labelling alongside Guideline Daily Amounts on all FSA recommended categories of food. In 2009/10 we also introduced the use of calorie labelling on price tickets in our cafés.

To give customers and employees the information they need to make healthier choices we've improved our online services. These include a 'healthy lifestyle' website and a monthly health bulletin for customers, along with a Your Wellbeing website and newsletter for employees.

Looking ahead

Despite the recession, we know that environmental and social issues remain important to our customers. Plan A is already delivering considerable benefits and we have made significant progress against our original commitments. Our goal to become the world's most sustainable major retailer by 2015 is an ambitious one. Our extended Plan A will reach further and move us faster – covering every part of our business and reaching out to forests, farms, factories, lorries, warehouses and into our customers' and employees' homes. We believe sustainability is a key ingredient of business success and that Plan A will continue to make us more efficient, develop new markets and build customer loyalty. It remains the right thing to do both morally and commercially.

TRUST

Above: Our Milk Pledge Plus guarantees the milk prices paid to suppliers reflects the retail price and now includes a bonus payment for high animal welfare standards. Monitored by Bristol vet school (part of Bristol University), the scheme not only provides farmers with greater security, but incentivises them to maintain a healthy herd, so customers can enjoy our milk safe in the knowledge it comes from farms with the highest standards.

Our people
Being an employer of choice

M&S number of employees
76,267

Employee turnover rate
14.0%

Percentage of our people who have been with us for over five years
45.5%

Percentage of our people who have been with us for over ten years
26.5%

PLAN A HOME ENERGY SERVICE

To mark the launch of our new Home Energy Service, M&S employees were offered free loft or cavity wall insulation. We expect to insulate over 30,000 homes, saving around 13,000 tonnes of carbon dioxide each year.

For more information about Plan A see p36 or visitmarksandspencer.com/plana

TRUST

Above: The European Works Council (EWC) was set up so representatives from the European stores we trade in can communicate directly with the M&S leadership team on behalf of their colleagues.

Our people are fundamental to the delivery of our core values. It is their talent that drives innovation and their commitment that upholds the high standards of quality and service our customers expect. Attracting and retaining talent is essential to our long-term growth and will ensure the business is in the best possible position to capitalise on opportunities as we emerge from recession. Despite ongoing economic uncertainties, we have continued to invest in our people this year. We have improved our benefits package with a new wellbeing offer, set out plans to engage colleagues in Plan A and provided tailored training programmes. Our aim is to uphold our reputation as an employer of choice, ensuring M&S remains a great place to work.

Training and development

Providing meaningful development opportunities is critical to our talent strategy. We want to identify and nurture our future leaders, as well as provide engaging and relevant training to employees across M&S.

Our development programmes include:
Lead to Succeed This year over 100 of our most senior employees have completed our flagship leadership programme, 'Lead to Succeed'. This programme is built around our brand values – Quality, Value, Service, Innovation and Trust – and aims to identify and develop our pipeline of talent for the future.
Managing for Success and Leading with Impact Last year we launched the first phase of this training programme for the 2000 line managers across M&S.
Your M&S Career Path Employees across the UK and Republic of Ireland benefit from Your M&S Career Path training and learning programmes. Section and Store managers receive tailored workshops and all newly hired customer assistants complete a thorough 26 week induction.
Graduate schemes Our graduate scheme is an essential part of our talent pipeline. Designed to fast track candidates to management, the two year scheme is one of the most popular in the sector. This year's scheme attracted over 9,300 applicants for 165 places.
Work experience Through Business in the Community's Work Inspiration Campaign, we have pledged to offer 2,000 work experience places each year. We have worked with schools, universities and the Fashion Retail Academy to help bridge the world of education and work and provide more young people with meaningful work experience.
Marks & Start Launched in 2004, Marks & Start is our work experience scheme for the homeless, disabled, lone parents and young unemployed. Participants are paired up with an M&S buddy, providing a rewarding development opportunity for employees.

This year we have also reviewed our head office induction programme and since February 2010 all new joiners are required to complete a week's store attachment to provide a better insight to the business.

Rewards and benefits

M&S continues to offer a competitive reward package, with a generous retirement plan, Sharesave options and bonus scheme. It's important to recognise and reward hard work and excellent customer service, even in a difficult trading environment. This year, our customer assistants were awarded a 'Sharing in Success' bonus, receiving between £200 and £500 each.

We take a holistic approach to employee benefits, encouraging a happier, healthier workforce. Our WorkWell scheme supports staff with a stress management programme and we continue to provide two year breast screening cycles for female employees and female partners of employees. We have introduced a Your Wellbeing website, a dedicated portal that provides all staff with access to health and wellbeing information, as well interactive tools to help monitor their progress.

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Performance & KPIs p14
Brand & marketplace p20
Operating & financial review
Governance p50
Financial statements p78

INNOVATION

Above: Our Your Wellbeing website for employees was developed by Russel Turner, from M&S Occupational Health: "The website provides easy to use tailored programmes designed to help employees achieve personal goals, be that improving work-life balance or even getting a better night's sleep. Launched as part of 'Wellbeing Week', where colleagues were offered free head massages and advice from fitness experts, the site received over 1,600 employee pledges in the first four days."

Getting involved

Research has told us that increasingly people make a decision about the company they want to work for based on its social and environmental agenda. Employees need to trust their employer to act responsibly towards them as individuals and increasingly they want to be able to trust a business to act in the best interest of society. Plan A provides an excellent platform for M&S to demonstrate its ethical and eco commitment to current and future employees. As part of this year's relaunch we set out to further engage colleagues in Plan A and encourage them to lead greener lifestyles.

All M&S employees are now entitled to a paid day off to volunteer in their local communities and we have introduced Plan A targets into the bonus framework for senior executives. We continue to recognise the work employees do across the community and in the workplace with our annual Plan A Volunteer awards.

A year of celebration

Last year M&S celebrated its 125th anniversary and our people were at the heart of the celebrations. To mark the occasion we set colleagues a 125 Challenge, to raise £1.25m for local community charities in 125 days between May and September. M&S stores and offices up and down the country got involved – from bake sales to cycling challenges and even hiking 84 miles along Hadrian's Wall – our colleagues rose to the challenge and smashed our original target, raising £2.8m.

Our 125th year was topped off with a gala party, with colleagues across the country coming together to celebrate.

Marks & Spencer Ltd.
CELEBRATING 125 YEARS

Communicating with employees

Against a backdrop of continued economic uncertainty, it's vital that we maintain an open dialogue with all employees. We do this through a number of channels including:

Business Involvement Group (BIG) is made up of over 3,500 elected staff representatives from across M&S. BIG represents employee views on matters relating to work and employment, leading consultation processes on behalf of stores and head office.

Director Breakfasts Informal Q&A sessions for store colleagues with business unit leaders.

BIG Business Involvement Groups

In-store listening groups Regularly hosted by store managers so any issues can be communicated to Head Office

M&S Intranet Our employee portal, updated daily with announcements from the business, as well as regular news from the wider retail sector.

Quarterly results broadcast A regular financial update to all employees, outlining the Company's performance

Top 100 briefing A monthly cascade of Head Office information to top managers.

Your M&S Employee magazine

Bi-monthly magazine that provides employees with features on the latest M&S initiatives and employee stories.

Your Say Survey

Launched in 2006, our annual employee Your Say Survey provides us with a comprehensive view of employee opinion. Response rates for our most recent poll were up 3% to 94% participation and our overall positivity score increased to 74% demonstrating the progress we have made in a challenging year.

This year, we added questions to the survey to help individual line managers identify what they are doing well and where they need to improve. Following the survey, each line manager will now receive a Manager's Personal Report.

Looking ahead

A great business is founded on great people. As we look forward we will continue to harness the full potential of all of our employees so we can emerge as a stronger and more competitive business.

We will do this through ongoing investment in our people, ensuring that our employees have the right skills to support our growth ambitions and that they have the opportunity to fully understand the plans and priorities of the business.

Financial review*

Summary of results

	2009/10 £m (53 wks)	2009/10 £m (52 wks)	2008/09 £m (52 wks)	change % (52 wks)
Group revenue	**9,536.6**	**9,347.6**	9,062.1	+3.2
Operating profit before property disposals	**843.9**	**779.3**	768.9	+1.4
Profit before tax and property disposals	**694.6**	**632.5**	604.4	+4.6
Profit before tax	**702.7**	**640.6**	706.2	–9.3
Adjusted EPS	**33.0p**	**30.0p**	28.0p	+7.1
Dividend per share (declared)	**15.0p**	**15.0p**	17.8p	–15.7

2009/10 was a 53 week reporting period. In order to make a comparison to last year, all reported income statement numbers in the Financial Review are stated on a 52 week basis unless specified otherwise. The 52 week results exclude UK revenue of £169.7m (£76.6m General Merchandise and £93.1m Food) and UK variable operating costs of £13.4m, that relate only to the 53rd week, as well as International operating profits of £7.4m and a net interest charge of £2.5m. The 52 week UK operating costs stated include annual costs on the same basis as reported in any 52 week reporting period.

Revenues

Total revenues were up 3.2% driven by an improvement in like-for-like sales as well as the addition of new space in the UK and a strong performance in our International business.

UK revenues were up 2.9% in total with a like-for-like increase of 0.9%, reflecting both the actions we have taken over the last year to manage the business through the downturn and an improvement in market conditions and consumer spending. During the year, we added c. 3.2% of space, representing 1.9% in Food and 3.9% in General Merchandise.

International revenues were up 5.7%, with a 2.7% positive impact from the movement in the exchange rates. Whilst some of our overseas businesses were impacted by the continued global economic downturn, particularly in the Republic of Ireland and Greece, many delivered good growth in the year, with areas such as India, Hong Kong and the Czech Republic particularly strong. Our franchise business also continued to perform well despite the slowdown in the Middle East, with countries including Turkey and Russia growing strongly.

Operating profit

Operating profit before property disposals and exceptional items was £779.3m, up 1.4%.

In the UK, operating profit before property disposals was down 1.3% at £644.0m. Gross margin was down 5 basis points at 41.2%. General merchandise gross margin was up 70 basis points at 52.5%, with better sourcing and tight control over stock and markdowns, mitigating the adverse currency pressures. Food gross margin was down 95 basis points at 30.6% reflecting further investment in price and increased promotional activity, offset by better buying and a reduction in food waste.

UK operating costs before bonus were up 1.0% to £2,769.3m. A breakdown of UK operating costs is shown below:

	52 weeks ended		
	27 March 2010 £m	28 March 2009 £m	% increase/ decrease
Retail staffing	**858.4**	863.3	–0.6
Retail occupancy	**972.7**	948.0	+2.6
Distribution	**394.4**	410.3	–3.9
Marketing and related	**122.9**	127.4	–3.5
Support	**420.9**	391.6	+7.5
Total before bonus	**2,769.3**	2,740.6	+1.0
Bonus	**80.9**	2.8	–
Total including bonus	**2,850.2**	2,743.4	+3.9

Retail staffing costs were tightly managed, with improved productivity offsetting the impact of space growth and the annual pay review. The increase in occupancy costs reflects an increase in both the depreciation charge and space growth. Despite the increase in volumes and space, and strong growth in Direct, distribution costs were down 3.9% as a result of ongoing initiatives under Project 2020 to make our warehousing and distribution network more cost efficient. We generated underlying savings of £35m in this area in 2009/10. Marketing spend was down due to a reduced number of external marketing campaigns. Support costs, which include non-store related overheads, increased due to depreciation related to the ongoing overhaul of our IT systems.

The bonus payment of £80.9m (last year £2.8m) reflects the outperformance of the business against our operating plan.

The UK operating profit includes a contribution of £30.4m (last year £24.8m) from the Group's continuing economic interest in M&S Money.

International operating profit before property disposals was up 16.5% at £135.3m (last year £116.1m). Owned store operating profits were £57.7m, up 26.0%, reflecting profits in Ireland and Hong Kong, offset by small losses in China, India and Greece. Franchise operating profits were up 10.4% to £77.6m due to continuing strong sales performance.

Profit on property disposals

Profit on property disposals was £8.1m (last year £6.4m). This mainly relates to the sale of retail space adjacent to our store in Grafton Street, Dublin.

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Net finance costs

	52 weeks ended 27 March 2010 £m	28 March 2009 £m
Interest payable	**(133.7)**	(166.0)
Interest income	**2.1**	14.6
Net interest payable	**(131.6)**	(151.4)
Unwinding of discount on partnership liability to the Marks and Spencer UK Pension Scheme	**(4.0)**	(38.0)
One-off premium on repurchase of debt	**(13.5)**	–
Pension finance income (net)	**10.8**	35.4
Fair value movement on financial instruments	**(8.5)**	(10.5)
Net finance costs	**(146.8)**	(164.5)

Net interest payable was down 13.1% at £131.6m reflecting a decrease in the average net debt over the year, offset by a £13.5m one-off premium on repurchase of debt. Net finance costs were down £17.7m after pension finance income of £10.8m (last year £35.4m), and the unwinding of the discount on the partnership liability to the pension scheme. The Group's average cost of funding was down to 5.9% (last year 6.5%).

Taxation

The taxation charge is based on a full year pre-exceptional effective tax rate of 25.6% (last year 27.0%).

Earnings per share

Adjusted earnings per share from continuing operations, which excludes the effect of property disposals, increased by 17.9% to 33.0p per share. The weighted average number of shares in issue during the period was 1,572.2m (last year 1,573.2m).

Dividend

In May 2009 the Board took the decision to rebase the Group's dividend payment for 2009/10 to 15p per share. In line with this decision a final dividend of 9.5p per share (last year 9.5p) has been approved. Having rebuilt cover to two times, the Board's policy is to grow dividends in line with adjusted earnings per share.

Capital expenditure

	Year ended 3 April 2010 £m	28 March 2009 £m
Store modernisation programme	**75**	216
New stores	**50**	150
International	**29**	40
Supply chain and technology	**194**	188
Maintenance	**41**	58
Total capital expenditure	**389**	652

Group capital expenditure for the year was £389m. We continued to invest in our supply chain and technology in line with our strategy to build an infrastructure fit to support the future growth of the business.

We added 3.2% of trading space in the UK, trading from 15.4m sq ft at the end of March 2010. We opened 24 stores during the year, including 16 Simply Foods, mainly franchises.

Cash flow and net debt

	Year ended 3 April 2010 £m	28 March 2009 £m
Cash flow from operations	**1,349.7**	1,371.9
Capex and disposals	**(408.6)**	(604.1)
Interest and taxation	**(281.4)**	(265.7)
Dividends and share issues	**(223.6)**	(349.3)
Share buyback	**–**	(40.9)
Other movements	**(24.4)**	(4.4)
Net cash flow	**411.7**	107.5
Opening net debt	**(2,490.8)**	(3,077.7)
Partnership liability to the UK Pension Scheme	**–**	539.6
Exchange and other non-cash movements	**10.7**	(60.2)
Closing net debt	**(2,068.4)**	(2,490.8)

The Group reported a net cash inflow of £411.7m (last year – inflow £107.5m). Cash inflow from operations decreased by £22.2m, reflecting growth in profits offset by a working capital inflow of £77.9m compared with a £194.0m inflow last year. Inventory levels were higher due to a further increase in direct buying, as well as an improved sales performance. Capital expenditure, net of disposals, was £408.6m (last year – £604.1m) reflecting further investment in our supply chain and IT as well as new space growth. Net debt was £2,068.4m, down £422.4m on last year.

Pensions

At 3 April 2010 the IAS 19 net retirement benefit deficit was £366.5m (28 March 2009 £152.2m). The increase is due to a decrease in the discount rate from 6.75% to 5.5%, as well as the increase in the inflation rate from 2.9% to 3.6%, which have increased the pension liability by c. £1.2bn. This increase has been offset in part by a c. £1.0bn increase in the market value of the UK scheme's assets.

On 12 May 2010 the Group announced the outcome of its triennial actuarial valuation which showed a deficit of £1.3bn at 31 March 2009. The details of the funding plan are explained in the performance overview on page 9.

Governance overview

Board of directors

Chairman's overview

1

We have one of the most trusted brands on the high street, a clear plan, strong leadership and motivated employees, who are all focused on offering our customers great products at great value and great service.

We want our governance to be meaningful, relevant and focused on improving our business:

- promoting our strong brand values;
- driving the business supported by sound plans;
- providing strong leadership and accountability;
- getting the best from our people by developing and motivating them;
- keeping our customers happy and giving them what they want; and
- running the business with effective risk management and appropriate controls.

The Board needs a clear view of the Company's leadership and the day-to-day activities of the Group, including current trading, key risks and mitigation. Directors also have a duty to take into account the long-term, employees, relationships with suppliers, customers and others, local communities, the environment and how business is conducted. Therefore, the Management Board, operational committees and functions support the Board in reviewing strategy and performance whilst taking these wider interests into account.

The Board is also responsible for maintaining our values, supporting Plan A, monitoring our code of ethics and protecting our heritage.

While we try to make sure we are in line with best practice the Board took a difficult decision in 2008 to combine the roles of Chairman and Chief Executive. The Board believed this to be in the best interests of the Company at the time to provide for appropriate succession. We have delivered the first phase of our transition back to best practice with Marc Bolland's appointment as Chief Executive. By the end of July we will have separated the roles, and by March 2011 at the latest we will have appointed an independent Chairman.

Sir Stuart Rose Chairman

Deputy Chairman's overview

2

At M&S, governance is about doing the right thing, the right way. The Board seeks to ensure that the right balances and accountabilities are in place by:

- demonstrating independence to bring fresh perspectives and hold management to account;
- seeking full information to form views, question management and take strategic decisions; and
- acting responsibly to make sure we meet our accountabilities to shareholders and wider stakeholders.

This year we assessed our progress against these three requirements and also against the actions developed from last year's performance review.

During the coming year we want to improve the understanding of governance and its relevance to the business and our people, whatever part they play in serving our customers – in stores, online, in the UK and overseas. We will do this through our Business Involvement Groups across stores and head office and with a specific article in our employee magazine.

Board of directors

★ Independent
● Audit Committee
■ Remuneration Committee
♦ Nomination & Governance Committee

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1 Sir Stuart Rose Chairman ♦
Appointed in May 2004. Age 61. Stuart will step down as Executive Chairman on 31 July 2010 when he will become Chairman. He will leave the Company by March 2011. Stuart is Chairman of Business in the Community and a non-executive director of Land Securities plc. Stuart began his career in retail at Marks & Spencer in 1971 where he remained until 1989, before going on to become Chief Executive at a number of well known UK retailers, including Argos plc, Booker plc and Arcadia Group plc.

2 Sir David Michels Deputy Chairman ★●■♦ (Chairman)
Appointed in March 2006. Age 63. David is Deputy Chairman, Chairman of the Nomination & Governance Committee and Senior Independent Director. He is Chairman of Paramount Restaurants, Deputy Chairman of easyJet plc, a non-executive director of Strategic Hotels & Resorts and Jumeriah Group, Dubai. David was previously Senior Independent Director of The British Land Company plc, non-executive director of Arcadia Group and Chief Executive of Hilton Group plc.

3 Marc Bolland Chief Executive ♦
Appointed on 1 May 2010. Age 51. Marc joined Marks & Spencer from Morrison Supermarkets plc, where he had been Chief Executive since 2006. Prior to this, Marc worked for 20 years at Heineken NV in a variety of management and marketing roles. He went on to become an Executive Board member and Chief Operating Officer. He is a non-executive director of Manpower inc.

4 Ian Dyson Group Finance and Operations Director
Appointed in June 2005. Age 47. Ian joined Marks & Spencer as Group Finance Director, becoming Group Finance and Operations Director in March 2008. Ian was appointed a non-executive director of Betfair Group Limited in February 2010. Previously, Ian was Finance Director of The Rank Group plc and Group Financial Controller of Hilton Group plc. Ian was a non-executive director of Misys plc until September 2005.

We announced Ian's resignation on 5 May 2010 and have commenced our search for a new finance director. Ian will step down from the Board on 14 July and will leave the Company on 31 August 2010.

5 Kate Bostock Executive Director, General Merchandise
Appointed in March 2008. Age 53. Kate joined Marks & Spencer in October 2004. Previously, Kate was Product Director for Childrenswear at Next from 1994, before joining Asda in 2001 as Product Director for the George Global Brand. She was responsible for the launch of the standalone George concept and the launch of the George brand globally.

6 John Dixon Executive Director, Food
Appointed on 9 September 2009. Age 42. John joined Marks & Spencer over 20 years ago as a store management trainee. He has worked across the business in a variety of senior roles, from Executive Assistant to the Chief Executive, to Director of Home and M&S Direct. John was Director of Food from July 2008 until his appointment to the Board.

We believe better communication of governance can help support business performance and define behaviours.

We have aligned this Governance section with the themes in the FRC's recommended new UK Corporate Governance Code:

– leadership (pages 46 to 48);
– effectiveness (pages 49 to 53);
– accountability (pages 54 and 56-57);
– communication (page 55); and
– remuneration (pages 58 to 71).

We have made further progress with our governance with the appointment of Marc Bolland as Chief Executive. The Nomination & Governance Committee conducted a thorough process for Marc's appointment and is applying the same approach to the search for a new Chairman.

Each year the Board tracks its progress against an action plan to ensure that what it does continues to meet the needs of the business. This year it has been influenced by our Board and Committee performance reviews, which I have led as Deputy Chairman.

I am satisfied that we have taken a rigorous approach to looking at our effectiveness and throughout the year encouraged independent challenge to the executive at all levels.

Sir David Michels Deputy Chairman

Our governance structure

Group Secretary

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7 Steven Sharp Executive Director, Marketing
Appointed in November 2005. Age 59. Steven joined Marks & Spencer in May 2004. He is a non-executive director of Adnams plc and an elected member of the Tate Members' Council. Steven was previously Marketing Director at Asda, the Burton Group, Booker plc and Arcadia Group plc.

8 Jeremy Darroch Non-Executive Director ★♦● (Chairman)
Appointed in February 2006. Age 47. Jeremy is Chairman of the Audit Committee. He is Chief Executive of British Sky Broadcasting Plc, having been the company's Chief Financial Officer. Jeremy was previously Group Finance Director and Retail Finance Director at Dixons Group plc.

9 Martha Lane Fox Non-Executive Director ★♦●■
Appointed in June 2007. Age 37. Martha is the UK's Digital Champion and a non-executive director of Channel 4 Television. She is founder and Chairman of Lucky Voice, and of her own grant giving foundation, Antigone. Martha was a co-founder of lastminute.com.

10 Steven Holliday Non-Executive Director ★♦●■ (Chairman)
Appointed in July 2004. Age 53. Steve is Chairman of the Remuneration Committee. He is Group CEO of National Grid plc, having been responsible for the UK Electricity and Gas businesses. Previously he was on the Board of British Borneo Oil and Gas and held senior positions with the Exxon Group. He has also developed business opportunities in countries such as China, Australia, West Africa and Brazil.

11 Louise Patten Non-Executive Director ★♦●■
Appointed in February 2006. Age 56. Louise is a senior adviser to Bain & Co and a non-executive director of Bradford & Bingley. She was formerly Chairman of Brixton plc, and a non-executive director of Hilton Group plc, GUS plc, Somerfield plc and Harveys Furnishings plc.

12 Jan du Plessis Non-Executive Director ★♦●■
Appointed in November 2008. Age 56. Jan is Chairman of Rio Tinto plc. He was Chairman of British American Tobacco plc until October 2009 and a non-executive director of Lloyds Banking Group plc until April 2009. He was also Chairman of RHM plc from 2005 to 2007. Jan was previously Group Finance Director of Richemont, the Swiss luxury goods group until 2004.

13 Amanda Mellor Group Secretary and Head of Governance
Age 46. Appointed on 8 July 2009. Amanda joined Marks & Spencer in 2004 as Head of Investor Relations. Her previous roles include Director of Corporate Relations at Arcadia Group plc, and over 10 years working in investment banking.

Governance report

Leadership

Who is on our Board?

Sir Stuart Rose leads the Board as Chairman and Marc Bolland will lead the business as Chief Executive from the end of July following his induction. Sir David Michels is Deputy Chairman, Senior Independent Director and Chairman of our Nomination & Governance Committee. The Chairmen of our Audit and Remuneration Committees are Jeremy Darroch and Steven Holliday. Other Board members are given on pages 44-45.

During the year we made the following changes:

– Marc Bolland joined the Board on 1 May 2010. He brings a wealth of experience and made a great success of leading Morrisons since 2006.
– John Dixon was appointed Executive Director on 9 September 2009. He joined M&S in 1986 and has worked in a number of senior roles, including Director of Home, Direct and Food.
– We announced the resignation of Ian Dyson on 5 May 2010 and have commenced our search for a new finance director. Ian will step down from the Board on 14 July and will leave the Company on 31 August 2010.
– The Board is supported by the Group Secretary and Head of Governance. Amanda Mellor was appointed on 8 July 2009 having been our Head of Investor Relations since 2004.

In March 2010 the Board renewed the contracts of two non-executives for a further three years: Steven Holliday having served six years and Martha Lane Fox, three years.

At the AGM on 14 July 2010 shareholders will be asked to elect to the Board our new directors, Marc Bolland and John Dixon. Sir Stuart Rose is seeking annual re-election as the Board determined when he assumed the dual role. Ian Dyson, Steven Holliday and Martha Lane Fox are retiring by rotation. Ian Dyson will not seek re-election, and will step down from the Board. Martha Lane Fox and Steven Holliday will seek re-election as directors.

What has the Board done during the year?

We aim to connect governance with what matters for running a successful business. In **Box A** we've given examples of the Board's focus during 2009/10. The Board agendas are linked to the fundamentals of: a trusted brand, clear plan, strong leadership, motivated employees and delighted customers, together with the necessary checks and balances. While we recognise the importance of compliance, we avoid spending unnecessary time on procedure and operational detail. We focus on the long-term plans for our business as well as the issues that matter on the ground and what our management and people are doing day-to-day.

What is our approach to governance?

Governance helps us do the right thing, the right way – for our shareholders and our customers, employees, suppliers, local communities and the environment. Our governance is focused on how to get it right, not only in the boardroom but also across the business.

We set out what we expect from our directors in the Governance Framework which we publish on our website. This covers their individual accountabilities as well as terms of reference for the Board, Committees and business functions which support our governance.

During the year we reviewed our approach to identifying, evaluating and managing our risks – more about this is given on page 54.

What do we mean by doing the right thing?

To make sure M&S succeeds, we have to get things right across the business with the right checks and balances. It is not just **what** we do but **how** we do it, such as:

– behaving properly to each other as colleagues, making sure we feel valued, motivated and rewarded;
– treating our customers, suppliers and local communities with respect; and
– respecting the environment, involving our employees and customers through Plan A.

At the heart of it all is making sure the people who own M&S – our shareholders – get a good return on their investment. If we do the right thing, the right way then the business will be successful.

HOW DID WE COMPLY WITH THE GOVERNANCE CODE?

The governance rules which apply to UK companies listed on the London Stock Exchange are found in the Combined Code on Governance 2008 (the 'Code'). Throughout the year ended 3 April 2010 the Company complied with all Code provisions with the exception that from 1 June 2008 the role of Chairman and Chief Executive has been exercised by the same individual, Sir Stuart Rose. We recognise that this has been out of line with best practice. We understand the concerns of shareholders but believe that we have maintained robust governance while at the same time benefiting from having Stuart at the helm.

On 1 May 2010 Marc Bolland joined us as Chief Executive. On 31 July 2010 Stuart will step down as Executive Chairman, remaining as Chairman until we conclude our search for an independent Chairman to succeed him, no later than March 2011.

During the year Sir David Michels, Deputy Chairman, has taken the lead on all governance matters. This has included engaging shareholders on their views, chairing the Nomination & Governance Committee and conducting the review of Board performance. At least half the Board comprises independent directors, all of whom have been appointed since 2004.

BOX A: WHAT THE BOARD HAS DONE DURING 2009/10

Checks and balances
- Responded to the economic downturn through a clear programme of cost control, balance sheet and pension liability management and dividend reduction
- Initiated, through the Audit Committee, a major review of our risk governance and defined our risk tolerance
- Assessed the effectiveness of our financial reporting controls, internal control and assurance processes
- Reviewed our approach to health and safety; business continuity and data protection

Trusted brand
- Reinvigorated our brand values through 'quality worth every penny' and other new marketing campaigns
- Checked on our approach to helping long-term suppliers during the economic crisis
- Debated the impact of introducing third party branded products in Food
- Reviewed our code of ethics and held management accountable by widening the scope of responsibility

Delighted customers
- Listened to customer feedback in the boardroom, at the AGM and on the sales floor
- Discussed the Management Board's review of product and service ranges and store performance
- Received regular updates on marketplace trends and changes in customer behaviour
- Reviewed with the Retail Director how his team runs our stores

Clear plan
- Approved strategic plans for Clothing, Food, Home and Beauty
- Invested in buying and supply chain systems to meet our Project 2020 ambitions including e-commerce IT systems and centralised warehousing
- Reviewed with management the key risks and the quality of our risk management systems
- Relaunched Plan A which aims to make us the most sustainable retailer in the world by 2015

Motivated employees
- Overseen the continuing implementation of our 2020 strategy aimed at making sure we have the right people and processes in place
- Discussed with management the introduction of a new remuneration and performance framework for all employees
- Reinvigorated our employee communication through Business Involvement Groups, Director breakfasts, in-store listening groups, Chairman and Top 100 briefings and our annual Your Say survey
- Introduced major leadership development programme and a suite of management and employee training packages

Strong leadership
- Appointed Marc Bolland as our new Chief Executive
- Initiated the search for an independent Chairman through the Nomination & Governance Committee
- Assessed the total reward framework for directors and senior management through the Remuneration Committee
- Tracked the flagship leadership programme, Lead to Succeed, to identify and develop people for succession

Governance report

Leadership continued

How is our governance structured?

Our structure is set out in the governance wheel and detailed in **Box B** below. At the core of this is the Group Board which is accountable to shareholders for the long-term performance of the Company. The non-executives carry out the detailed work on the governance committees with a particular focus on governance and succession, controls and risk, and remuneration.

There have been a few changes since last year. We strengthened our operational governance as part of our 2020 Change Programme. The Executive Committee has been reconstituted as the Management Board to clarify its accountability for strategic initiatives, risk management, business processes, systems and controls. The Capital Approval Committee has been reconstituted as the Group Investment Committee giving greater visibility, control and consistency to the approval process across the Group. The Information Security Committee proposals, including data protection, have been adopted and as a result, day-to-day oversight of this is now managed by the Governance Group, with regular updates to the Board.

What does the Governance Group do?

The Governance Group helps colleagues to do the right thing, the right way, with governance that is meaningful, relevant and focused on improving the business, both in the UK and overseas. Its activities include:

- implementing practical and cost-effective responses to legislation and regulation;
- giving guidance to colleagues on our policies and practices including our code of ethics;
- minimising trading disruption and legislative consequences;
- leveraging business initiatives and sharing best practice;
- negotiating contractual terms and protecting our brands and innovation;
- providing assurance on internal controls and visibility of key risks;
- minimising insurance premiums, claims and fines;
- protecting and promoting our heritage;
- enabling the Company to meet its pension liabilities;
- assisting employee and shareholder engagement; and
- supporting directors in their Board and Committee roles.

BOX B: HOW OUR GOVERNANCE IS STRUCTURED

Our governance structure is best illustrated by our "Governance Wheel" set out on page 45. The Committees and functions are listed below along with an overview of their activities and the key person responsible.

Corporate Governance

Group Board (Sir Stuart Rose) relies on management to run the business and on our people to give customers great service every time they shop with us. The Board therefore monitors what management are doing, holding them accountable for performance against our targets and standards and probing their thinking to make sure we are on the right track. The Board works closely with management in thinking through our direction and long-term plans, the opportunities, the risks and making sure we're developing the right management team for the future.

The non-executives provide independent challenge and review, bringing wide experience, specific expertise and a fresh, objective perspective. As members of the Board Committees, they play a crucial role in undertaking detailed governance work with a particular focus on shareholders:

Nomination & Governance Committee (Sir David Michels) recommends Board appointments, reviews business succession plans and makes sure our governance is fit for purpose;

Audit Committee (Jeremy Darroch) monitors the integrity of the financial statements and reviews effectiveness of internal controls, risk management and audit;

Remuneration Committee (Steven Holliday) recommends remuneration strategy and framework to recruit, retain and reward senior executives for their individual performance.

Their committee activity reports are given on pages 51-52.

Governance Group (Amanda Mellor) helps colleagues to do the right thing, the right way, with governance that is meaningful, relevant and focused on improving the business, both in the UK and overseas. It comprises legal, audit and risk, insurance, archive, pensions, BIG (employee representatives) and secretariat.

Operational Governance

Management Board (Sir Stuart Rose) is accountable for executing our strategy, running the business and making sure we are doing the right thing day-to-day. It keeps the Board informed on the business and how we work with our different stakeholders. Its work is supported by a number of operational committees and functions:

Group Investment Committee (Sir Stuart Rose) allocates capital and controls all investments with a risk of material impact on financial results, brand or strategy;

Customer Insight Unit (Steve Bond) influences decision-making by tracking marketplace trends and customer views;

How we do business Committee (Richard Gillies) drives our social, environmental and ethical commitments (Plan A) in line with stakeholder expectations, ensures they are integrated into everyday activities and supports our aim to be the world's most sustainable retailer;

Business Involvement Groups (Malcolm Heaven) are the elected representatives through which the business informs, involves and consults employees so their views can be taken into account to influence business change and decision-making;

Fire, Health and Safety Committee (Steve Rowe) promotes the safety and wellbeing of our employees, customers and visitors and minimises the risk of financial penalties;

Business Continuity Committee (Steve Rowe) equips the business to continue to trade in the event of a crisis or disaster at any M&S location at any time.

Governance report
Effectiveness

How do we make sure our Board is effective?

Board performance

Last year we said that to achieve good governance, we need a Board that demonstrates independence, is well-informed and acts responsibly. We put particular effort into this year's Board performance review, by tracking progress against these requirements, 'drilling down' into specific areas that we feel matter, and looking at how we can drive better governance through to the business. We are confident that putting effort into getting the self-assessment right has resulted in a more rigorous review as we set out in **Box C**.

We took a more robust approach to our self-assessment by engaging the governance specialists, Independent Audit. They provided external facilitation by challenging us on the questions we asked ourselves and helping us analyse the results.

Committee performance

The Nomination & Governance, Audit and Remuneration Committees have each conducted reviews of their own performance as described for the Board. More information is given on pages 51-52.

Individual performance

The Chairman reviewed the performance of the executive directors individually against business and individual objectives. Remuneration is directly linked to these reviews and is determined by the Remuneration Committee.

Our Governance Framework gives particular emphasis to the governance accountabilities of the Chairman, Deputy Chairman and non-executive directors. The Deputy Chairman has reviewed the performance of the Chairman against these accountabilities and business objectives and confirms that he has continued to demonstrate strong leadership of the Group during a time of considerable economic uncertainty.

Following discussions the Chairman held with individual directors, the Board confirms that each non-executive director is independent in character and judgement; commits sufficient time and energy to the role, and continues to make a valuable contribution to the Board and its Committees.

BOX C: HOW WE REVIEWED OUR EFFECTIVENESS

"Last year we set an action plan to address being an independent, informed and responsible Board. Our performance review focused on these three key areas."

Sir David Michels Deputy Chairman

Sir David Michels, Deputy Chairman, talks about the 2009/10 Board performance review

This year we reviewed how we ensure **independent** challenge around strategy, succession, leadership, risk and reward. We felt that we had responded to external concerns regarding the Chairman/CEO role and increased the level of dialogue with our investors. At least half the Board comprises independent directors who bring experience from other retail and consumer-facing sectors, finance, property, international and online businesses.

Accountability is strengthened by ensuring there is sufficient time for debate in the boardroom. The committees carry out detailed independent oversight on behalf of the Board to ensure we have the right processes in place for succession, audit and remuneration. The Board receives independent analysis on stakeholder feedback from our Customer Insight Unit; Director of Plan A, CSR and Sustainable Business; and an annual investor audit produced by Makinson Cowell. This combination of experience, objective opinions, detailed review and debate has enabled strong, independent challenge.

We checked how we are kept **informed** and believe that we get enough detail and the right amount of non-financial information including employee and customer feedback. The non-executives get direct access to the management team and sit on Board committees so they have been kept informed on management's response to the current economic climate. The Group Secretary makes sure that timely information is given to all directors. She also keeps them informed on governance, regulation, key legal issues and legislative change through a written report at each Board meeting. Our online Board portal provides easy access to information for directors to carry out their duties and for ongoing development.

We also asked ourselves about our commitment to being **responsible**. We felt we gave significant time to discussions around our brand, Plan A, code of ethics and heritage. The Board has a clear view of its accountabilities to shareholders and wider stakeholders. The Board's challenge is to make sure this is put into practice and is built into the way we work. We don't get it right 100% of the time and we rely on the Management Board to make sure it happens on a day-to-day basis. This coming year we want to look closely at how we can extend the impact of governance on the wider business and keep under review what guides our behaviours – see **Box D**.

"We also reviewed our performance on risk and our people."

We asked questions around **"making sure things go to plan"**. We covered risk management, the organisational response to risk and control, information on risks and assurances on controls. Overall we were satisfied that oversight on risk issues has improved on last year, is robust and that we tackle risk effectively: although we want to strengthen this further.

We also looked at **"doing the right thing by our people"**. This year we gave considerable emphasis to leadership development through the Lead to Succeed programme, which was attended by our directors and the top management team. The Management Board reviewed feedback from Lead to Succeed participants; the annual employee 'Your Say' survey which gives a good indicator to morale and management style in the business; and working forums conducted as part of our Project 2020 change programme. This included views on responsiveness to stores and customers; engaging and motivating teams; how business performance is managed; and how the organisation communicates. As a result, the rollout of our Lead to Succeed programme for our top 100 people has been accelerated; performance management processes have been strengthened further; and a leadership index introduced in our employee survey to help line managers benchmark and improve their performance. Furthermore, management performance is now linked to individual bonus.

Governance report
Effectiveness continued

Action Plan 2010/11

Overall we felt we had addressed all the points on our 2009/10 action plan. The Board has strengthened its structures and approach and is working well. But there is always scope for doing better so this year we have set ourselves actions to support our commitment to driving further improvement.

In 2010/11, in addition to its other responsibilities, the Board will focus on:

- developing leaders within the business;
- ensuring the reward systems are appropriate and stretching;
- monitoring the level of risk and the governance to support risk management; and
- making the most of our heritage and values.

We will report on our progress again next year.

BOX D: WHAT GUIDES OUR BEHAVIOURS

The Board is the guardian of the M&S brand, its reputation and stakeholder relationships. If we do the right thing, the right way these will be protected.

The Board monitors this and seeks to set the right tone from the top. More specifically, it regularly discusses and reviews:

- **brand values** quality, value, service, innovation and trust;
- **Plan A and sustainability** our ambitious environmental, ethical and social commitments; and
- **code of ethics** a guide to the values, behaviours and ways of working we uphold.

In 2009/10 we reinvigorated our **performance management**. Line managers are now more accountable for creating the right conditions for people to perform at their best. This includes giving regular feedback, not only against set objectives but also against the eight business competencies which describe the behaviours required at M&S.

Our **heritage** is important and affects what people expect from us. We must build on our history and values to keep them relevant to doing business today so that our past can inform our future. Last year we celebrated our 125th anniversary with our customers and employees. We know we are only as strong as the communities in which we trade so we also challenged employees to raise £1.25m for local charities in just 125 days. Across the country, employees rose to the challenge, more than doubling this target to raise £2.8m benefitting over 500 local charities.

We are proud to have built up one of the best corporate archives in the UK which we will be moving to the University of Leeds in 2011. Our archive comprises over 60,000 items including clothing, artefacts and photographs. It illustrates our past but also challenges us to make sure we continue to do the right thing for the continued success of M&S.

"Quite rightly, people have very high expectations of Marks & Spencer – our products, our services and our people. If ever I'm in any doubt about the right thing to do, I know I can look to our enduring brand values of quality, value, service, innovation and above all, trust."

Lesley Brownett, Deputy Secretary

Who is on our Committees?

Our non-executive directors play an important governance role in the detailed work they carry out on our Committees on behalf of the Board. On 9 September 2009 we made a number of changes. Steven Holliday, who has been a member of the Remuneration Committee since his appointment to the Board in July 2004, stepped up to chair that Committee and Jan du Plessis was appointed a member. Louise Patten was also appointed a member of the Audit Committee. The Group Secretary supports the Committee Chairmen in making sure members are equipped for robust debate and informed decision-making and that they allocate their time to the right things.

The Board has satisfied itself that at least one member of the Audit Committee has recent and relevant financial experience and is confident that the collective experience of its members enables it to be effective. It also has access to the financial expertise of the Group, the external and internal auditors and can seek further professional advice at the Company's expense, if required.

Nomination & Governance Committee

Sir David Michels, Chairman
Sir Stuart Rose
Marc Bolland*
Jeremy Darroch
Martha Lane Fox
Steven Holliday
Louise Patten
Jan du Plessis

Audit Committee

Jeremy Darroch, Chairman
Sir David Michels
Martha Lane Fox
Steven Holliday
Louise Patten**
Jan du Plessis

Remuneration Committee

Steven Holliday**, Chairman
Martha Lane Fox
Sir David Michels
Louise Patten
Jan du Plessis**

* Appointed 1May 2010.
** Appointed on 9 September 2009.

What have the Committees done during the year?

In 2009/10 the Board had to make some high profile decisions during a period of continuing economic uncertainty which had an understandable impact on consumer and investor confidence. As a result our non-executives committed significant time in addition to their scheduled meetings set out on page 53. Our Chairmen have set out overleaf the key areas of focus of Committees last year, as illustrated in **Box E.**

Nomination & Governance Committee

Sir David Michels Committee Chairman

We put a great deal of time and effort into finding the right CEO: we spent considerable time with our external consultants, defining our needs and reviewing prospective candidates. We managed a thorough, orderly search and interviewed rigorously. I am confident that as a result we've been successful in securing a strong CEO in Marc Bolland. We also recommended the appointment of John Dixon as an executive director, made changes to our Committee membership and appointed a new Group Secretary.

We have given increased focus to leadership development through the Lead to Succeed programme and strengthened our performance management processes. We want to ensure we have a high performing workforce to get us through the current tough trading conditions. We want to be better at identifing tomorrow's leaders. Those demonstrating high potential qualities are included in the business succession plan. We have also reviewed induction to help our new joiners get off to the best start. For our part, we have taken a rigorous approach to Board and committee performance reviews. Prior to his appointment as an executive director, John Dixon spent time with one of our non-executive directors to prepare him for his wider accountabilities as a Board member.

Reflecting Stuart's earlier comments, we reviewed how we can make our governance more meaningful to our people in the business so that we can all make sure we are doing the right thing, the right way at Marks & Spencer.

Audit Committee

Jeremy Darroch Committee Chairman

With the continuing changes in our business and the very challenging economic climate, a key focus this year has been the Group's approach to risk, keeping a close eye on our financial performance and strength. To enable the Board to make more informed decisions on strategy and business priorities, we made our approach to risk more dynamic and insightful, whilst keeping it simple and practical. The Board confirmed that it would increase the time it spent on risk appetite whilst continuing to rely on the Audit Committee for risk oversight; therefore a separate risk committee is not required.

The effectiveness of our external auditors is key to giving us confidence in the Group's approach to controls and risk and to enable us to recommend the reappointment of PricewaterhouseCoopers LLP. We judge them on the quality of their audit findings, management's response and stakeholder feedback. We check on their independence by making sure they are sufficiently challenging on management. We also set the audit and non-audit fees (see page 88) and make sure that our auditor engagement policy is adhered to when commissioning non-audit work. Audit partner rotation is important to retain the objectivity of the process – Stuart Watson was appointed lead audit engagement partner in 2008/09.

We review the effectiveness of internal audit which focuses its work on business priorities identified by the Group Risk Profile. We track their key findings and the responsiveness of management. To do this we made more time to meet with senior management to understand how they run their businesses, mitigate their risks and keep it all under control. The independence of internal audit is also important. Paul Shearer was appointed Head of Internal Audit and Risk in July 2009. He reports to the Group Secretary and has direct access to me to support him in his role.

As a final safeguard, at the end of each meeting the Committee holds separate meetings with the external and internal auditors, without management present, to discuss their respective areas and any issues arising from their audits.

Remuneration Committee

Steven Holliday Committee Chairman

Our long-term philosophy is to attract and retain leaders who are focused and encouraged to deliver business priorities within a framework that is aligned with the interests of the Company's shareholders.

Our remuneration strategy continues to ensure that a significant percentage of the package remains 'at risk'. This approach has informed the Committee's considerations relating to Marc Bolland's remuneration on his appointment as the new Chief Executive, to succeed Sir Stuart Rose.

The Committee agreed a salary and benefits package for Marc which is consistent with the Company's current remuneration framework for executive directors. The salary is in line with existing M&S remuneration policies and the external market, with the largest part of the package 'at risk', as awards will only be received in the event that the Annual Bonus Scheme pays out and if share grants, made under the Company's Performance Share Plan, hit challenging targets throughout the next two to three years. The Committee considers that payout at maximum levels under these schemes will be as a result of significant outperformance by the business, with substantial levels of return for investors. The Committee put in place a recruitment package which fairly compensated Marc for his awards that were forfeited with his previous employer and which the Committee was fully satisfied would meet their performance targets and pay out had Marc remained in their employ.

The Committee also agreed the remuneration for Stuart's transition to Chairman at the end of July 2010.

In 2009/10, the Company clearly outperformed the targets set both in the internal operating plan and those expected by the City. This level of performance resulted in a bonus being paid for the first time in three years across the whole organisation. Given the economic forecasts that prevailed at the start of this financial year, these payments reflect significant performance both at an individual and Company level.

For 2010/11, the targets for the Company's long-term incentive plan have been amended upward to ensure that they remain challenging and at least as demanding as the targets set in previous years.

The remuneration of the non-executive directors is determined by the Chairman, Deputy Chairman and the executive directors. Further information the Remuneration Committee's activities are given in the Remuneration report on pages 58-71.

Governance report

Effectiveness continued

BOX E: WHAT THE COMMITTEES HAVE DONE DURING 2009/10

Nomination & Governance Committee

- Agreed process and timetable for new CEO, shortlisted candidates and recommended Marc Bolland to the Board;
- Reviewed Committee Chairmen and membership;
- Recommended John Dixon's appointment as Executive Director and Amanda Mellor's appointment as Group Secretary; and
- Reviewed the impact of governance from the boardroom to the business.

Audit Committee

- Reviewed the Group's approach to risk to make it more dynamic and insightful, whilst keeping it simple and practical;
- Met separately with the directors of GM, Food, Retail and Direct and IT and Logistics to review risks and mitigating actions;
- Received reports from external and internal audit on the major findings on their work and progress of management follow up; and
- Received assurance on going concern, counterparty risks, pension valuation, property values, code of ethics and Plan A.

Remuneration Committee

- Agreed remuneration arrangements for new Chief Executive and outgoing Chairman;
- Reviewed total reward framework for directors and senior managers, including long-term and short-term incentives and performance measures;
- Challenged and revised the targets for June 2010 Performance Share Plan; and
- Engaged with investors regarding the principles of senior remuneration.

How have the Committees rated their performance?

In February 2010 Committee members completed a questionnaire electronically to rate their performance. An unattributed executive summary was then distributed to all members for discussion at their respective meetings and key actions agreed:

Committee	Review of 2009/10 confirmed that	Key actions for 2010/11
Nomination & Governance	– the appointment process for our new CEO was robust and delivered an excellent candidate; – we are on track to appoint an independent Chairman by March 2011; and – during this period of economic uncertainty, Lead to Succeed is having a positive impact on our leadership.	– support Stuart and Marc through the transition to separate Chairman and Chief Executive roles by end July 2010; – conclude search for new Chairman and finance director – review skills mix of the wider Board and committees following these appointments – keep governance connected with the business, spending time with leadership and our people.
Audit	– the Committee's challenge on risk has improved the process and given leadership a more focused approach; and – management presentations have increased the Committee's understanding of the key business issues.	– keep the risks and controls of our new business processes and IT systems under review; and – work with the Board in reviewing any changes to our risk appetite and tolerance.
Remuneration	– our approach to remuneration philosophies has been rigorously debated during a time of economic uncertainty and intense media scrutiny; and – the Committee has been kept informed of wide-ranging investor opinion.	– review the senior remuneration strategy in line with any changes to business priorities following the appointment of our new Chief Executive; and – review impact of remuneration on culture and behaviour, at all levels in the business.

PENSION SCHEME GOVERNANCE

The Group operates a defined benefit ('DB') scheme for all employees with an appointment date prior to 1 April 2002 and a defined contribution ('DC') scheme open to those joining the Company on or after 1 April 2002. More information is given in note 11 on pages 92 to 94.

The Board of the Pension Trust ('Trustee Board') manages the assets of the pension scheme which are held under trust separately from those of the Group. The Trustee Board comprises Tony Watson as independent Chairman and Law Debenture Trust as independent Trustee, together with five company representatives and five member representatives (Member Nominated Trustees – 'MNTs'). There are four main committees: DB, DC, Investment and Actuarial Valuation. MNTs are appointed through a selection process.

The Trustee Board has a business plan and at the start of each year the Trustee reviews the plan and objectives from the previous year and agrees its objectives and associated budget for the current year. There is a communications strategy and plan, a risk register and action plan, a conflicts of interest policy and a register and code of ethics, all of which are reviewed at least annually. There is also an annual board effectiveness review and each Trustee has an individual training plan which is based on the Pension Regulator's Trustee Knowledge and Understanding requirements.

All advisers and suppliers are appointed through a rigorous tender process. They are monitored via quarterly reports and periodic meetings. There is a rolling programme of adviser reviews with an informal review annually and a formal review every three to five years. The most recent appointment, in August 2008, was Ernst & Young as Company covenant monitoring adviser.

Board and Committee attendance

The following table sets out the number of meetings of the Group Board and its principal committees during 2009/10 and individual attendance by Board and committee members at those meetings.

	Board Meetings		Nomination & Governance Committee		Audit Committee		Remuneration Committee	
Name of director	A	B	A	B	A	B	A	B
Chairman								
Sir Stuart Rose[1]	9	9	10	9	–	–	–	–
Deputy Chairman								
Sir David Michels[2]	9	9	10[C]	10	5	3	10	8
Chief Executive								
Marc Bolland (appointed 1 May 2010)	–	–	–	–	–	–	–	–
Executive directors								
Kate Bostock[3]	9	8	–	–	–	–	–	–
John Dixon (appointed 9 September 2009)	6	6	–	–	–	–	–	–
Ian Dyson	9	9	–	–	–	–	–	–
Steven Sharp	9	9	–	–	–	–	–	–
Non-executive directors								
Jeremy Darroch[4]	9	8	10	8	5[C]	5	–	–
Martha Lane Fox[5]	9	9	10	9	5	5	10	9
Steven Holliday[6]	9	8	10	10	5	5	10[C]	10
Louise Patten[7]	9	9	10	9	3	3	10	10
Jan du Plessis[8]	9	9	10	10	5	4	6	6

A = Maximum number of meetings the director could have attended.
B = Number of meetings the director actually attended.
C = Committee Chairman

1 Sir Stuart Rose did not attend the Nomination & Governance Committee meeting on 26 February 2010 as it concerned the succession of Chairman.
2 Sir David Michels was unable to attend the Audit Committee meeting on 14 January 2010 due to other M&S Commitments and on 17 March 2010 due to personal commitments. He was unable to attend the Remuneration Committee meeting on 18 November 2009 and 24 February 2010 due to overseas business commitments.
3 Kate Bostock was unable to attend the Board Meeting on 9 December 2009 through illness.
4 Jeremy Darroch was unable to attend the Board Meeting on 6 May 2009 and the Nomination & Governance Committee meetings on 6 May and 16 November 2009 due to overseas business commitments with BskyB.
5 Martha Lane Fox was unable to attend the Remuneration Committee meeting on 22 May 2009 and the Nomination & Governance Committee on 2 September 2009 due to other business commitments.
6 Steven Holliday was unable to attend the Board Meeting on 3 November 2009 due to overseas business commitments with National Grid.
7 Louise Patten was unable to attend the Nomination & Governance Committee meeting on 29 September 2009 due to other business commitments.
8 Jan du Plessis was unable to attend the Audit Committee meeting on 12 May 2009 due to business commitments with Rio Tinto.

All reviewed the relevant papers and provided comments to the Chairman or Committee Chairman as appropriate.

Governance report

Accountability

How do we manage our risks and controls?

Our aim is to build a sustainable business through consistent, profitable growth and to make sure that our customers and wider stakeholders can always trust us to do the right thing. We recognise that creating shareholder value is the reward for taking acceptable risks.

The Board has overall accountability for running the business effectively – making sure risks are managed and it's all under control. Internal controls and risk management are designed to limit the chance of failure to achieve corporate objectives. Independent assurance is provided by the external auditors and internal audit, who present their findings regularly to the Audit Committee.

We have adopted an integrated approach to our risk management, independent assurance and internal controls to ensure greater linkage across our review and assessment of risk.

How does the Board know it's all under control?

We are an extensive business with a wide range of objectives and risks. The Board is responsible for ensuring that everything goes according to plan and that reporting lines and individual accountabilities are clearly understood. We also have operating policies and procedures covering everything from financial planning and reporting, capital expenditure, project governance and information security to business continuity, employee performance management and how we do business. Detailed policies and procedures are in place to ensure the accuracy and reliability of financial reporting and the preparation of consolidated financial statements.

This year the Board has reviewed and agreed changes to some key polices and procedures including:

- reconstitution of the Management Board to clarify its accountabilities for strategic initiatives, risk management, business processes, systems and controls;
- establishment of the Group Investment Committee through which all investment and commitment between £1m-£15m is now reviewed, giving greater visibility, control and consistency to the approval process across the Group;
- acceleration of Lead to Succeed, our leadership development programme that started last year, to drive the business forward through collaborative working, sharper focus on the customer and clearer accountabilities; and
- ongoing tight control of our cash flow, working capital, cost management and capital expenditure. We have also reviewed our financial headroom and debt profile resulting in a bond buy-back and issue of new debt.

How does the Board get a clearer picture of the risks?

Every six months the Board reviews the Group Risk Profile – the tool that drives business improvement and internal audit activity. This is supported by an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. Our principal risks and uncertainties are set out on pages 56-57.

The Audit Committee is responsible for monitoring the risk process and this year provided challenge in a number of areas. As a result we have improved the risk process to make it more dynamic and insightful, whilst keeping it simple and practical. Key changes include:

- greater Management Board engagement so that risks are clearly understood and owned by executives;
- clearer categorisation of risk likelihood and impact criteria to draw out the most critical risks;
- more detailed understanding of the potential causes and consequences for the top risks in each business area and the impact of any existing mitigation and assurance activity; and
- more insightful risk reporting to highlight consistent themes, enable the Board to make informed decisions on strategy and provide the Audit Committee with assurance over the adequacy and effectiveness of risk management.

Further discussion on financial risk management is given on pages 102 to 105.

ASSURANCE

On behalf of the Board, the Audit Committee examines the effectiveness of the Group's:

- systems of internal control, primarily through approving the internal audit plan and reviewing its findings, reviews of the annual and half year financial statements and a review of the nature, scope and reports of external audit;
- management of risk by reviewing evidence of risk assessment activity and an internal audit report on the process;
- action taken or to be taken to manage critical risks or to remedy any control failings or weaknesses identified.

The Audit Committee has completed its review of the effectiveness of the Group's systems of internal control during the year, which are in compliance with the Turnbull Guidance 2005. It confirms the necessary action plans to remedy identified weaknesses in internal control are in place and have been throughout the year.

Governance report

Communication

Sir David Michels, Deputy Chairman

During 2009/10 it has been particularly important to keep in touch with our principal investors and we have aimed to have better ongoing dialogue with them. Timely and productive discussions require greater effort on both sides, particularly when dealing with high profile matters and media attention.

Both Steven Holliday, Remuneration Committee Chairman, and I have met with investors and shareholder representative bodies, on remuneration and succession, accompanied by the Group Secretary, and have kept the Board informed. We have listened to ensure we understand their concerns. They hold a wide range of views and we do not always agree – it would not be possible given the diversity of opinion among investor groups. However, to do the right thing for M&S the Board needs to be fully informed of their views. We will continue to keep the channels of communication open.

All executive directors attend our full and half year results presentations. Our wider leadership team also met a large number of investors at our Investor Day on 13 October 2009. This focused on our project 2020 change programme and the significant investment we are making in supply chain and IT systems to meet our multi-channel ambitions.

Independent feedback on investor relations is provided to the Board through an annual presentation by Makinson Cowell. This contains major investor views on Company management and performance, based on the results of an extensive survey. This keeps our investor relations programme on track and during the year, our IR team met with representatives from over 275 investment institutions to keep them updated on business performance.

Amanda Mellor, Group Secretary

We welcome the proposed stewardship code for institutional investors, which is being developed alongside the new UK Corporate Governance Code. Following the requisitioned resolution at our AGM in July 2009 we've had more contact with a wider group of investors and shareholder representative bodies. This active dialogue has enabled us to feedback a wide range of views to the Board and develop a better understanding of mutual objectives. This ongoing dialogue will continue to be a key focus going forward.

We have a special relationship with our private shareholders. They own a high percentage of our shares (c30%), many of them are long-term investors and 30,000 of them are employees. We welcome shareholder feedback and mail a topics card with the AGM Notice of Meeting. Over 8,000 replied last year, the vast majority of comments related to our products and stores. Throughout the year shareholders also email the Chairman with their comments, write to us or call our telephone helplines.

Many of our shareholders are loyal customers. We distribute shareholder 'spend & save' vouchers with our January dividend and these continue to be very popular. Along with our registered shareholders, we distribute over 100,000 vouchers to indirect investors through the wide participation of nominee companies.

We do our best to look after private shareholder interests. We encourage them to have their dividends paid into their bank accounts and to keep us informed of their details. However, some fail to do so and as a result, we have reviewed our approach to untraced shareholders – further details are contained in Appendix 1 to the Notice of Meeting.

What happens at our AGM?

Our AGM is one of the most well-attended meetings in the FTSE 100, regularly attracting over 1,500 people, with many more watching via our webcast. Shareholders who are unable to attend are encouraged to vote electronically in advance of the meeting at **sharevote.co.uk** or use the proxy card mailed to them. In 2009 91% of the proxy votes received were lodged electronically through the CREST system.

Before the meeting an exhibition is hosted by our senior retail and business managers. The meeting begins with a business presentation, followed by the Chairman, and other Board members, answering questions raised by shareholders. Shareholders are then invited to vote on the resolutions by electronic poll. This gives a more democratic result as all shares represented on the day and those lodged before the meeting are included. The indicative result is screened at the meeting with the final results announced via the London Stock Exchange.

The Notice of Meeting sets out the resolutions being proposed at the AGM on 14 July 2010. Last year all resolutions were passed, with votes ranging from 87.12% to 99.9%, with the exception of the resolution put by the Local Authority Pension Fund Forum. This proposed bringing forward the appointment of an independent Chairman to July 2010. This resolution was defeated with 62.3% support for the Board's approach to succession, being the appointment of a Chief Executive first, followed by an independent Chairman by May 2011.

Information regarding our share capital is detailed on page 72 of the directors report.

"It was a really informative day, meeting shareholders and colleagues from stores and head office. It was good to see the Board in action, presenting our results, future strategy and answering shareholder questions. Not to mention our 125th anniversary celebrations for which our store raised £23,000."

Silvana Carlberg shareholder and employee at Shoreham store

CORPORATE WEBSITE

There is a wealth of information online, including:
marksandspencer.com/thecompany

- our Governance Framework with individual accountabilities as well as Board and committee terms of reference;
- annual reports and investor presentations;
- latest M&S news and press releases:
- a detailed account of how we have complied with the Combined Code on Corporate Governance 2008;
- our Auditor Engagement Policy for the external auditors;
- our code of ethics; and
- our Articles of Association.

"I just wanted to applaud you on a job well done with the annual report – it's fun, inviting, interesting with lots of colour. I am an accountant and sometimes find these documents incredibly boring. During the course of any week I rarely go without popping into M&S to see what's new."

Anne Chin private shareholder

Governance report

Principal risks and uncertainties

Our approach to risk management

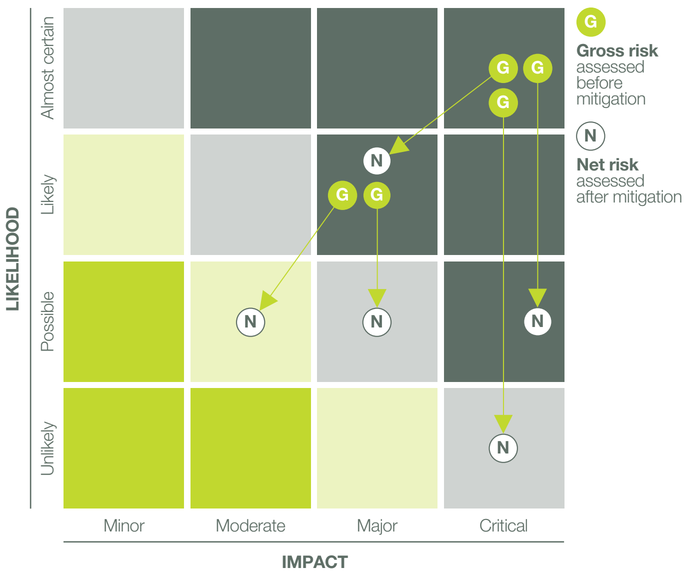
Seeking opportunity and managing risk is at the heart of what we do and is an integral part of day-to-day management.

We capture and report risk in a consistent manner across each business area enabling Internal Audit and Risk to build a bottom up and top down picture of the key risks facing the Group in consolidated form of the Group Risk Profile ('GRP').

The example given opposite illustrates how we report risk. It includes both 'Gross' and 'Net' risk positions with arrows to show how management has reduced risks through appropriate controls and mitigating activity. This prioritises the Internal Audit plan to make sure we test the effectiveness of the most important controls.

The Board reviews the GRP every six months and the Management Board reviews progress quarterly against agreed actions to keep a close watch on how we are managing our risks. The executives give regular reports to the Group Board, Management Board and Audit Committee which give them a more focused approach to identifying and managing their key risks.

Example: Risk profile reporting



Our principal risks

Our risk process is designed to identify, evaluate and manage key business risks. The table below gives examples of what we do to manage these risks. The Board considers these to be the most significant risks to achieving our business goals. The risks listed do not comprise all those associated with Marks & Spencer and are not set out in any order of priority. Additional risks not presently known to management, or currently deemed to be less material, may also have an adverse effect on the business.

Risk and Impact	Mitigating activities
Strategy and finance Our current priorities place a greater emphasis on managing our business through the downturn, underpinning our strong financial position and continuing to invest for the long term, to be well placed when the market improves.	
Economic outlook Poor outlook for the UK and global economy impacts our ability to deliver our market share and margin ambitions	– Regular review of pricing, promotion and marketing strategies for appropriateness and their ability to adapt to a changing consumer market – Ongoing close working with suppliers to help them take cost out of their supply base – Adapting product ranges to meet changing customer needs
Competition Increasing competitor activity impacts our ability to increase or maintain UK market share across GM, Food and/or online	– Comparative shops and feedback with core customer panels – Targeted marketing strategy in place to respond to new competitors in key locations – Maintenance of our opening price point values
Financial position Deterioration in our financial position limits our flexibility and ability to grow the business	– Regular forecasting of debt capacity, financial covenants and other rating metrics within current rating bands – Key management and external advisers fully engaged in formulating strategy for agreeing the pension deficit and funding plan – Ongoing communication with rating agencies and brokers
Brand and reputation We are proud of our brand values of Quality, Value, Service, Innovation and Trust which differentiate our products and services. We have also set ourselves the goal through Plan A to be the most sustainable major retailer in the world by 2015.	
Brand/reputation Failure to meet customer and/or external stakeholder expectations impacts the M&S brand	– Brand values reinvigorated through 'quality worth every penny' – Customer Insight Unit obtains monthly customer feedback and regularly presents findings to the Group Board, Management Board and the business to drive improvement – Code of ethics communicated to the Group and third parties to make sure business is carried out in line with our policies and procedures – Clear communications plan in place to respond to a major crisis, which is tested annually
Plan A Failure to meet our commitments reduces stakeholder trust and confidence	– Plan A team in place supported by a dedicated programme manager – Clear accountabilities set at director level to ensure delivery against our Plan A commitments – Regular reporting to the How we do business Committee and the Group Board with independent assurance from Ernst & Young

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Risk and Impact	Mitigating activities
People and change As we increase the pace of change in the business and continue to invest for the future, it is important to keep strengthening our people and processes at every level.	
People Failure to attract, develop and retain key employees (head office and stores) limits our ability to deliver our plans	– Formalised objective setting in place for all employees, including behaviours aligned to the M&S brand values – Lead to Succeed leadership programme underway to develop and fast track current and potential leaders – Learning and development opportunities available and promoted across all business areas – Bonus scheme in place for all employees based on business and individual objectives
Change projects Failure to effectively deliver our major change projects and minimise disruption to day-to-day operations impacts our business	– Governance structures and delivery teams in place with robust project management discipline across all major change programmes – 2020 Cross Workstream Dependency Management Forum in place to oversee major change projects – New Group Investment Committee and expenditure policy established for all investment and commitment between £1m-£15m – Regular updates to the Group Board on progress against key project milestones
Day-to-day operation We are the UK's leading retailer of quality clothing, food and home products, with more than 21 million UK customers and over 2,000 suppliers.	
Stock management Ineffective stock management impacts availability in stores and online (GM, Food and International)	– Significant investment in IT and aligned business processes across the Group to improve forecasting, availability and stock control – New and improved commercial tools to enable business areas to manage stock better
IT security Major breach in IT security results in severe service disruption or disclosure of personal customer information	– Business crisis management team and processes in place to deal with significant IT security incidents that impact our ability to trade – Clear policies and agreements in place where data is shared or processed by third parties – Extensive controls in place in accordance with international standards for establishing and maintaining information security management
Suppliers/third parties Failure of a key supplier or third party provider impacts the service provided to our customers	– Financial monitoring of all suppliers and flexible payment terms for major suppliers during difficult economic conditions – Dialogue with suppliers and third party providers to identify any issues early on and ensure good working relationships – Review of our supply base to reduce reliance on key suppliers where appropriate
Supply chain Major disruption to the supply chain impacts the delivery of the Group's objectives	– Central IT and back up available to provide support in the event of a system failure at a key site – Business continuity and disaster recovery plans in place and tested at least annually
Selling channels We have ambitious plans for our M&S Direct and International businesses as part of our commitment to broadening our multi-channel offer.	
M&S Direct Failure to keep pace with customer expectations in a fast-developing sector inhibits our ability to compete and grow our Direct business	– Clear growth strategy for Direct – Ongoing focus on performance of website platform, order fulfilment and customer service – Continual review against the market and our competitors
International Failure to leverage our systems and processes limits growth of our International business through franchises, partnerships and wholly-owned businesses	– New leadership, operating structure and people in place to support the International business – Regular executive business reviews and updates to the Group Board to ensure progress against key milestones and identification of emerging business opportunities – Plans underway to improve systems and processes supporting our International business

Remuneration report

Steven Holliday Chairman of the Remuneration Committee

Our long-term philosophy is to attract and retain leaders who are focused and encouraged to deliver business priorities within a framework that is aligned with the interests of the Company's shareholders.

Our remuneration strategy continues to ensure that a significant percentage of the package remains 'at risk'. This approach has informed the Committee's considerations relating to Marc Bolland's remuneration on his appointment as the new Chief Executive, to succeed Sir Stuart Rose.

The Committee agreed a salary and benefits package for Marc which is consistent with the Company's current remuneration framework for executive directors. The salary is in line with existing M&S remuneration policies and the external market, with the largest part of the package 'at risk', as awards will only be received in the event that the Annual Bonus Scheme pays out and if share grants, made under the Company's Performance Share Plan, hit challenging targets throughout the next two to three years. The Committee considers that payout at maximum levels under these schemes will be as a result of significant outperformance by the business, with substantial levels of return for investors. The Committee put in place a recruitment package which fairly compensated Marc for his awards that were forfeited with his previous employer and which the Committee was fully satisfied would meet their performance targets and pay out had Marc remained in their employ.

The Committee also agreed the remuneration for Stuart's transition to Chairman at the end of July 2010.

In 2009/10, the Company clearly outperformed the targets set both in the internal operating plan and those expected by the City. This level of performance resulted in a bonus being paid for the first time in three years across the whole organisation. Given the economic forecasts that prevailed at the start of this financial year, these payments reflect significant performance both at an individual and Company level.

The Committee has once again taken account of risk in its annual review of senior remuneration. With all packages highly geared towards share incentive schemes, the Committee believes that the pay and benefits of the business leaders sufficiently takes account of reward versus risk. For 2010/11, the targets for the Company's long-term incentive plan have been amended upward to ensure that they remain challenging and at least as demanding as the targets set in previous years.

During 2010/11, the Committee intends to review the senior remuneration strategy in line with any changes to business priorities as a result of Marc joining the Company, ensuring our remuneration framework continues to motivate, reward and retain our senior managers to deliver the business strategy.

This Remuneration Report has been prepared on behalf of the Board by the Remuneration Committee. The Committee adopts the principles of good governance as set out in the Combined Code on Corporate Governance 2008 and complies with the Listing Rules of the Financial Services Authority and the relevant schedules of the Companies Act 2006 and the Directors' Remuneration Report Regulations 2002. These regulations require the Company's auditors to report on the 'Audited Information' in the report and to state that this section has been properly prepared in accordance with these regulations. For this reason, the report is divided into audited and unaudited information, and is subject to shareholder approval at the Annual General Meeting (AGM) on 14 July 2010.

PART 1: UNAUDITED INFORMATION

Remuneration Committee

Who are the members of the Remuneration Committee?

The following independent non-executive directors were members of the Committee during 2009/10 and continue to be members:

Member	Period From	To
Steven Holliday (Chairman since 8 September 2009)	15 July 2004	To date
Martha Lane Fox	1 June 2007	To date
Louise Patten (Chairman until 8 September 2009)	1 February 2006	To date
Sir David Michels	26 May 2006	To date
Jan du Plessis	8 September 2009	To date

The Committee met 10 times during the year under review and attendance at the meetings is shown in the attendance table on page 53.

What is the remit of the Remuneration Committee?

The remit of the Committee covers the total remuneration of executive directors and other senior managers. The full terms of reference for the Committee can be found on the Company's website, with the key responsibilities summarised as follows:

- setting a senior remuneration strategy that ensures the most talented leaders are recruited, retained and motivated to deliver results;
- ensuring that the remuneration for executive directors and senior managers reflects both their individual performance and their contribution to the overall Company results;
- determining the terms of employment and remuneration for executive directors and senior managers, including recruitment and termination terms;
- approving the design and targets for any annual incentive schemes that include executive directors and senior managers;
- agreeing the design and targets, where applicable, of all share incentive plans requiring shareholder approval;
- assessing the appropriateness and subsequent achievement of the performance targets related to any share incentive plans; and
- selecting and appointing the external advisors to the Committee.

The Committee continued to retain the services of Hewitt New Bridge Street as independent external advisors. It also seeks internal support from the Executive Chairman, Group Secretary, Director of Human Resources and Head of Employee Relations and Reward. They attend the Committee meetings by invitation but are not present for any discussions that relate directly to their own remuneration.

The Committee also regularly reviews external data produced through several surveys and bespoke benchmarking data, including those published by Hewitt New Bridge Street, Monks PwC, and Towers Watson.

What have been the key activities of the Remuneration Committee during the year?

In line with its remit, the following key issues were discussed by the Committee during the year:

- approval of the 2009 Directors' Remuneration report and review of the final outcome of AGM voting for the report;
- review of all share plan performance measures against 2008/09 year end targets;
- review and approval of all awards made under the Performance Share Plan, taking into account the total value of all awards made under these plans;
- review of and agreement to all executive director and senior manager joining and leaving arrangements, covering all elements of their reward package. In particular the Committee approved the joining arrangements for Marc Bolland, the new CEO and the leaving arrangements for Sir Stuart Rose;
- review of director shareholding guidelines and achievement of these for each executive director;
- half year review of Performance Share Plan awards against target including ratification of vesting levels for 'good leavers' from the Company;
- review of and approval of the total reward framework for directors and senior managers, including long-term and short-term incentives and any associated performance measures;
- review of tax efficiency of the reward framework;
- consideration of advisory bodies and institutional investors current guidelines on executive compensation;
- annual review of all executive directors' and senior managers' base salaries and benefits;
- ratification of any salary increases for executive directors and senior managers in line with Company principles;
- assessment of the risk environment surrounding the Company's current remuneration arrangements;
- design and targets for the 2010/11 Annual Bonus Scheme;
- consideration of the targets to be applied to the 2010 Performance Share Plan awards;
- review of Committee performance in 2009/10; and
- review of terms of reference.

Senior remuneration framework

How is the senior remuneration framework aligned to Company strategy?

A vital part of the Committee's role is to ensure that the remuneration of senior managers, including executive directors, is aligned to the Company strategy described earlier in this Annual Report. The Company must be able to attract and retain leaders who are focused and encouraged to deliver these business priorities within a framework that is also aligned with the interests of the Company's shareholders, for example through bonus deferral and shareholding requirements. In addition, incentive plans need to be effective not only in delivering financial results but also in driving behaviours that uphold the Company's high ethical standards and adequately take account of risk, for example through individual objectives.

When setting the remuneration for directors, the Committee has the discretion to take into account performance on environmental, social and governance matters. Having reviewed the performance targets for 2010/11, the Committee has again decided that these should continue to be an integral part of individual objectives rather than taken into specific account. All executive directors and senior managers have individual objectives aligned to Plan A, the Company's 'eco plan'. The Committee believes that current structures already encourage and reward appropriate behaviours and that the relevant operational controls relating to such matters equally exist.

What are the key elements of remuneration for executive directors?

The key elements of remuneration are:

- salary and benefits;
- Annual Bonus Scheme with compulsory deferred shares; and
- Performance Share Plan (PSP), the Company's long-term incentive plan.

The Committee considers these components in total to ensure there is the right balance between reward for short-term success and long-term growth.

Remuneration report continued

Senior remuneration framework continued

For executive directors, this can be summarised as follows:

	Policy	Delivery
Base Pay	Reviewed against: – salary levels in comparably-sized companies and major retailers; – economic climate, market conditions and Company performance; – the level of pay awards in the rest of the business; and – the role and responsibility of the individual director	– monthly in cash – reviewed annually with any increases normally awarded from 1 January
Benefits	– provided on a market competitive basis – aligned to total reward structure for all employees – affordability	– Group Pension Scheme: This compromises a defined benefit section, which closed to new entrants with effect from 1 April 2002 and a defined contribution section which has been open to new members since 1 April 2003. Executive directors who are not part of the scheme receive a salary supplement in lieu of pension – life assurance cover where the executive director is not a member of the Group Pension Scheme – car or car cash allowance plus driver – all-employee share schemes (Save As You Earn) – employee product discount
Annual Bonus Scheme: with compulsory deferral into shares	– drive profitability and sales across the whole organisation – stretching targets required to achieve maximum payment – Group PBT with an individual performance element – aligned to shareholder interests	– bonus potential of up to 250% of salary for 'maximum performance' – compulsory deferral of 60% of bonus earned into shares – shares vest after three years, with no further performance condition other than continued employment
Performance Share Plan	– primary long-term incentive – link individual reward with long-term growth in the Company – aligned to shareholder interests – targets based on EPS over a three-year performance period	– annual awards – normally up to 200% of salary with up to 400% of salary in exceptional circumstances – awards vest after three years based on achievement of performance targets

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What is the expected value of future annual remuneration package for executive directors?

The following charts show the total remuneration package split between pay at risk and fixed pay for ‘on-target’ and ‘maximum’ performance.

MARC BOLLAND

‘On-target’ performance

Pay at risk
- Long-term incentives **48%**
- Annual cash bonus **8%**

Fixed pay
- Salary **34%**
- Pension supplement **10%**

‘Maximum’ performance

Pay at risk
- Long-term incentives **77%**
- Annual cash bonus **10%**

Fixed pay
- Salary **10%**
- Pension supplement **3%**

KATE BOSTOCK, JOHN DIXON, STEVEN SHARP

‘On-target’ performance

Pay at risk
- Long-term incentives **39%**
- Annual cash bonus **10%**

Fixed pay
- Salary **41%**
- Pension provision **10%**

‘Maximum’ performance

Pay at risk
- Long-term incentives **69%**
- Annual cash bonus **14%**

Fixed pay
- Salary **14%**
- Pension provision **3%**

The charts exclude:

– all recruitment awards
– Sir Stuart Rose, as his remuneration will change during the year to reflect his new role as Chairman. He will not receive an award under the Company’s long-term incentive scheme in 2010
– Ian Dyson, due to his resignation on 5 May 2010

The value placed on long-term incentives compromises the expected cash value to executive directors after three years, discounted back to its present value, of (i) bonus compulsorily deferred into shares and (ii) performance shares awarded under the Performance Share Plan.

Remuneration report continued

What are the pay and benefits received by the Board?

Executive directors' remuneration

Salary

In setting salary levels for 2010, the Committee considered current market conditions, the Company's performance in 2009/10 and the general salary increase applying to the rest of the organisation. It also took into account that no salary increases were awarded to executive directors in 2009. Following this review, the Committee agreed an increase of approximately 2.5% to executive director salaries from January 2010. The average salary increase for the rest of the business over the same two year period was 5.3% (3.3% in 2008/09 and 2% in 2009/10).

The Committee also approved salary adjustments of approximately 12% in July 2009 for both Kate Bostock, to reflect her new role as Executive Director, General Merchandise with an extended remit covering per una and the Home business, and for Steven Sharp, to reflect the continuing importance of the branding and marketing of M&S.

Current annual salaries for executive directors are shown in the Contract terms table on page 65.

Benefits

Where applicable, current executive directors receive a 25% salary supplement in lieu of membership of the Group Pension Scheme, with life assurance provided through a separate policy. Each executive director also receives a car or car cash allowance and is offered the benefit of a driver. The value of the benefits and allowances for each director is shown within the Directors' emoluments table on page 67. Employee product discount is also received but no specific value is placed on this all-employee benefit.

Pension provision

Employees with a permanent employment date prior to 1 April 2002 are eligible to participate in the Company's Defined Benefit Pension Scheme. The scheme is non-contributory and subject of an Independent Trust. The normal retirement age under this scheme for senior management is 60. John Dixon is the only executive director who is a member of this scheme. In addition, he receives a 25% salary supplement on a portion of his non-pensionable salary. Further details of the Group Pension Scheme, including the Marks & Spencer Retirement Plan for employees who joined the Company on or after 1 April 2002 can be found in note 11 to the financial statements on page 91 of this Annual Report.

Deputy Chairman

The fee for the Deputy Chairman reflects the level of commitment and responsibility of the role and is determined by the Executive Chairman and executive directors. It is paid monthly in cash, and is inclusive of all committee memberships and Sir David Michels' continuing role as Senior Independent Director. The fee has not increased since his appointment to the role in June 2008. The fee is not performance related or pensionable, and there are no other benefits other than employee product discount.

Non-executive directors' remuneration

The fees for non-executive directors are determined by the Executive Chairman, Deputy Chairman and executive directors. Fees are set at a level that ensures the Company can attract and retain individuals with the required skills, experience and knowledge so that the Board is able to effectively carry out its duties.

The fees recognise the responsibility of the role and the time commitments required, and are not performance related or pensionable. They are paid monthly in cash and there are no other benefits other than employee product discount.

A review of non-executive director fees was last carried out in February 2009 which indicated that they were appropriate for the role in the current market. No increases were therefore made to either the basic annual fee or for any Committee Chairman or membership fee in 2009/10. The current fees are as follows:

basic annual fee:	£55,000
Committee Chairman:	£12,000*
Committee member:	£6,000*

* Audit and Remuneration Committee only.

The Directors' emoluments table on page 67 shows the fees paid during the year to each non-executive director.

What are the current short-term and long-term incentive schemes?

Annual Bonus Scheme – short-term incentive
Deferred Share Bonus Plan – long-term incentive

The Annual Bonus Scheme is reviewed annually and is designed to drive individual performance and profitability across the whole organisation. The bonus potential for executive directors is up to 250% of salary for 'maximum' performance. For all senior managers, there is a compulsory deferral into shares. Further details of the Deferred Share Bonus Plan can be found in note 12 to the financial statements on page 95 of this Annual Report.

Bonus scheme outcome for 2009/10

75% of the executive directors' bonus for 2009/10 was based on Profit Before Tax (PBT) performance. The Committee, in line with best practice, has used the same methodology for a number of years for setting PBT targets, namely stretching targets set by reference to the operating plan, believing it is appropriate to maintain a consistent application of the scheme. This approach, coupled with the Board's track record of setting highly challenging plans, means that even in years when significant profit has been delivered, no bonus payments have been made, for example, in 2007/08, despite the achievement of PBT in excess of £1bn (as the relevant operating plan figure was higher).

For 2009/10, the PBT targets set by the Committee were again highly demanding by reference to the internal operating plan, analysts' profit forecasts and external forecasts for the retail sector. Higher levels of bonus payments required very significant stretch above plan. Actual PBT performance of £694.6m was in excess of the stretch target set for full payment and therefore the Committee approved maximum bonus payments under this measure for 2009/10.

The remaining 25% of the executive directors' bonus for 2009/10 was based on individual director objectives aligned to business strategy. The personal performance by each director against these individual objectives for the year has been reviewed by the Committee, and the agreed level of achievement is reflected in the payments made.

Bonus scheme for 2010/11

The scheme will have the same ‘maximum’ bonus potential as in 2009/10 of 250% of salary. PBT will continue to be the main target. 75% of the executive directors’ bonus will be based on this measure with the exception of Sir Stuart Rose, who will have 60% of his bonus based on this measure, reflecting his change in role during the year. The remaining bonus potential will be based on pre-set individual director objectives aligned to the Company’s strategic priorities. In the case of Sir Stuart Rose, these objectives will relate to both the performance of the Company during the year against other financial measures and key strategic targets as well as measures linked to the handover of his executive responsibilities. However, no individual element can be earned unless a threshold PBT target has been achieved. This policy for individual objectives aligns executive directors, senior managers and other employees within the Annual Bonus Scheme.

The PBT targets have again been set based on Company’s own internal operating plan, external forecasts for the retail sector and analysts’ profit forecasts. For there to be any payment under the PBT measure in 2010/11 there is a requirement for both year on year PBT growth and outperformance of the operating plan. Very significant out-performance of the operating plan will be required for higher bonus payments. As noted above, 60% of any bonus earned is usually deferred into shares for three years with no further performance conditions. However, due to his imminent departure from the Company, and in line with the policy for ‘good leavers’, any bonus earned by Sir Stuart Rose for 2010/11 would be paid wholly in cash in July 2011.

Performance Share Plan (PSP) – long-term incentive

This continues to be the primary long-term incentive for executive directors and senior managers in the Company. The plan normally allows awards up to 200% of salary, although up to 400% of salary may be awarded to recognise exceptional performance or to address key recruitment and retention issues. The performance targets are currently based on adjusted earnings per share (EPS) over a three-year period.

Performance Share Plan Outcome 2009/10

The minimum EPS target of RPI+4% over the three-year performance period for awards made in 2007 has not been achieved and so no shares under this PSP award will vest in June 2010.

Performance Share Plan Awards 2010/11

The Committee has again reviewed alternative performance measures for this scheme for this year, considering in each case the current economic climate and their alignment to business strategy. The Committee concluded that EPS is still the most effective measure of management performance, being easy to understand and a transparent measure of the Company’s success and shareholder return.

The Committee intends to undertake a full strategic review of the long-term incentive plan and assess the relevance of the associated performance criteria, including the use of a sole metric such as EPS. The Committee felt it advisable to undertake this review once Marc Bolland has had a chance to assess the Company’s strategy.

When the PSP was adopted, shareholders were informed that the Committee may set different EPS targets for awards made in future years, provided that the Committee considers that any new targets are at least as challenging in the circumstances as the previous targets. On this basis, the Committee has considered the targets for each year’s award in light of anticipated future growth. In recent years, as the economic outlook worsened, the targets were reduced. However, the Committee considers that for 2010, both maximum vesting targets should be increased as well as the minimum target for exceptional awards over 200% of salary.

For the 2010 award, the Committee has decided that 20% of the award will vest if EPS growth is equal to RPI plus 3% p.a., rising on a straight-line basis so that 100% vests for growth of RPI plus 9% p.a. This will be the target applying to all awards up to 200% of salary. Should any awards over 200% of salary be made, the principle of more stretching targets will apply. For the element of awards over 200% of salary, 20% of the award will vest if EPS growth is equal to RPI plus 4% p.a., increasing on a straight-line basis so that 100% vests for growth of RPI plus 12%.

The Committee considers that these targets are challenging and at least as demanding in the circumstances as targets set in previous years.

The targets for all awards are:

	Average Annual EPS Growth in excess of inflation (RPI)		
Award	20% vesting[1]	100% vesting[1]	Adjusted EPS for start of scheme
2007	4%	10%	
	4%	12%	40.4p
2008	3%	6%	
	3%	8%	43.6p
2009	3%	6%	
	3%	8%	28.0p
2010	3%	9%	
	4%	12%	30.0p[2]

1 The lower range is for awards up to 200% of salary and the upper range is for awards between 200% and 400% of salary.
2 The adjusted EPS for the start of the 2010 scheme is based on the 52 week result, ensuring a like-for-like measure.

Executive Share Option Scheme – long-term incentive

The scheme was adopted at the 2005 AGM, but there is currently no intention to use the scheme on a regular basis. No grants have been awarded under the Executive Share Option Scheme for 2009/10. The Committee will continue to review the use of the scheme and may grant awards if appropriate.

All outstanding awards met their performance targets in previous years and are exercisable by participants. Executive directors have options granted in 2004 under the 2003 scheme as shown in the Share Option Schemes table on page 70.

Remuneration report continued

All-Employee Share Schemes – long-term incentive

Executive directors can participate in Sharesave, the Company's Save As You Earn (SAYE) scheme which is open to all employees. The current scheme was approved by shareholders for a 10-year period at the 2007 AGM.

The scheme is subject to HMRC rules which limit the maximum monthly savings to £250. When the savings contract is started, options are granted to acquire the number of shares that the total savings will buy when the contract matures, at a discounted price set at the start of the scheme. Options cannot normally be exercised until a minimum of three years has elapsed.

All executive directors have options granted in 2008, at a 20% discount on the share price at the start of the scheme. The details of the options granted are shown in the Share Option Schemes table on page 70.

Appointment of new Chief Executive

Marc Bolland was appointed Chief Executive from 1 May 2010. His ongoing remuneration package is consistent with the standard structure for executive directors previously outlined. He has a starting salary of £975,000, a 30% salary supplement in lieu of membership of the Group Pension Scheme, will participate in the Annual Bonus Scheme and will receive an annual award of shares under the Performance Share Plan. In addition, he will receive relocation payments under the normal terms of the Company's relocation policy for new recruits.

In order to facilitate his recruitment, the Committee agreed to compensate Marc Bolland for outstanding incentive awards, the expected levels of which reflected the turnaround of his previous employer's performance during his tenure. These included his 2009/10 annual bonus award and share awards due to vest in 2010, 2011 and 2012. In determining the level and form of compensation, the Committee took into account the extent to which the performance conditions applying to these awards had been met or were likely to be met, mindful of the Committee's duty not to pay more than was necessary to secure his recruitment.

The Committee's assessment was that there was significant value in all of his outstanding awards. Where an entitlement to incentives existed and were due to be paid this year had Marc Bolland remained in employment, the Committee agreed to pay the value of these awards on joining. However, a proportion of awards that had a certainty of vesting with his previous employer were exchanged for awards that will be 'at risk' due to performance conditions attached to the M&S incentive schemes.

Having undertaken this assessment, the Committee agreed one-off awards to be made in June 2010. These compensatory awards have only be granted without performance conditions where the Committee was satisfied that Marc Bolland's outstanding awards from his previous employer due to vest in 2010 and 2011 had already satisfied or were likely to satisfy their performance conditions in full, or to a significant degree. The Committee therefore agreed:

- As compensation for bonus and share awards that would have vested in 2010 had he remained with his previous employer, £1.6m in cash and £1m in shares, both subject to Income Tax and National Insurance. These shares vest immediately but must be retained in accordance with the Company's shareholding policy outlined later in this report;
- As compensation for share awards that were on track and likely to vest in 2011 and 2012 had he remained with his previous employer, the Committee agreed awards that remain 'at risk' through:

(i) a restricted share award worth £1m. These shares will vest in two tranches in December 2011 and June 2012, subject to continued employment until the vesting date. He will also receive the value of any dividends occurring on the awarded shares between grant and vesting; and

(ii) a performance share award worth £3.9m (equivalent to 400% of salary). These shares will vest in June 2012 subject normally to continued employment until the vesting date and subject to satisfaction of a performance condition. This is based on EPS growth targets equivalent to those applying to awards granted under the PSP during 2009. These targets are set out in the table on page 63. To the extent that the performance shares vest, he will also receive the value of any dividends occurring on the shares between grant and vesting.

If, prior to the normal vesting date, Marc Bolland ceases to be an employee then the restricted share and performance share awards will lapse unless his departure is by reason of death, retirement, redundancy, disability or in other circumstances at the Committee's discretion in which case the award shall vest subject (where relevant) to performance and subject to time pro-rating (unless disapplied at the Committee's discretion). Similar provisions apply to these awards in the event of vesting following a change of control.

The restricted share and performance share awards, which are not pensionable, were granted to facilitate Marc Bolland's recruitment on 1 May 2010 under the terms of the Listing Rules 9.4.2R(2).

The number of shares subject to Marc Bolland's awards described above may be adjusted in the event of any variation of share capital or a demerger, special dividend or other similar event. The awards cannot be transferred, charged or otherwise disposed of by him. The awards will be satisfied with existing shares other than treasury shares. The awards cannot be amended to the advantage of Marc Bolland in relation to the basis for determining his entitlement to, and the terms of, the shares and/or cash to be provided under the awards and any adjustment that may be made for any variation of share capital without prior shareholder approval in general meeting except for minor amendments to benefit the administration of the awards, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment.

What is the current 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 when the awards vest.
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 relevant dilution limits set by the Association of British Insurers (ABI) in respect of all share plans (10% in any rolling 10 year period) and executive share plans (5% in any rolling 10 year period) was 7.42% and 2.02% respectively on 3 April 2010.

Contracts

What are the current service contracts and terms of employment for directors?

Executive directors

All executive directors and senior managers have service contracts that can be terminated by the Company giving 12 months' notice and by the employee giving six months' notice.

The Company retains the right to terminate the contract of any executive director summarily, in accordance with the terms of their service agreement, on payment of a sum equal to the contractual notice entitlement of 12 months' salary and specified benefits.

For all current executive directors, the Company reserves the right on termination to make phased payments which are paid in monthly instalments and subject to mitigation. Entitlement to participate in share schemes ceases on termination.

Deputy Chairman

Sir David Michels has an agreement for service which requires six months' notice by either party.

Non-executive directors

Non-executive directors have agreements for service with the Company for an initial three-year term, which can be terminated on three months' notice by either party.

Contract terms and current annual salaries/fees for all members of the Board during the financial year

Name	Date of appointment	Notice period/ unexpired term	Basic salary/fee £000	Committee member fee £000	Committee chair/SID fee £000	**Current annual salary/fee £000**
Executive Chairman						
Sir Stuart Rose[1]	31/05/2004	12 mths/6 mths	1,160	–	–	**1,160**
Deputy Chairman						
Sir David Michels	01/03/2006	6 mths/6 mths	245	–	–	**245**
Executive directors						
Kate Bostock	10/03/2008	12 mths/6 mths	575	–	–	**575**
John Dixon	09/09/2009	12 mths/6 mths	512	–	–	**512**
Ian Dyson[2]	27/06/2005	12 mths/6 mths	692	–	–	**692**
Steven Sharp	08/11/2005	12 mths/6 mths	640	–	–	**640**
Non-executive directors						
Jeremy Darroch	01/02/2006	3 mths/3 mths	55	6	12	**73**
Martha Lane Fox	01/06/2007	3 mths/3 mths	55	12	–	**67**
Steven Holliday	15/07/2004	3 mths/3 mths	55	12	12	**79**
Louise Patten	01/02/2006	3 mths/3 mths	55	12	–	**67**
Jan du Plessis	01/11/2008	3 mths/3 mths	55	12	–	**67**

1 The Company gave Sir Stuart Rose 12 months' notice of termination of his contract on 18 March 2010. Sir Stuart Rose has agreed to reduce his salary from £1,160,000 to £875,000 with effect from 31 July 2010 until the end of his notice period as recognition of his altered role once the new Chief Executive has been integrated into the Company. Sir Stuart Rose's maximum bonus potential for 2010/11 will be calculated by reference to the higher salary until 31 July 2010 and by reference to the reduced salary from 1 August 2010.

2 Ian Dyson resigned on 5 May 2010. His agreed leaving date will be 31 August 2010.

What are the executive directors' external board 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 M&S. The individual director retains the fee, the details of which are shown below for this financial year:

	Company	**Fee £000**
Sir Stuart Rose	Land Securities Group plc	**57**
Ian Dyson	Betfair Group Ltd	**11**
Steven Sharp	Adnams plc	**27**

Remuneration report continued

Directors' interests

What are the directors' interests in the Company?

The beneficial interests of the directors and connected persons in the shares of the Company are shown below. Options granted under the SAYE scheme and the Executive Share Options Scheme and shares awarded under the Performance Share Plan and Deferred Share Bonus Plan are shown in Part 2 of this report. Further information regarding employee share option schemes is given in note 12 to the financial statements on page 95 of the Annual Report.

There have been no changes in the directors' interests in shares or options granted by the Company and its subsidiaries between the end of the financial year and 24 May 2010. No director had an interest in any of the Company's subsidiaries at the beginning or end of the year.

	Ordinary shares as at 29 March 2009 or date of appointment	**Ordinary shares as at 3 April 2010**
Sir Stuart Rose	1,224,284	**1,265,873**
Sir David Michels	113,984	**113,984**
Kate Bostock	140,039	**165,443**
John Dixon	70,405	**71,434**
Ian Dyson	237,906	**286,485**
Steven Sharp	238,210	**299,538**
Jeremy Darroch	2,000	**2,000**
Martha Lane Fox	20,100	**20,100**
Steven Holliday	2,500	**2,500**
Louise Patten	8,000	**8,000**
Jan du Plessis	20,000	**20,000**

What is the shareholding policy for executive directors?

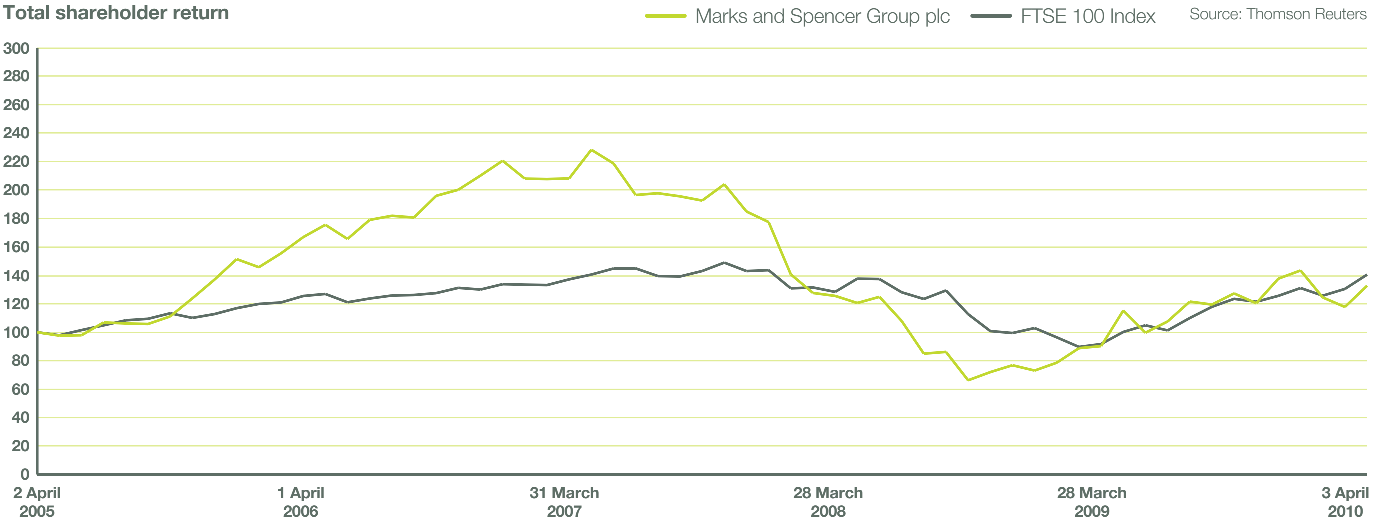
From 1 June 2002, the Committee agreed that all executive directors are required to hold shares equivalent in value to a minimum percentage of their salary (200% for the Executive Chairman and 100% for all other executive directors) within a five-year period from the date of their appointment. The relevant salary is at date of appointment and the share market value is measured at the current date. All current executive directors currently have met, or are on target to meet, their required shareholding.

Total shareholder return

Performance graph

The graph illustrates the performance of the Company against the FTSE 100 over the past five years. The FTSE 100 has been chosen as it is a recognised broad equity market index of which the Company has been a member throughout the period.

Total shareholder return



The above graph looks at the value, at 3 April 2010, of £100 invested in Marks and Spencer Group plc on 2 April 2005 compared with the value of £100 invested in the FTSE 100 Index over the same period. The other points plotted are the intervening monthly values.

PART 2: AUDITED INFORMATION

Directors' emoluments

	Salary/fee £000	Cash allowance[6] £000	Benefits[6] £000	Dividend equivalents[7] £000	Bonus[8] £000	Termination payments £000	**Total 2010 £000**	Total 2009 £000
Executive Chairman								
Sir Stuart Rose[1]	1,138	304	39	–	1,125	–	**2,606**	1,765
Deputy Chairman								
Sir David Michels	245	–	–	–	–	–	**245**	217
Executive directors								
Kate Bostock[2]	549	188	37	31	807	–	**1,612**	892
John Dixon[3]	294	39	–	25	296	–	**654**	–
Ian Dyson[4]	679	187	6	88	554	–	**1,514**	1,009
Steven Sharp[5]	614	155	25	–	608	–	**1,402**	882
Non-executive directors								
Jeremy Darroch	73	–	–	–	–	–	**73**	73
Martha Lane Fox	67	–	–	–	–	–	**67**	67
Steven Holliday	73	–	–	–	–	–	**73**	67
Louise Patten	70	–	–	–	–	–	**70**	73
Jan du Plessis	64	–	–	–	–	–	**64**	25
Former directors[9,10]	–	–	6	–	–	181	**187**	1,170
Total	3,866	873	113	144	3,390	181	**8,567**	6,240

1 Sir Stuart Rose received a salary increase from £1,130,000 to £1,160,000 effective 1 January 2010. His bonus earned in 2009/10 was £2,813,000.
2 Kate Bostock received a salary increase from £500,000 to £560,000 on 1 July 2009, and from £560,000 to £575,000 on 1 January 2010. Her cash allowance includes a relocation payment of £51,000. Her bonus earned in 2009/10 under the Annual Bonus Scheme was £1,380,000. In addition, £255,000 was earned, which was the third and final payment under a three-year cash retention arrangement.
3 John Dixon was promoted to the Board on 9 September 2009 on a salary of £500,000. He received a salary increase of £12,500 effective from 1 January 2010. His bonus earned in 2009/10 was £1,268,438 of which £739,922 was earned as an executive director.
4 Ian Dyson received a salary increase from £675,000 to £692,000 effective 1 January 2010. His bonus earned in 2009/10 was £553,600.
5 Steven Sharp received a salary increase from £565,000 to £625,000 on 1 July 2009, and from £625,000 to £640,000 on 1 January 2010. His bonus earned in 2009/10 was £1,520,000.
6 The elements included in the Cash allowance and Benefits columns of the table are described in detail in the Benefits section on page 62 and have been audited.
7 Dividend equivalents were accrued over the vesting period for the 2006 and 2007 Deferred Share Bonus Plan. For John Dixon these also include dividend equivalents accrued for shares awarded in 2008 and 2009 under the Restricted Share Plan that vested during 2009/10.
8 For all executive directors, 40% of the total bonus earned is paid in cash as shown in the table, and 60% paid in shares as part of the Deferred Share Bonus Plan, as described under the Annual Cash Bonus Scheme on page 62. The Deferred Share Bonus Plan awards will be granted in June 2010.
9 Steven Esom retired from the Board on 1 July 2008, and under the terms of his service contract, the termination payments are phased, made on monthly basis. The amounts shown in the table above comprise of the final three month's payments and benefits in line with this contract provision.
10 The payments to former directors under the Early Retirement Plan and the unfunded pension paid by the Company to Clinton Silver can be found on page 71 under Directors' pension information.

Remuneration report continued

Directors' interests in long-term incentive schemes

Share Schemes

	Date of award	Maximum shares receivable at 29 March 2009 or date of appointment	Shares awarded during the year	Shares vested during the year	Shares lapsed during the year	**Maximum shares receivable at 3 April 2010**	Market value on date of award (p)	Market value on date of vesting (p)	Vesting date
Executive Chairman									
Sir Stuart Rose									
Performance Share Plan[1]	19/07/06	663,755	–	–	663,755	**–**	572.5	–	19/07/09
	05/06/07	594,395	–	–	–	**594,395**	706.6	–	05/06/10
	09/06/08	1,184,486	–	–	–	**1,184,486**	381.6	–	09/06/11
	09/06/09	–	1,184,900	–	394,967	**789,933**	286.1	–	09/06/12
Deferred Share Bonus Plan[2]	05/06/06	35,125	6,464[8]	41,589	–	**–**	550.0	285.6	05/06/09
	05/06/07	222,898[4]	–	–	–	**222,898[4]**	706.6	–	05/07/10
Total		2,700,659	1,191,364	41,589	1,058,722	**2,791,712**			
Executive directors									
Kate Bostock									
Performance Share Plan[1]	19/07/06	157,205	–	–	157,205	**–**	572.5	–	19/07/09
	05/06/07	169,827	–	–	–	**169,827**	706.6	–	05/06/10
	09/06/08	262,054	–	–	–	**262,054**	381.6	–	09/06/11
	09/06/09	–	349,528	–	–	**349,528**	286.1	–	06/06/12
Deferred Share Bonus Plan[2]	05/06/06	25,404	–	25,404	–	**–**	550.0	285.6	05/06/09
	05/06/07	28,985[5]	–	11,914[5]	–	**17,071[5]**	706.6	342.8	05/06/10
Total		643,475	349,528	37,318	157,205	**798,480**			
John Dixon									
Performance Share Plan[1]	05/06/07	62,270	–	–	–	**62,270**	706.6	–	05/06/10
	09/06/08	144,129	–	–	–	**144,129**	381.6	–	09/06/11
	09/06/09	314,575	–	–	–	**314,575**	286.1	–	09/06/12
	24/11/09	–	26,178	–	–	**26,178**	382.0	–	24/11/12
Deferred Share Bonus Plan[2]	05/06/07	18,831[5]	–	7,740[5]	–	**11,091[5]**	706.6	342.8	05/06/10
	09/06/08	10,809	–	–	–	**10,809**	381.6	–	09/06/11
Restricted Share Plan[3]	09/06/08	86,477	–	–	–	**86,477**	381.6	–	01/09/11
	20/01/09	25,000[5]	–	10,276[5]	–	**14,724[5]**	228.2	342.8	05/06/10
Total		662,091	26,178	18,016	–	**670,253**			
Ian Dyson[9]									
Performance Share Plan[1]	19/07/06	331,878	–	–	331,878	**–**	572.5	–	19/07/09
	05/06/07	297,197	–	–	–	**297,197**	706.6	–	05/06/10
	09/06/08	530,660	–	–	–	**530,660**	381.6	–	09/06/11
	09/06/09	–	471,862	–	–	**471,862**	286.1	–	06/06/12
Deferred Share Bonus Plan[2]	05/06/06	48,579	–	48,579	–	**–**	550.0	285.6	05/06/09
	05/06/07	111,449[6]	–	–	–	**111,449[6]**	706.6	342.8	05/06/10
Total		1,319,763	471,862	48,579	331,878	**1,411,168**			

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	Date of award	Maximum shares receivable at 29 March 2009 or date of appointment	Shares awarded during the year	Shares vested during the year	Shares lapsed during the year	**Maximum shares receivable at 3 April 2010**	Market value on date of award (p)	Market value on date of vesting (p)	Vesting date
Steven Sharp									
Performance Share Plan[1]	19/07/06	331,878	–	–	331,878	**–**	572.5	–	19/07/09
	05/06/07	297,197	–	–	–	**297,197**	706.6	–	05/06/10
	09/06/08	592,243	–	–	–	**592,243**	381.6	–	09/06/11
	09/06/09	–	592,450	–	197,484	**394,966**	286.1	–	09/06/12
Deferred Share Bonus Plan[2]	05/06/06	64,772	11,921[8]	76,693	–	**–**	550.0	285.6	05/06/09
	05/06/07	111,449[7]	–	45,809[7]	–	**65,640[7]**	706.6	342.8	05/07/10
Total		1,397,539	604,371	122,502	529,362	**1,350,046**			

1 The number of performance shares is the maximum (100%) of the award that could be receivable by the executive director if the EPS performance conditions are fully met as outlined on page 63. The award made in 2007 will lapse on 5 June 2010 as it has not met the minimum EPS target of RPI +4%.
2 Full details of the Deferred Share Bonus Plan are set out on page 97.
3 John Dixon was awarded the Restricted Shares before he was appointed an executive director.
4 For tax planning reasons, the vesting date for Sir Stuart Rose's 2007 Deferred Share Bonus Plan award has been extended from 5 June 2010 to 5 July 2010.
5 For tax planning purposes, the 2007 Deferred Share Bonus Plan award for Kate Bostock and John Dixon was converted to a forfeitable shares award on 5 March 2010 and a proportion of the award vested at that time so that sufficient shares could be sold to pay the Income Tax and National Insurance liability on the award. If the outstanding award is forfeit before the vesting date then the director is obliged to pay back the value of the shares which vested in order to satisfy their Income Tax and National Insurance liability. The same arrangement applies to Restricted Shares awarded to John Dixon in January 2009 which were also converted to a forfeitable share award on 5 March 2010.
6 For tax planning purposes, the 2007 Deferred Share Bonus Plan award for Ian Dyson was converted to a forfeitable shares award on 5 March 2010.
7 For tax planning purposes, the vesting date for Steven Sharp's 2007 Deferred Share Bonus Plan award has been extended from 5 June 2010 to 5 July 2010. A proportion of the award vested on 5 March 2010 so that sufficient shares could be sold to pay the Income Tax and National Insurance on the award. If this award is forfeit before the extended vesting date then the director is obliged to pay back the value of the shares which vested in order to satsify his Income Tax and National Insurance liability.
8 These shares represent the dividends paid on this award over the vesting period.
9 All outstanding awards will lapse on leaving.

Remuneration report continued

Share Option Schemes

	Date of grant	Maximum options receivable at 29 March 2009 or date of appointment	Options granted during the year	Options exercised during the year	Options lapsed during the year	**Maximum options receivable at 3 April 2010**	Option price (p)	Option period
Executive Chairman								
Sir Stuart Rose								
Executive Share Option Scheme[1]	20/07/04	979,825	–	–	–	**979,825**	347.0	20/07/07 – 19/07/14
SAYE	21/11/08	4,729	–	–	–	**4,729**	203.0	01/01/12 – 30/06/12
Total		984,554	–	–	–	**984,554**		
Executive directors								
Kate Bostock								
Executive Share Option Scheme[1]	24/11/04	249,627	–	–	–	**249,627**	336.5	24/11/07 – 23/11/14
SAYE	25/11/05	2,679	–	–	2,679	**–**	349.0	01/01/09 – 30/06/09
	21/11/08	4,729	–	–	–	**4,729**	203.0	01/01/12 – 30/06/12
Total		257,035	–	–	2,679	**254,356**		
John Dixon								
Executive Share Option Scheme[1]	20/07/04	25,935	–	–	–	**25,935**	347.0	20/07/07 – 19/07/14
SAYE	21/11/08	8,251	–	–	–	**8,251**	203.0	01/01/14 – 30/06/14
Total		34,186	–	–	–	**34,186**		
Ian Dyson[2]								
SAYE	21/11/08	4,729	–	–	–	**4,729**	203.0	01/01/12 – 30/06/12
Total		4,729	–	–	–	**4,729**		
Steven Sharp								
Executive Share Option Scheme[1]	20/07/04	302,593	–	–	–	**302,593**	347.0	20/07/07 – 19/07/14
	24/11/04	104,010	–	–	–	**104,010**	336.5	24/11/07 – 23/11/14
SAYE	25/11/05	2,679	–	–	2,679	**–**	349.0	01/01/09 – 30/06/09
	21/11/08	4,729	–	–	–	**4,729**	203.0	01/01/12 – 30/06/12
Total		414,011	–	–	2,679	**411,332**		

1 The Executive Share Options have all been held for three years and have met their performance targets and can therefore be exercised under the scheme rules;
All option prices were below the market value on 3 April 2010;
The performance criteria attached to the Executive Share Options Scheme is described on page 63.

2 All outstanding awards will lapse on leaving.

The market price of the shares at the end of the financial year was 371.9p; the highest and lowest share price during the financial year were 412.4p and 264.5p respectively. The explanation of the performance criteria attached to the Performance Share Plan and the Executive Share Option Scheme in Long-Term Incentive Schemes on page 63 have been audited.

Directors' pension information

a) Pension benefits

John Dixon is the only executive director who is a member of the Company's Defined Benefit Pension Scheme. Details of the pension benefits earned by John Dixon during the year ending 3 April 2010 are shown below:

	Age as at 03/04/10	Accrued pension entitlement at 09/09/09 £000	**Accrued pension entitlement at 03/04/10 £000**	Additional pension earned during the period £000	Additional pension earned during the period above inflation £000	Transfer value of accrued pension at 09/09/09 £000	**Transfer value of accrued pension at 03/04/10 £000**	Increase in transfer value during the period £000	Transfer value of increase in accrued pension during the period above inflation £000
John Dixon	42	114	**120**	6	6	1,148	**1,307**	159	57

The accrued pension entitlement is the deferred pension amount that the director would receive at age 60 if he left the Company on 3 April 2010. The increase in entitlement is the difference between the accrued benefit at the year end and that at the date of appointment to executive director. 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 Actuarial Guidance Note GN 11. The transfer values of the accrued entitlement represent the value of assets that the pension scheme would need to 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.

The increase in the transfer value less director's contributions is the increase in the transfer value of the accrued benefits during the year after deducting director's pension contributions to the scheme.

No other executive director participates in the scheme. Instead they receive a salary supplement in lieu of membership of the Group Pension Scheme as described on page 62.

b) Payments to former directors

Details of payments made to former directors during the year are:

Early retirement pensions (payable until)[1]	**2010 £000**	2009 £000
James Benfield (22 April 2009)	**7**	85
Derek Hayes (19 November 2008)	**–**	57
Unfunded pensions[2]		
Clinton Silver	**108**	107

1 Under the Early Retirement Plan, the Remuneration Committee could, at its discretion, offer an unfunded Early Retirement Pension, separate from the Company pension, which was payable from the date of retirement to age 60. With effect from 31 March 2000, the Early Retirement Plan was withdrawn but payments continue for awards made before this date.

2 The pension entitlement for Clinton Silver is supplemented by an additional unfunded pension paid by the Company.

For 2009, the details of these pension payments were included within the Director's emoluments table under Former directors.

Approved by the Board

Steven Holliday, Chairman of the Remuneration Committee
London

24 May 2010

Other disclosures

Principal activities and Business review

Marks and Spencer Group plc (the 'Company') is the holding company of the Marks & Spencer Group of companies (the 'Group'). We are one of the UK's leading retailers with over 21 million customers visiting our stores every week. We sell high quality, great value clothing and home products and outstanding quality food. We source our products responsibly from 2,000 suppliers around the world, 76,000 people work for M&S both in the UK and in 41 countries overseas where we have a growing international business.

The Companies Act 2006 requires the Company to set out in this report a fair review of the business of the Group during the financial year ended 3 April 2010 including an analysis of the position of the Group at the end of the financial year, and a description of the principal risks and uncertainties facing the Group (known as a 'Business review').

The information that fulfils the Business review requirements can be found in the following sections of this report.

- Chairman's overview on pages 1 to 7
- Performance overview and KPIs on pages 8 to 11
- Brand and marketplace on pages 12 to 15
- Operating and financial review on pages 16 to 43
- Principal risks and uncertainties on pages 56 and 57
- Financial risk management on pages 102 to 105
- Social, environmental and ethical matters on pages 36 to 41. More information is given in the How We Do Business report available on our website at **marksandspencer.com/annualreport2010**

Pages 1 to 76 inclusive (together with the sections of the Annual Report incorporated by reference) consist of a Directors' report that has 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.

An index to other Directors' report disclosures are given on page 76.

Profit and dividends

The profit for the financial year, after taxation, amounts to £526.3m (last year £508.0m). The directors have declared dividends as follows:

Ordinary shares	£m
Paid interim dividend of 5.5p per share (last year 8.3p per share)	86.4
Proposed final dividend of 9.5p per share (last year 9.5p per share)	150.4
Total ordinary dividend, 15.0p per share (last year 17.8p per share)	236.8

The final ordinary dividend will be paid on 16 July 2010 to shareholders whose names are on the Register of Members at the close of business on 4 June 2010.

Share capital

The Company's authorised and issued ordinary share capital as at 3 April 2010 comprised a single class of ordinary shares. Details of movements in the issued share capital can be found in note 25 to the financial statements. Each share carries the right to one vote at general meetings of the Company. During the period, 4,521,662 ordinary shares in the Company were issued as follows:

- 977,352 shares under the terms of the 2002 Executive Share Option Scheme at prices between 215p and 352p; and
- 3,544,310 shares under the terms of the United Kingdom Employees' Save As You Earn Share Option Scheme at prices between 203p and 349p.

Restrictions on transfer of securities

There are no specific restrictions on the transfer of securities in the Company, which is governed by the Articles and prevailing legislation. Nor is the Company 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 shares 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 shareholder 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 shareholder 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 2009 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. This standard authority is renewable annually; the directors will seek to renew this authority at the 2010 AGM. It is the Company's present intention to cancel any shares it buys back, rather than hold them in treasury.

There are no specific restrictions on the transfer of securities in the Company, which is governed by the Articles and prevailing legislation, nor is the Company 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.

Subject to the Companies Act 2006, rights attached to any class of share may be varied with the written consent of the holders of at least 75% in nominal value of the issued shares of that class, or by a special resolution passed at a separate general meeting of the shareholders.

The directors were granted authority at the 2009 AGM to allot relevant securities up to a nominal amount of £132,511,272. That authority will apply until the conclusion of this year's 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 £131,895,652, and (ii) comprising equity securities up to a nominal amount of £263,791,305 (after deducting from such limit any relevant securities allotted under (i)), in connection with an offer of a rights issue, (the Section 551 Amount), such Section 551 amount to apply until the conclusion of the AGM to be held in 2011 or, if earlier, on 2 October 2011.

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 £19,784,347.

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 158m 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 Services and Authority's (FSA) Disclosure and Transparency Rules (DTRs) is published on a Regulatory Information Service and on the Company's website. As at 24 May 2010, the Company had been notified under DTR5 of the following significant holdings of voting rights in its shares.

	Ordinary shares	% of capital	Nature of holding
Brandes Investment Partners, L.P.	111,595,173	6.57%	Indirect interest
AXA S.A.	89,374,221	5.66%	Direct and indirect
Capital Research & Management	78,591,394	4.98%	Indirect interest
Legal & General Group plc	63,188,326	3.99%	Direct interest
The Wellcome Trust	47,464,282	3.01%	Direct 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 than less than 48 hours before the time appointed for the holding of the meeting or adjourned meeting.

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 £267m Medium Term Notes issued by the Company on 28 March 2007 and £400m Medium Term Notes issued by the Company on 30 November 2009 both 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 £250m puttable callable reset notes issued by the Company to various institutions on 11 December 2007 under the Group's £3bn EMTN programme contain an option such that, upon a change of control event, combined with a credit ratings downgrade to below sub-investment level, any holder of an MTN may require the Company to prepay the principal amount of that MTN;
- the $500m US Notes issued by the Company to various institutions on 6 December 2007 under section 144a of the US Securities Act contain an option such that, upon a change of control event, combined with a credit ratings downgrade to below sub-investment level, any holder of such a US Note may require the Company to prepay the principal amount of that US Note;
- the $300m US Notes issued by the Company to various institutions on 6 December 2007 under section 144a of the US Securities Act contain an option such that, upon a change of control event, combined with a credit ratings downgrade to below sub-investment level, any holder of such a US Note may require the Company to prepay the principal amount of that US Note;
- the £1.2bn Credit Agreement dated 13 August 2004 and the £400m Credit Facility Agreement dated 3 February 2008 between the Company and various banks both contain a provision such that, upon a change of control event, unless new terms are agreed within 60 days, the facilities under these agreements will be cancelled with all outstanding amounts becoming immediately payable with interest;
- the agreement between HSBC and the Company relating to M&S Money dated 9 November 2004 (as amended and restated on 1 March 2005) contains a clause such that, upon a change of control of the Company, any new owner would be obliged to give undertakings to HSBC in respect of the continuation of the agreement, negotiate revised terms or terminate the agreement;
- the agreement between Marks and Spencer plc and Marks and Spencer Pension Trust Limited (as trustee of The Marks and Spencer Pension Scheme) (the 'Pension Fund') dated 25 March 2009 relating to Marks and Spencer Scottish Limited Partnership (the 'Partnership') contains a clause such that, upon a change of control of the Company, Marks and Spencer plc shall elect either to cause the Partnership to surrender its discretion over the payment of annual distributions to the Pension Fund or to increase the rate at which compensatory interest accrues on any annual payments that Marks and Spencer plc has elected to defer.

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.

Other disclosures continued

Board of directors

The membership of the Board and biographical details of the directors are given on page 44 and 45 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 page 66. Options granted under the Save As You Earn (SAYE) Share Option and Executive Share Option Schemes are shown on pages 68 to 70. Further information regarding employee share option schemes is given in note 12 to the financial statements.

Marc Bolland was appointed to the Board as Chief Executive on 1 May 2010 and will stand for election at the AGM in 2010, along with John Dixon who was appointed to the Board as an executive director on 9 September 2009. Sir Stuart Rose will step down as Executive Chairman on 31 July 2010, when he will become Chairman. He will leave the Company by March 2011. On 5 May 2010 the Company announced the resignation of Ian Dyson. He will step down from the Board following the AGM on 14 July and will leave the Company on 31 August 2010. On 8 July 2009 Graham Oakley was succeeded in his role as Group Secretary by Amanda Mellor, who had been Head of Investor Relations since 2004.

The appointment and replacement of directors is governed by the Company's Articles, the Combined Code on Corporate Governance 2008 (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.

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). Any such director shall hold office only until the next AGM and shall then be required to stand for election.

At each AGM at least one-third of the current directors must retire as directors by rotation. All those directors who have been in office at the time of the two previous AGMs and who did not retire at either of them must retire as directors by rotation. In addition, a director may at any AGM retire from office and stand for re-election. In accordance with the Code, any director who has served more than three three-year terms (other than as a director holding an executive position) is subject to annual re-election. In addition the Board has determined that Sir Stuart Rose will seek annual re-election as a director until the Company's governance reverts to recommended best practice.

Directors' conflicts of interest

The Company has procedures in place for managing conflicts of interest in place. 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 3 April 2010 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.

Employee involvement

We have maintained our commitment to employee involvement throughout the business.

Employees are kept well informed of the performance and objectives of the Group through personal briefings, regular meetings, personal letters to their home, email and Chairman broadcasts at key points in the year to all head office employees and store management. In addition many of our store colleagues can join the briefings by telephone to hear directly from the Board. 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 elected onto Business Involvement Groups ('BIGs') across every store and head office location 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, in what has been a very challenging year.

The fifteenth meeting of the European Works Council ('EWC') (established in 1995) will take place in September 2010. This Council provides an additional forum for informing, consulting and involving employee representatives from the countries in the European Community. The EWC includes members from our joint venture companies established in the Czech Republic and Greece, as well as representatives from the Republic of Ireland and the UK. By holding the meeting in September this year, the new Chief Executive will have the opportunity to address the EWC and update on his observations following his first four months in office.

Directors and senior management regularly attend National BIG meetings and visit stores and discuss with employees matters of current interest and concern to them and the business through meetings with local Business Involvement Groups, specific listening groups and informal discussion.

Share schemes are a long-established and successful part of our total reward package, encouraging and supporting employee share ownership. In particular, around 25,000 employees currently participate in Sharesave, the Company's all employee Save As you Earn Scheme. Full details of all schemes are given on pages 95 to 97.

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 the M&S Retirement 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 and we are an organisation which uses everyone's talents and abilities and where diversity is valued. For example, we are one of the few major retailers or companies to operate without a Normal Retirement Age and are experiencing a number of employees continuing to work with us past the state retirement age.

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 JobCentrePlus.

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 operators and the provider of the Company's e-commerce platform.

Creditor payment policy

For all trade creditors, it is the Group's policy to:
- agree the terms of payment at the start of business with that supplier;
- ensure that suppliers are aware of the terms of payment; and
- pay in accordance with its contractual and other legal obligations.

The main trading company, Marks and Spencer plc, has a policy concerning the payment of trade creditors as follows:
- general merchandise payments are received between 19 and 26 days after the stock was delivered;
- food payments are received between 18 and 25 days after the stock was delivered; and
- distribution suppliers are paid monthly, for costs incurred in that month, based on estimates, and payments are adjusted quarterly to reflect any variations to estimate.

Trade creditor days for Marks and Spencer plc for the year ended 3 April 2010 were 18 days, or 12 working days (last year 20.5 days, or 13.7 working days), based on the ratio of Company trade creditors at the end of the year to the amounts invoiced during the year by trade creditors.

Market value of properties

The last formal valuation of the Group's properties was carried out in September 2006. Taking into account movements in the Group's property portfolio since that date, the directors are of the opinion that the market value of the Group's properties, at 3 April 2010 exceeded their net book value (including prepayments in respect of leasehold land) of the fixed asset and leasehold properties by approximately £0.8bn.

Charitable donations

In line with our Plan A commitments, during the year, the Group made charitable donations to support the community of £13.2m (last year £12.2m), excluding management costs and memberships. These principally consisted of cash donations of £5.2m (last year £5.2m) which included Breakthrough Breast Cancer, The Prostate Cancer Charity, Groundwork, WWF, Shelter, our Marks & Start programme and local community donations. We also donated £1.6m (last year £1.3m) of employee time, principally on fundraising, Marks & Start and school work experience programmes, and stock donations of £6.3m (last year £5.7m) to a variety of charities including Oxfam, Newlife Foundation for Disabled Children and Shelter.

We also had a particularly successful year supporting the raising of extra funds of £7.7m (last year £4.8m) for our charity partners. This principally consisted of cash raised through the fundraising activities of our 125 Year Anniversary and by generating funds for our charity partners such as Groundwork and funds raised through the sale of stock donations to Oxfam from The Clothing Exchange.

Political donations

No political donations were made during the year ended 3 April 2010. Marks & Spencer 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.

Post balance sheet events

On 12 May 2010 Marks and Spencer Group plc announced a £800m funding plan for its UK defined benefit pension scheme. The funding plan includes the following contributions from Marks & Spencer:
- Cash contributions of £35m per annum for the first three years of the funding plan increasing to £60m per annum until 2018. This has a present day cash value of £376m.
- £300m of value through the granting of a further interest in the Marks and Spencer Scottish Limited Partnership. This new interest entitles the pension scheme to a fixed annual distribution of c.£36m for 15 years commencing in 2017 and a capital sum in 2031 equal to the lower of £350m or any funding deficit in the pension scheme at that point in time.
- £124m of value through the transfer of assets from existing US$ debt hedge contracts held by Marks and Spencer plc.

Other disclosures continued

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 43 as well as the Group's principal risks and uncertainties as set out on pages 56 and 57. 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 Group continues to adopt the going concern in preparing its financial statements.

Auditors

Resolutions to reappoint PricewaterhouseCoopers LLP as auditors of the Company and to authorise the Audit Committee to determine their remuneration will be proposed at the 2010 AGM.

Annual general meeting

The AGM of Marks and Spencer Group plc will be held at the Royal Festival Hall, London on 14 July 2010. The Notice is given, together with explanatory notes, in the booklet which accompanies this report.

Directors' responsibilities

The directors are 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 Company and Group 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 the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time 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 Company and the Group 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 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; and
- the Business review contained in this report includes 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.

Disclosure of information to auditor

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.

Index to principal Directors' report disclosures

Information required to be disclosed in the Directors' report can be found on the following pages:

By order of the Board
Amanda Mellor, Group Secretary
London
24 May 2010

Independent auditors' report

to the members of Marks and Spencer Group plc

We have audited the Group and parent company financial statements (the 'financial statements') of Marks and Spencer Group plc for the 53 weeks ended 3 April 2010 which comprise the Consolidated and Company income statement, Consolidated statement of comprehensive income, Consolidated and Company statement of financial position, Consolidated statement of changes in equity and Company statement of changes in shareholders' equity, Consolidated cash flow statement and Company statement of cash flows, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' responsibilities statement set out on page 76, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements:
- give a true and fair view of the state of the Group's and of the parent company's affairs as at 3 April 2010 and of the Group's and the parent company's profit and cash flows for the 53 weeks then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:
- the part of the Remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.
- Under the Listing Rules we are required to review:
- the directors' statement, set out on page 76, in relation to going concern; and
- the part of the Corporate Governance statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Stuart Watson (Senior Statutory Auditor)
for and on behalf of **PricewaterhouseCoopers LLP**
Chartered Accountants and Statutory Auditors
London
24 May 2010

Consolidated income statement

	Notes	53 weeks ended 3 April 2010 £m	52 weeks ended 28 March 2009 £m
Revenue	2, 3	**9,536.6**	9,062.1
Operating profit	2, 3	**852.0**	870.7
Finance income	6	**12.9**	50.0
Finance costs	6	**(162.2)**	(214.5)
Profit on ordinary activities before taxation	4	**702.7**	706.2
Analysed between:			
Before property disposals and exceptional items		**694.6**	604.4
Profit on property disposals	2, 3	**8.1**	6.4
Exceptional costs	5	**–**	(135.9)
Exceptional pension credit	5,11	**–**	231.3
Income tax expense	7	**(179.7)**	(199.4)
Profit for the year		**523.0**	506.8
Attributable to:			
Equity shareholders of the Company		**526.3**	508.0
Minority interests		**(3.3)**	(1.2)
		523.0	506.8
Basic earnings per share	8A	**33.5p**	32.3p
Diluted earnings per share	8B	**33.2p**	32.3p
Non-GAAP measure:			
Adjusted profit before taxation (£m)	1	**694.6**	604.4
Adjusted basic earnings per share	8A	**33.0p**	28.0p
Adjusted diluted earnings per share	8B	**32.7p**	28.0p

Consolidated statement of comprehensive income

	53 weeks ended 3 April 2010 £m	52 weeks ended 28 March 2009 £m
Profit for the year	**523.0**	506.8
Other comprehensive income:		
Foreign currency translation differences	**(17.4)**	33.1
Actuarial losses on retirement benefit schemes	**(251.6)**	(927.1)
Deferred tax on retirement benefit scheme	**71.7**	254.9
Cash flow and net investment hedges		
– fair value movements in equity	**52.1**	304.8
– reclassified and reported in net profit	**(119.8)**	(206.8)
– amount recognised in inventories	**4.8**	(8.6)
Tax on cash flow hedges and fair value hedges	**25.9**	(29.3)
Other comprehensive income for the year, net of tax	**(234.3)**	(579.0)
Total comprehensive income/(loss) for the year	**288.7**	(72.2)
Attributable to:		
Equity shareholders of the Company	**292.0**	(71.0)
Minority interests	**(3.3)**	(1.2)
	288.7	(72.2)

Consolidated statement of financial position

	Notes	As at 3 April 2010 £m	Restated As at 28 March 2009 £m
Assets			
Non-current assets			
Intangible assets	13	**452.8**	400.3
Property, plant and equipment	14	**4,722.0**	4,834.0
Investment property	15	**22.4**	24.8
Investment in joint ventures	16	**11.5**	13.8
Other financial assets	17	**3.0**	3.0
Trade and other receivables	18	**287.7**	336.8
Derivative financial instruments	22	**132.9**	254.0
Deferred tax assets	24	**0.7**	1.6
		5,633.0	5,868.3
Current assets			
Inventories		**613.2**	536.0
Other financial assets	17	**171.7**	53.1
Trade and other receivables	18	**281.4**	285.2
Derivative financial instruments	22	**48.1**	92.6
Cash and cash equivalents	19	**405.8**	422.9
		1,520.2	1,389.8
Total assets		**7,153.2**	7,258.1
Liabilities			
Current liabilities			
Trade and other payables	20	**1,153.8**	1,073.5
Borrowings and other financial liabilities	21	**482.9**	942.8
Partnership liability to the Marks & Spencer UK Pension Scheme	21	**71.9**	71.9
Derivative financial instruments	22	**27.1**	76.2
Provisions	23	**25.6**	63.6
Current tax liabilities		**129.2**	78.9
		1,890.5	2,306.9
Non-current liabilities			
Retirement benefit deficit	11	**366.5**	152.2
Trade and other payables	20	**280.3**	243.8
Borrowings and other financial liabilities	21	**2,278.0**	2,117.9
Partnership liability to the Marks & Spencer UK Pension Scheme	21	**–**	68.0
Derivative financial instruments	22	**–**	3.0
Provisions	23	**25.5**	40.2
Deferred tax liabilities	24	**126.5**	225.5
		3,076.8	2,850.6
Total liabilities		**4,967.3**	5,157.5
Net assets		**2,185.9**	2,100.6
Equity			
Called-up share capital – equity	25	**395.5**	394.4
Share premium account		**247.5**	236.2
Capital redemption reserve		**2,202.6**	2,202.6
Hedging reserve		**11.6**	62.6
Other reserve		**(5,970.5)**	(5,970.5)
Retained earnings		**5,281.9**	5,156.4
Total shareholders' equity		**2,168.6**	2,081.7
Minority interests in equity		**17.3**	18.9
Total equity		**2,185.9**	2,100.6

The financial statements were approved by the Board and authorised for issue on 24 May 2010. The financial statements also comprise the notes on pages 82 to 111.

Stuart Rose
Chairman

Ian Dyson
Group Finance and Operations Director

Consolidated statement of changes in equity

	Ordinary share capital £m	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Other reserve[1] £m	Retained earnings[2] £m	Total £m	Minority interest £m	Total £m
At 30 March 2008	396.6	231.4	2,199.9	(36.9)	(6,542.2)	5,707.9	1,956.7	7.3	1,964.0
Profit/(loss) for the year	–	–	–	–	–	508.0	508.0	(1.2)	506.8
Other comprehensive income:									
Foreign currency translation	–	–	–	(0.8)	–	33.9	33.1	–	33.1
Actuarial losses on retirement benefit schemes	–	–	–	–	–	(927.1)	(927.1)	–	(927.1)
Cash flow and net investment hedges									
– fair value movement in equity	–	–	–	317.2	–	(12.4)	304.8	–	304.8
– reclassified and reported in net profit[3]	–	–	–	(206.8)	–	–	(206.8)	–	(206.8)
– amount recognised in inventories	–	–	–	(8.6)	–	–	(8.6)	–	(8.6)
Tax on items taken directly to equity	–	–	–	(29.3)		254.9	225.6	–	225.6
Total comprehensive income	–	–	–	71.7	–	(142.7)	(71.0)	(1.2)	(72.2)
Transactions with owners:									
Dividends	–	–	–	–	–	(354.6)	(354.6)	(0.2)	(354.8)
Derecognition of financial liability[4]	–	–	–	–	571.7	–	571.7	–	571.7
Transactions with minority shareholders	–	–	–	–	–	–	–	13.0	13.0
Transfer of exchange on net investment hedges	–	–	–	27.8	–	(27.8)	–	–	–
Shares issued on exercise of employee share options	0.5	4.8	–	–	–	–	5.3	–	5.3
Shares purchased in buy-back	(2.7)	–	2.7	–	–	(40.9)	(40.9)	–	(40.9)
Charge for share-based payments	–	–	–	–	–	14.3	14.3	–	14.3
Deferred tax on share schemes	–	–	–	–	–	0.2	0.2	–	0.2
At 28 March 2009	394.4	236.2	2,202.6	62.6	(5,970.5)	5,156.4	2,081.7	18.9	2,100.6
At 29 March 2009	**394.4**	**236.2**	**2,202.6**	**62.6**	**(5,970.5)**	**5,156.4**	**2,081.7**	**18.9**	**2,100.6**
Profit/(loss) for the year	**–**	**–**	**–**	**–**	**–**	**526.3**	**526.3**	**(3.3)**	**523.0**
Other comprehensive income:									
Foreign currency translation	**–**	**–**	**–**	**0.1**	**–**	**(17.5)**	**(17.4)**	**–**	**(17.4)**
Actuarial losses on retirement benefit schemes	**–**	**–**	**–**	**–**	**–**	**(251.6)**	**(251.6)**	**–**	**(251.6)**
Cash flow and net investment hedges									
– fair value movement in equity	**–**	**–**	**–**	**38.0**	**–**	**14.1**	**52.1**	**–**	**52.1**
– reclassified and reported in net profit[3]	**–**	**–**	**–**	**(119.8)**	**–**	**–**	**(119.8)**	**–**	**(119.8)**
– amount recognised in inventories	**–**	**–**	**–**	**4.8**	**–**	**–**	**4.8**	**–**	**4.8**
Tax on items taken directly to equity	**–**	**–**	**–**	**25.9**	**–**	**71.7**	**97.6**	**–**	**97.6**
Total comprehensive income	**–**	**–**	**–**	**(51.0)**	**–**	**343.0**	**292.0**	**(3.3)**	**288.7**
Transactions with owners:									
Dividends	**–**	**–**	**–**	**–**	**–**	**(236.0)**	**(236.0)**	**–**	**(236.0)**
Transactions with minority shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1.7**	**1.7**
Shares issued on exercise of employee share options	**1.1**	**11.3**	**–**	**–**	**–**	**–**	**12.4**	**–**	**12.4**
Purchase of own shares held by employee	**–**	**–**	**–**	**–**	**–**	**(19.0)**	**(19.0)**	**–**	**(19.0)**
Charge for share-based payments	**–**	**–**	**–**	**–**	**–**	**28.5**	**28.5**	**–**	**28.5**
Deferred tax on share schemes	**–**	**–**	**–**	**–**	**–**	**9.0**	**9.0**	**–**	**9.0**
At 3 April 2010	**395.5**	**247.5**	**2,202.6**	**11.6**	**(5,970.5)**	**5,281.9**	**2,168.6**	**17.3**	**2,185.9**

1 The 'Other reserve' was created as part of the capital restructuring that took place in 2002. It represents the difference between the nominal value of the shares issued prior to the capital reduction by the Company (being the carrying value of the investment in Marks and Spencer plc) and the share capital, share premium and capital redemption reserve of Marks and Spencer plc at the date of the transaction. The reserve also includes discretionary distributions to the Marks & Spencer UK Pension Scheme (see footnote 4).

2 Includes a cumulative £34.8m gain (last year £52.3m gain) in the currency reserve.

3 Amounts reclassified and reported in net profit have all been recorded in cost of sales.

4 The amounts derecognised as a financial liability relate to the amendments of the Scottish Limited Partnership agreement on 25 March 2009. In line with emerging best practice for similar transactions by other companies this has been reclassified to other reserves. See note 25 for further details.

Consolidated cash flow information

	Notes	53 weeks ended 3 April 2010 £m	52 weeks ended 28 March 2009 £m
Consolidated statement of cash flows			
Cash flows from operating activities			
Cash generated from operations	28	**1,349.7**	1,371.9
Tax paid		**(120.7)**	(81.3)
Net cash inflow from operating activities		**1,229.0**	1,290.6
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired		**(5.4)**	–
Purchase of property, plant and equipment		**(352.0)**	(540.8)
Proceeds from sale of property, plant and equipment		**20.9**	58.3
Purchase of intangible assets		**(77.5)**	(121.6)
Purchase of non-current financial assets		**–**	(4.4)
Purchase of current financial assets		**(118.3)**	(1.1)
Interest received		**2.7**	12.7
Net cash outflow from investing activities		**(529.6)**	(596.9)
Cash flows from financing activities			
Interest paid		**(163.4)**	(197.1)
Cash inflow/(outflow) from borrowings		**30.7**	(25.8)
(Repayment)/drawdown of syndicated bank facility		**(529.4)**	108.1
Issue of medium-term notes		**397.2**	–
Redemption of medium-term notes		**(200.4)**	–
Payment of liability to the Marks & Spencer UK Pension Scheme		**(68.0)**	(15.1)
Decrease in obligations under finance leases		**(17.0)**	(1.0)
Equity dividends paid		**(236.0)**	(354.6)
Shares issued on exercise of employee share options		**12.4**	5.3
Shares purchased in buy back		**–**	(40.9)
Purchase of own shares by employee trust		**(19.0)**	–
Net cash outflow from financing activities		**(792.9)**	(521.1)
Net cash (outflow)/inflow from activities		**(93.5)**	172.6
Effects of exchange rate changes		**(2.1)**	7.8
Opening net cash		**298.3**	117.9
Closing net cash	29	**202.7**	298.3

	Notes	53 weeks ended 3 April 2010 £m	52 weeks ended 28 March 2009 £m
Reconciliation of net cash flow to movement in net debt			
Opening net debt		**(2,490.8)**	(3,077.7)
Net cash (outflow)/inflow from activities		**(93.5)**	172.6
Increase in current financial assets		**118.3**	1.1
Decrease/(increase) in debt financing		**386.9**	(66.2)
Partnership liability to the Marks & Spencer UK Pension Scheme (non-cash)		**–**	539.6
Exchange and other non-cash movements		**10.7**	(60.2)
Movement in net debt		**422.4**	586.9
Closing net debt	29	**(2,068.4)**	(2,490.8)

Notes to the financial statements

1 Accounting policies

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, International Financial Reporting Interpretations Committee (IFRIC) interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

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 43 as well as the Group's principal risks and uncertainties as set out on pages 56 and 57. 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 Group continues to adopt the going concern basis in preparing its financial statements.

The following IFRSs, IFRIC interpretations and amendments have been adopted in the financial statements for the first time in this financial period:

- IFRS 8 – 'Operating Segments' replaces IAS 14 – 'Segmental Reporting' and requires operating segments to be disclosed on the same basis as that used for internal reporting. It has been implemented by the Group from 29 March 2009, and has had no impact on the results or net assets of the Group but has resulted in revised disclosures.
- IAS 1 (Revised) – 'Presentation of Financial Statements' is effective for the year ended 3 April 2010. The standard requires a change in the format and presentation of the Group's primary statements but has had no impact on reported profits or equity.
- IFRS 7 – 'Finance Instruments – Disclosures' (amendment) is effective for the year ended 3 April 2010. The amendment requires enhanced disclosures about fair value measurement and liquidity risk.
- Amendment to IAS 23 – 'Borrowing Costs' removes the option of immediately expensing borrowing costs that are directly attributable to a qualifying asset and requires such costs to be capitalised. It has been adopted by the Group from 29 March 2009, and has had no impact on the results or net assets of the Group.

The following IFRSs, IFRIC interpretations and amendments have been issued but are not yet effective and have not been early adopted by the Group:

- IFRS 3 (Revised) – 'Business Combinations' was issued in January 2008. It will affect the accounting for any acquisitions made by the Group after March 2010. Acquisitions made prior to that date will not be affected.
- IFRIC 17 – 'Distributions of Non-Cash Assets to Owners' was issued in November 2008. It is effective for annual periods beginning on or after 1 July 2009. This is not currently applicable to the Group, as it has not made any non-cash distributions.
- IFRIC 18 – 'Transfers of Assets from Customers' was issued in January 2009. It is effective for transfer of assets received on or after 1 July 2009. This is not relevant to the Group, as it has not received any assets from customers.

Marks and Spencer Scottish Limited Partnership has taken exemption under paragraph 7 of the Partnership and Unlimited Companies (Accounts) Regulations 1993 (SI 1993/1820) from the requirement to prepare and deliver accounts in accordance with the Companies Act.

A summary of the Company's and the Group's accounting policies is given below:

Accounting convention

The financial statements are drawn up on the historical cost basis of accounting, except as disclosed in the accounting policies set out below.

Basis of consolidation

The Group financial statements incorporate the financial statements of Marks and Spencer Group plc and all its subsidiaries made up to the year end date. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those used by the Group.

Subsidiary undertakings are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiary undertakings acquired during the year are recorded using the acquisition method of accounting and their results included from the date of acquisition.

The separable net assets, both tangible and intangible, of the newly acquired subsidiary undertakings are incorporated into the financial statements on the basis of the fair value as at the effective date of control.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated.

Revenue

Revenue comprises sales of goods to customers outside the Group less an appropriate deduction for actual and expected returns, discounts and loyalty scheme vouchers, and is stated net of value added tax and other sales taxes. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer. Sales of furniture and online sales are recorded on delivery to the customer.

Exceptional items

Exceptional income and charges are those items that are one-off in nature and create significant volatility in reported earnings and are therefore reported separately in the income statement. This includes costs relating to strategy changes that are not regular running costs of the underlying business and pension credits arising on changes to the UK Defined Benefit Scheme.

Dividends

Final dividends are recorded in the financial statements in the period in which they are approved by the Company's shareholders. Interim dividends are recorded in the period in which they are approved and paid.

Pensions

Funded pension plans are in place for the Group's UK employees and some employees overseas. The assets of these pension plans include a property partnership interest and various equities and bonds. The equities and bonds are managed by third-party investment managers and are held separately in trust.

Regular valuations are prepared by independent professionally qualified actuaries in respect of the defined benefit schemes using the projected unit credit method. These determine the level of contribution required to fund the benefits set out in the rules of the plans and allow for the periodic increase of pensions in payment. The service cost of providing retirement benefits to employees during the year, together with the cost of any benefits relating to past service, is charged to operating profit in the year.

1 Accounting policies continued

A credit representing the expected return on the assets of the retirement benefit schemes during the year is included within finance income. This is based on the market value of the assets of the schemes at the start of the financial year.

A charge is also made within finance income representing the expected increase in the liabilities of the retirement benefit schemes during the year. This arises from the liabilities of the schemes being one year closer to payment.

The difference between the market value of the assets and the present value of accrued pension liabilities is shown as an asset or liability in the statement of financial position. Assets are only recognised if they are recoverable.

Actuarial gains and losses are recognised immediately in the statement of comprehensive income.

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

Intangible assets

A. Goodwill Goodwill arising on consolidation represents the excess of the cost of acquisitions over the Group's interest in the fair value of the identifiable assets and liabilities (including intangible assets) of the acquired entity at the date of the acquisition. Goodwill is recognised as an asset and assessed for impairment at least annually. Any impairment is recognised immediately in the income statement.

B. Brands Acquired brand values are held on the statement of financial position at cost and amortised on a straight-line basis over their estimated useful lives. Any impairment in value is recognised immediately in the income statement.

C. Software intangibles Where computer software is not an integral part of a related item of computer hardware, the software is treated as an intangible asset. Capitalised software costs include external direct costs of material and services and the payroll and payroll-related costs for employees who are directly associated with the project.

Capitalised software development costs are amortised on a straight-line basis over their expected economic lives, normally between 3 to 10 years. Computer software under development is held at cost less any recognised impairment loss.

Property, plant and equipment

The Group's policy is to state property, plant and equipment at cost less accumulated depreciation and any recognised impairment loss. Assets in the course of construction are held at cost less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy.

A. Land and buildings The Group's policy is not to revalue property for accounting purposes.

B. Depreciation Depreciation is provided to write off the cost of tangible non-current assets (including investment properties), less estimated residual values, by equal annual instalments as follows:

- freehold land – not depreciated;
- freehold and leasehold buildings with a remaining lease term over 50 years – depreciated to their residual value over their estimated remaining economic lives;
- leasehold buildings with a remaining lease term of less than 50 years – over the remaining period of the lease; and
- fixtures, fittings and equipment – 3 to 25 years according to the estimated life of the asset.

Residual values and useful economic lives are reviewed annually. Depreciation is charged on all additions to, or disposals of, depreciating assets in the year of purchase or disposal. Any impairment in value is charged to the income statement.

C. Assets held under leases Where assets are financed by leasing agreements where the risks and rewards are substantially transferred to the Group (finance leases) the assets are treated as if they had been purchased outright, and the corresponding liability to the leasing company is included as an obligation under finance leases. Depreciation on leased assets is charged to the income statement on the same basis as owned assets. Leasing payments are treated as consisting of capital and interest elements and the interest is charged to the income statement.

All other leases are operating leases and the costs in respect of operating leases are charged on a straight-line basis over the lease term. The value of any lease incentive received to take on an operating lease (for example, rent-free periods) is recognised as deferred income and is released over the life of the lease.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties are recorded at cost less accumulated depreciation and any recognised impairment loss.

Leasehold prepayments

Payments made to acquire leasehold land are included in prepayments at cost and are amortised over the life of the lease.

Inventories

Inventories are valued at the lower of cost and net realisable value using the retail method, which is computed on the basis of selling price less the appropriate trading margin. All inventories are finished goods.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Share-based payments

The Group issues equity-settled share-based payments to certain employees. A fair value for the equity-settled share awards is measured at the date of grant. The Group measures the fair value of each award using the Black-Scholes model where appropriate.

The fair value of each award is recognised as an expense over the vesting period on a straight-line basis, after allowing for an estimate of the share awards that will eventually vest. The level of vesting is reviewed annually; and the charge is adjusted to reflect actual and estimated levels of vesting.

Foreign currencies

The results of overseas subsidiaries are translated at the weighted average of monthly exchange rates for sales and profits. The balance sheets of overseas subsidiaries are translated at year end exchange rates. The resulting exchange differences are dealt with through reserves and reported in the consolidated statement of comprehensive income.

Notes to the financial statements continued

1 Accounting policies continued

Transactions denominated in foreign currencies are translated at the exchange rate at the date of the transaction. Foreign currency assets and liabilities held at the balance sheet date are translated at the closing balance sheet rate. The resulting exchange gain or loss is recognised within the income statement.

Taxation
The tax charge comprises current tax payable and deferred tax.

The current tax charge represents an estimate of the amounts payable to tax authorities in respect of the Group's taxable profits and is based on an interpretation of existing tax laws.

Deferred tax is recognised on temporary differences between the carrying amount of an asset or liability in the statement of financial position and its tax base at tax rates that are expected to apply when the asset is realised or the liability settled, based on tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is not recognised in respect of:

- the initial recognition of goodwill that is not tax deductible; and
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction does not affect accounting or taxable profits.

Deferred tax assets are only recognised when it is probable that taxable profits will be available against which the deferred tax asset can be utilised.

Deferred tax liabilities are not provided in respect of undistributed profits of non-UK resident subsidiaries where (i) the Group is able to control the timing of distribution of such profits; and (ii) it is not probable that a taxable distribution will be made in the foreseeable future.

Financial instruments
Financial assets and liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

A. Trade receivables Trade receivables recorded initially at fair value and subsequently measured at amortised cost. Generally, this results in their recognition at nominal value less any allowance for any doubtful debts.

B. Investments and other financial assets Investments and other financial assets are classified as either 'available-for-sale' or 'fair value through profit or loss'. They are initially measured at fair value, including transaction costs, with the exception of 'fair value through profit and loss'. Financial assets held at fair value through profit and loss are initially recognised at fair value and transaction costs are expensed.

Where securities are designated as 'fair value through profit or loss', gains and losses arising from changes in fair value are included in net profit or loss for the period. For 'available-for-sale' investments, gains or losses arising from changes in fair value are recognised directly in comprehensive income, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in comprehensive income is included in the net profit or loss for the period. Equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured by other means are held at cost.

Investments in subsidiaries are held at cost less impairment. Dividends received from the pre-acquisition profits of subsidiaries are deducted from the cost of investment.

C. Classification of financial liabilities and equity Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

D. Bank borrowings Interest-bearing bank loans and overdrafts are initially recorded at the fair value, which equals the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

E. Loan notes Long-term loans are initially measured at fair value and are subsequently held at amortised cost unless the loan is hedged by a derivative financial instrument in which case hedge accounting treatment will apply.

F. Trade payables Trade payables are recorded initially at fair value and subsequently measured at amortised cost. Generally this results in their recognition at their nominal value.

G. Equity instruments Equity instruments issued by the Company are recorded at the consideration received, net of direct issue costs.

Derivative financial instruments and hedging activities
The Group primarily uses interest rate swaps and forward foreign currency contracts to manage its exposures to fluctuating interest and foreign exchange rates. These instruments are initially recognised at fair value on the trade date and are subsequently remeasured at their fair value at the balance sheet date. The method of recognising the resulting gain or loss is dependent on whether the derivative is designated as a hedging instrument and the nature of the item being hedged.

The Group designates certain hedging derivatives as either:

- a hedge of a highly probable forecast transaction or change in the cash flows of a recognised asset or liability (a cash flow hedge);
- a hedge of the exposure to change in the fair value of a recognised asset or liability (a fair value hedge); or
- a hedge of the exposure on the translation of net investments in foreign entities (a net investment hedge).

Underlying the definition of fair value is the presumption that the Group is a going concern without any intention of materially curtailing the scale of its operations.

For those of the Group's derivative instruments stated at fair value, the fair value will be determined by the Group applying discounted cash flow analysis using quoted market rates as an input into the valuation model.

In determining the fair value of a derivative, the appropriate quoted market price for an asset held is the bid price, and for a liability issued is the offer price.

At inception of a hedging relationship, the hedging instrument and the hedged item are documented and prospective effectiveness testing is performed. During the life of the hedging relationship, effectiveness testing is continued to ensure the instrument remains an effective hedge of the transaction.

1 Accounting policies continued

In order to qualify for hedge accounting, the following conditions must be met:

- formal designation and documentation at inception of the hedging relationship, detailing the risk management objective and strategy for undertaking the hedge;
- the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk;
- for a cash flow hedge, a forecast transaction that is the subject of the hedge must be highly probable;
- the effectiveness of the hedge can be reliably measured; and
- the hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout its life.

A. Cash flow hedges Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in comprehensive income and any ineffective portion is recognised immediately in the income statement. If the firm commitment or forecast transaction that is the subject of a cash flow hedge results in the recognition of a non-financial asset or liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in comprehensive income are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in comprehensive income are recognised in the income statement in the same period in which the hedged items affect net profit or loss.

B. Fair value hedges For an effective hedge of an exposure to changes in the fair value, the hedged item is adjusted for changes in fair value attributable to the risk being hedged with the corresponding entry in profit or loss. Gains and losses from remeasuring the derivative, or for non-derivatives the foreign currency component of its carrying amount, are recognised in profit or loss.

C. Net investment hedges Changes in the fair value of derivative or non-derivative financial instruments that are designated and effective as hedges of the net investments are recognised directly in comprehensive income and any ineffective portion is recognised immediately in the income statement.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in comprehensive income is retained in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the period.

The Group does not use derivatives to hedge income statement translation exposures.

Critical accounting estimates and judgements

The preparation of consolidated financial statements requires the Group to make estimates and assumptions that affect the application of policies and reported amounts. Estimates and judgements are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are discussed below:

A. Impairment of goodwill The Group is required to test, at least annually, whether goodwill has suffered any impairment. The recoverable amount is determined based on value in use calculations. The use of this method requires the estimation of future cash flows and the choice of a suitable discount rate in order to calculate the present value of these cash flows. Actual outcomes could vary from those calculated. See note 13 for further details.

B. Impairment of property, plant and equipment and computer software Property, plant and equipment and computer software are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount is determined based on value in use calculations prepared on the basis of management's assumptions and estimates. See notes 13 and 14 for further details.

C. Depreciation of property, plant and equipment and amortisation of computer software Depreciation and amortisation is provided so as to write down the assets to their residual values over their estimated useful lives as set out above. The selection of these residual values and estimated lives requires the exercise of management judgement. See notes 13 and 14 for further details.

D. Post-retirement benefits The determination of the pension cost and defined benefit obligation of the Group's defined benefit pension schemes depends on the selection of certain assumptions which include the discount rate, inflation rate, salary growth, mortality and expected return on scheme assets. Differences arising from actual experiences or future changes in assumptions will be reflected in subsequent periods. See note 11 for further details.

E. Refunds and loyalty scheme accruals Accruals for sales returns and loyalty scheme redemption are estimated on the basis of historical returns and redemptions and these are recorded so as to allocate them to the same period as the original revenue is recorded. These accruals are reviewed regularly and updated to reflect management's latest best estimates, however, actual returns and redemptions could vary from these estimates.

Non-GAAP performance measures

The directors believe that the adjusted profit and earnings per share measures provide additional useful information for shareholders on the underlying performance of the business. These measures are consistent with how underlying business performance is measured internally. The adjusted profit before tax measure is not a recognised profit measure under IFRS and may not be directly comparable with adjusted profit measures used by other companies. The adjustments made to reported profit before tax are to exclude the following:

- exceptional income and charges – These are one-off in nature and therefore create significant volatility in reported earnings; and
- profits and losses on the disposal of properties – These can vary significantly from year to year, again creating volatility in reported earnings.

Notes to the financial statements continued

2 Segmental information

The Group has adopted IFRS 8 – 'Operating Segments' with effect from 29 March 2009. IFRS 8 requires operating segments to be identified on the basis of internal reporting about components of the Group that are regularly reviewed by the chief operating decision maker to allocate resources to the segments and to assess their performance. In contrast, the predecessor Standard (IAS 14 – 'Segment Reporting') required the Group to identify two sets of segments (business and geographical), using a risks and rewards approach, with the Group's system of internal financial reporting to key management personnel serving only as the starting point for the identification of such segments.

The chief operating decision maker has been identified as the executive directors. The executive directors review the Group's internal reporting in order to assess performance and allocate resources. The operating segments are UK and International which are reported in a manner consistent with the internal reporting to the executive directors.

The UK segment consists of the UK retail business and UK franchise operations. The International segment consists of Marks & Spencer owned businesses in the Republic of Ireland, Europe and Asia, together with international franchise operations.

The executive directors assess the performance of the operating segments based on a measure of operating profit. This measurement basis excludes the effects of exceptional items from the operating segments as well as gains or losses on the disposal of assets. Central costs are all classified as UK costs and presented within UK operating profit. The executive directors also monitor revenue within the segments. To increase transparency, the Group has decided to include an additional voluntary disclosure analysing revenue within the reportable segments.

The following is an analysis of the Group's revenue and results by reportable segment:

	53 weeks ended 3 April 2010			52 weeks ended 28 March 2009		
	Management £m	Adjustment[2] £m	Statutory £m	Management £m	Adjustment[2] £m	Statutory £m
General Merchandise	**4,186.2**	**(34.2)**	**4,152.0**	3,944.4	(26.1)	3,918.3
Food	**4,455.5**	**(39.6)**	**4,415.9**	4,282.3	(36.3)	4,246.0
UK revenue	**8,641.7**	**(73.8)**	**8,567.9**	8,226.7	(62.4)	8,164.3
Wholesale	**297.7**	**–**	**297.7**	272.3	–	272.3
Retail	**673.1**	**(2.1)**	**671.0**	627.2	(1.7)	625.5
International revenue	**970.8**	**(2.1)**	**968.7**	899.5	(1.7)	897.8
Group revenue	**9,612.5**	**(75.9)**	**9,536.6**	9,126.2	(64.1)	9,062.1
UK operating profit[1]	**701.2**	**–**	**701.2**	652.8	–	652.8
International operating profit	**142.7**	**–**	**142.7**	116.1	–	116.1
Group operating profit (adjusted)	**843.9**	**–**	**843.9**	768.9	–	768.9
Profit on property disposals			**8.1**			6.4
Exceptional costs			**–**			(135.9)
Exceptional pension credit			**–**			231.3
Group operating profit			**852.0**			870.7
Finance income			**12.9**			50.0
Finance costs			**(162.2)**			(214.5)
Profit before tax			**702.7**			706.2

1 UK operating profit includes a contribution of £30.4m (last year £24.8m) in respect of fees received from HSBC in relation to M&S Money.

2 Adjustments relate to revenue items recognised in cost of sales for management accounting purposes.

Other segmental information

	2010			2009		
	UK £m	International £m	Total £m	UK £m	International £m	Total £m
Additions to tangible and intangible assets (excluding goodwill)	**360.0**	**29.3**	**389.3**	611.8	40.2	652.0
Depreciation and amortisation	**398.7**	**29.2**	**427.9**	384.4	24.6	409.0
Assets	**6,242.7**	**910.5**	**7,153.2**	6,530.8	727.3	7,258.1

3 Expense analysis

	2010 Before property disposals and exceptional items £m	2010 Property disposals and exceptional items £m	2010 Total £m	2009 Before property disposals and exceptional items £m	2009 Property disposals and exceptional items £m	2009 Total £m
Revenue	9,536.6	–	9,536.6	9,062.1	–	9,062.1
Cost of sales	(5,918.1)	–	(5,918.1)	(5,690.2)	–	(5,690.2)
Gross profit	3,618.5	–	3,618.5	3,371.9	–	3,371.9
Selling and marketing expenses	(2,216.6)	–	(2,216.6)	(2,074.4)	–	(2,074.4)
Administrative expenses	(614.9)	–	(614.9)	(570.1)	–	(570.1)
Other operating income	56.9	–	56.9	41.5	–	41.5
Profit on property disposals	–	8.1	8.1	–	6.4	6.4
Exceptional costs (see note 5)	–	–	–	–	(135.9)	(135.9)
Exceptional pension credit (see note 5)	–	–	–	–	231.3	231.3
Operating profit	843.9	8.1	852.0	768.9	101.8	870.7

The selling and marketing expenses and administrative expenses in the table above are further analysed in the table below:

	2010 Selling and marketing expenses £m	2010 Adminis-trative expenses £m	2010 Total £m	2009 Selling and marketing expenses £m	2009 Adminis-trative expenses £m	2009 Total £m
Employee costs (see note 10A)	1,007.5	251.9	1,259.4	923.2	231.1	1,154.3
Occupancy costs	463.2	81.7	544.9	439.2	77.5	516.7
Repairs, renewals and maintenance of property	88.3	22.1	110.4	76.6	19.1	95.7
Depreciation	354.8	39.4	394.2	343.5	38.2	381.7
Amortisation	30.3	3.4	33.7	24.6	2.7	27.3
Other costs	272.5	216.4	488.9	267.3	201.5	468.8
Operating expenses	2,216.6	614.9	2,831.5	2,074.4	570.1	2,644.5

4 Profit before taxation

The following items have been included in arriving at profit before taxation:

	2010 £m	2009 £m
Net foreign exchange (gains)/losses	(2.9)	3.6
Cost of inventories recognised as an expense	5,683.5	5,426.7
Depreciation of property, plant, and equipment		
– owned assets	380.4	371.5
– under finance leases	13.8	10.2
Amortisation of intangibles	33.7	27.3
Profit on property disposals	(8.1)	(6.4)
Operating lease rentals payable		
– property	220.7	200.5
– fixtures, fittings and equipment	10.8	10.1
Exceptional costs (see note 5)	–	135.9
Exceptional pension credit (see note 5)	–	(231.3)

Notes to the financial statements continued

4 Profit before taxation continued

Included in administrative expenses is the auditors' remuneration, including expenses for audit and non-audit services, payable to the Company's auditors PricewaterhouseCoopers LLP and its associates as follows:

	2010 £m	2009 £m
Statutory audit services		
Annual audit of the Company and the consolidated accounts	0.4	0.4
Audit of subsidiary companies	1.0	0.9
	1.4	1.3
Non-audit-related services		
Other services pursuant to legislation	0.1	0.1
Tax advisory services	0.6	0.3
Other services	0.1	0.2
	0.8	0.6

5 Exceptional items

The exceptional costs in 2008/09 related to a strategic restructure and are not regular running costs of the underlying business. These included: £92.5m property-related costs including onerous lease provisions, property, plant and equipment disposals, leasehold premium write-offs and decommissioning costs; £32.3m costs related to the rationalisation of IT and logistics networks; and £11.1m redundancy costs.

The exceptional pension credit in 2008/09 arose due to changes in the UK Defined Benefit Pension Scheme relating to how members' benefits build up. In January 2009 the Group announced that it had made changes to the scheme by capping employees' annual increases in pensionable pay to 1% and changing the early retirement benefits for members who joined the scheme before 1996. There was a credit to the income statement to reflect the impact of adjusting employees' projected final pensionable salaries.

There are no exceptional costs arising in the current year.

6 Finance income/costs

	2010 £m	2009 £m
Bank and other interest receivable	2.1	14.6
Pension finance income (net) (see note 11E)	10.8	35.4
Finance income	12.9	50.0
One-off premium on repurchase of debt (see note 21)	13.5	–
Interest on bank borrowings	7.1	6.2
Interest payable on syndicated bank facility	5.9	41.0
Interest payable on medium-term notes	117.9	113.9
Interest payable on finance leases	5.3	4.9
Fair value movements on financial instruments designated as fair value through profit and loss	8.5	10.5
Unwinding of discount on partnership liability to the Marks & Spencer UK Pension Scheme	4.0	38.0
Finance costs	162.2	214.5
Net finance costs	149.3	164.5

7 Income tax expense

A. Taxation charge

	2010 £m	2009 £m
Current tax		
UK corporation tax at 28% (last year 28%)		
– current year	**170.3**	127.4
– prior years	**(5.2)**	(10.7)
	165.1	116.7
Overseas current taxation	**6.1**	5.1
Total current taxation	**171.2**	121.8
Deferred tax (see note 24)		
– current year	**5.4**	70.1
– prior years	**3.1**	7.5
Total deferred taxation	**8.5**	77.6
Total income tax expense	**179.7**	199.4

B. Taxation reconciliation

	2010 £m	2009 £m
Profit before tax	**702.7**	706.2
Taxation at the standard UK corporation tax rate of 28% (last year 28%)	**196.8**	197.7
Depreciation, charges and other amounts on non-qualifying fixed assets	**1.4**	(4.0)
Other income and expenses not taxable or deductible	**(10.1)**	2.9
Exceptional costs	**–**	7.5
Overseas profits taxed at lower rates	**(6.3)**	(1.5)
Adjustments to tax charge in respect of prior periods	**(2.1)**	(3.2)
Total income tax expense	**179.7**	199.4

The post-exceptional effective tax rate was 25.6% (last year 28.2%) and the pre-exceptional effective tax rate was 25.6% (last year 27.0%).

8 Earnings per share

The calculation of earnings per ordinary share is based on earnings after tax and the weighted average number of ordinary shares in issue during the year.

The adjusted earnings per share figures have also been calculated based on earnings excluding the effect of property disposals and exceptional items. These have been calculated to allow the shareholders to gain an understanding of the underlying trading performance of the Group.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group has only one class of dilutive potential ordinary shares being those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year.

Details of the adjusted earnings per share are set out below:

	2010 £m	2009 £m
Earnings after tax	**526.3**	508.0
Property disposals (net of tax)	**(8.1)**	(6.4)
Exceptional costs (net of tax)	**–**	105.7
Exceptional pension credit (net of tax)	**–**	(166.6)
Adjusted earnings after tax	**518.2**	440.7

	Million	Million
Weighted average number of ordinary shares in issue	**1,572.2**	1,573.2
Potentially dilutive share options under Group's share option schemes	**14.3**	0.8
Weighted average number of diluted ordinary shares	**1,586.5**	1,574.0

Notes to the financial statements continued

8 Earnings per share continued

A. Basic earnings per share

	Pence	Pence
Basic earnings per share	**33.5**	32.3
Property disposals per share	**(0.5)**	(0.4)
Exceptional costs per share	**–**	6.7
Exceptional pension credit per share	**–**	(10.6)
Adjusted basic earnings per share	**33.0**	28.0

B. Diluted earnings per share

	Pence	Pence
Diluted earnings per share	**33.2**	32.3
Property disposals per share	**(0.5)**	(0.4)
Exceptional costs per share	**–**	6.7
Exceptional pension credit per share	**–**	(10.6)
Adjusted diluted earnings per share	**32.7**	28.0

9 Dividends

	2010 per share	2009 per share	2010 £m	2009 £m
Dividends on equity ordinary shares				
Paid final dividend	**9.5p**	14.2p	**149.6**	224.1
Paid interim dividend	**5.5p**	8.3p	**86.4**	130.5
	15.0p	22.5p	**236.0**	354.6

In addition, the directors have proposed a final dividend in respect of the year ended 3 April 2010 of 9.5p per share amounting to a dividend of £150.4m. It will be paid on 16 July 2010 to shareholders who are on the Register of Members on 4 June 2010. In line with the requirements of IAS 10 – 'Events after the Balance Sheet Date', this dividend has not been recognised within these results.

10 Employees

A. Aggregate remuneration

The aggregate remuneration and associated costs of Group employees were:

	2010 Total £m	2009 Total £m
Wages and salaries	**1,080.3**	978.8
Social security costs	**73.2**	69.1
Pension costs	**57.3**	67.2
Share-based payments	**28.5**	14.3
Employee welfare and other personnel costs	**36.2**	37.8
Ex-gratia costs	**3.6**	8.4
Capitalised staff costs[1]	**(19.7)**	(21.3)
Aggregate remuneration	**1,259.4**	1,154.3
Exceptional redundancy costs (see note 5)	**–**	11.1
Exceptional pension credit (see note 5)	**–**	(231.3)
Total	**1,259.4**	934.1

1 Staff costs are capitalised in the development of intangible assets – see note 1.

Details of key management compensation are given in note 30.

10 Employees continued

B. Average number of employees

	2010	2009
UK stores		
– management and supervisory categories	**5,396**	5,528
– other	**61,946**	63,969
UK head office		
– management and supervisory categories	**2,389**	2,577
– other	**912**	1,036
Overseas	**5,624**	4,754
Total average number of employees	**76,267**	77,864

If the number of hours worked was converted on the basis of a normal working week, the equivalent average number of full-time employees would have been 52,994 (last year 54,153).

C. Directors' emoluments

Emoluments of directors of the Company are summarised below. Further details are given in the Remuneration report on pages 58 to 71.

	2010 £000	2009 £000
Aggregate emoluments	**8,380**	6,240

The emoluments exclude payments to former directors of £187,000 (last year £252,000).

11 Retirement benefits

The Group provides pension arrangements for the benefit of its UK employees through the Marks & Spencer UK Pension Scheme. This has a defined benefit section, which was closed to new entrants with effect from 1 April 2002, and a defined contribution section which has been open to new members with effect from 1 April 2003.

The defined benefit section operates on a final salary basis and at the year end had some 15,000 active members (last year 21,000), 56,000 deferred members (last year 57,000) and 47,000 pensioners (last year 42,000). At the year end, the defined contribution section had some 8,000 active members (last year 8,000) and some 1,000 deferred members (last year 1,000).

The Group also operates a small funded defined benefit pension scheme in the Republic of Ireland. Retirement benefits also include a UK post-retirement healthcare scheme and unfunded retirement benefits.

Within the total Group retirement benefit cost, excluding the exceptional pension credit, of £46.5m (last year £31.8m), £27.0 (last year £14.0m) relates to the UK defined benefit section, £12.3m (last year £13.0m) to the UK defined contribution section and £7.2m (last year £4.8m) to other retirement benefit schemes.

A. Pensions and other post-retirement liabilities

	2010 £m	2009 £m
Total market value of assets	**4,948.6**	3,977.0
Present value of scheme liabilities	**(5,298.6)**	(4,112.4)
Net funded pension plan deficit	**(350.0)**	(135.4)
Unfunded retirement benefits	**(0.9)**	(1.0)
Post-retirement healthcare	**(15.6)**	(15.8)
Net retirement benefit deficit	**(366.5)**	(152.2)

Notes to the financial statements continued

11 Retirement benefits continued

B. Financial assumptions

A full actuarial valuation of the UK Defined Benefit Pension Scheme was carried out at 31 March 2009 and showed a deficit of £1.3bn. A funding plan of £800m has been agreed with the Trustees (see note 31). The difference between the valuation and the funding plan is expected to be met by investment returns on the existing assets of the pension scheme. The financial assumptions for the UK scheme and the most recent actuarial valuations of the other post-retirement schemes have been updated by independent qualified actuaries to take account of the requirements of IAS 19 – 'Retirement Benefits' in order to assess the liabilities of the schemes:

	2010 %	2009 %
Rate of increase in salaries	**1.0**	1.0
Rate of increase in pensions in payment for service		
– pre-April 1997	**2.7**	2.6
– between April 1997 and July 2005	**3.5**	2.9
– post-July 2005	**2.3**	2.3
Discount rate	**5.5**	6.8
Inflation rate	**3.6**	2.9
Long-term healthcare cost increases	**8.6**	7.9

The amount of the deficit varies if the main financial assumptions change, particularly the discount rate. If the discount rate increased/decreased by 0.1% the IAS 19 deficit would decrease/increase by c. £90m.

C. Demographic assumptions

The demographic assumptions are in line with those adopted for the last formal actuarial valuation of the scheme (31 March 2009). One of the most significant demographic assumptions underlying the valuation is mortality. The post-retirement mortality assumptions are based on an analysis of the pensioner mortality trends under the scheme for the period to March 2009 updated to allow for anticipated longevity improvements over the subsequent years. The specific mortality rates used are based on the SAPS tables, adjusted to allow for the experience of scheme pensioners. The life expectancies underlying the valuation are as follows:

		2010 years	2009 years
Current pensioners (at age 65)	– males	**21.9**	21.2
	– females	**23.3**	23.6
Future pensioners (at age 65)	– males	**23.1**	22.0
	– females	**24.2**	24.3

D. Analysis of assets and expected rates of return

The major categories of assets as a percentage of total plan assets are:

	2010 £m	2009 £m	2010 %	2009 %
Property partnership interest	**631.7**	529.8	**13**	13
UK equities	**415.7**	480.8	**8**	12
Overseas equities	**1,283.4**	644.3	**26**	16
Government bonds	**53.9**	127.2	**1**	3
Corporate bonds	**2,520.8**	2,278.0	**51**	58
Swaps[1]	**(245.1)**	(214.9)	**(5)**	(5)
Cash and other	**288.2**	131.8	**6**	3
	4,948.6	3,977.0	**100**	100

1 The swaps hedge interest and inflation rate exposures within the scheme's liabilities.

11 Retirement benefits continued

The expected long-term rates of return are:

	2010 %	2009 %
Property partnership interest	**5.1**	7.1
UK equities	**8.4**	8.0
Overseas equities	**8.4**	8.0
Government bonds	**4.5**	4.2
Corporate bonds	**5.5**	6.8
Swaps	**4.5**	4.2
Cash and other	**4.4**	4.2
Overall expected return	**6.5**	7.2

The overall expected return on assets assumption is derived as the weighted average of the expected returns from each of the main asset classes. The expected return for each asset class reflects a combination of historical performance analysis, the forward-looking views of financial markets (as suggested by the yields available) and the views of investment organisations. Consideration is also given to the rate of return expected to be available for reinvestment.

At year end, the UK scheme indirectly held 232,042 (last year 369,793) ordinary shares in the Company through its investment in an Aquila Life UK Equity Index Fund.

E. Analysis of amount charged against profits

	2010 £m	2009 £m
Operating cost		
Current service cost	**56.3**	72.2
Curtailment charge/(gain)	**1.0**	(5.0)
Exceptional pension credit (see note 5)	**–**	(231.3)
	57.3	(164.1)
Finance cost		
Expected return on plan assets	**(281.4)**	(334.6)
Interest on scheme liabilities	**270.6**	299.2
Net finance income	**(10.8)**	(35.4)
Total	**46.5**	(199.5)

F. Scheme assets

Changes in the fair value of the scheme assets are as follows:

	2010 £m	2009 £m
Fair value of scheme assets at start of year	**3,977.0**	5,045.5
Expected return on scheme assets[1]	**281.4**	334.6
Employer contributions[2]	**82.7**	92.1
Contributions from scheme members	**–**	2.0
Benefits paid	**(257.0)**	(226.5)
Actuarial gain/(loss)	**867.7**	(1,280.3)
Exchange movement	**(3.2)**	9.6
Fair value of scheme assets at end of year	**4,948.6**	3,977.0

1 The actual return on scheme assets was £1,149.1m (last year loss of £945.7m).

2 In 2007/08 the Group agreed to pre-fund £200.0m of its annual contribution to the UK Defined Benefit Pension Scheme for the next three years. The prepayment is in respect of annual contributions to the UK scheme at the rate of 23.2% of pensionable salaries up to 30 September 2010 and then 22.9% up to the next financial year. It is estimated that approximately £55.0m of the prepayment will relate to the year ended 2 April 2011.

Notes to the financial statements continued

11 Retirement benefits continued

G. Retirement benefit obligations

Changes in the present value of retirement benefit obligations are as follows:

	2010 £m	2009 £m
Present value of obligation at start of year	**4,129.2**	4,562.0
Current service cost	**56.3**	72.2
Curtailment charge/(gain)	**1.0**	(5.0)
Exceptional pension credit	**–**	(231.3)
Interest cost	**270.6**	299.2
Contributions from scheme members	**–**	2.0
Benefits paid	**(257.0)**	(226.5)
Actuarial loss/(gain)	**1,119.3**	(353.2)
Exchange movement	**(4.3)**	9.8
Present value of obligation at end of year	**5,315.1**	4,129.2
Analysed as:		
Present value of pension scheme liabilities	**5,298.6**	4,112.4
Unfunded pension plans	**0.9**	1.0
Post-retirement healthcare	**15.6**	15.8
Present value of obligation at end of year	**5,315.1**	4,129.2

H. Cumulative actuarial gains and losses recognised in equity

	2010 £m	2009 £m
Loss at start of year	**(1,257.3)**	(330.2)
Net actuarial losses recognised in the year	**(251.6)**	(927.1)
Loss at end of year	**(1,508.9)**	(1,257.3)

I. History of experience gains and losses

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Experience adjustments arising on scheme assets	**867.7**	(1,280.3)	(422.6)	(80.4)	454.3
Experience gains/(losses) arising on scheme liabilities	**36.2**	81.2	(61.5)	18.8	20.0
Changes in assumptions underlying the present value of scheme liabilities	**(1,155.5)**	272.0	1,089.5	53.0	(643.6)
Actuarial (losses)/gains recognised in equity	**(251.6)**	(927.1)	605.4	(8.6)	(169.3)
Fair value of scheme assets	**4,948.6**	3,977.0	5,045.5	5,227.5	4,606.2
Present value of scheme liabilities	**(5,298.6)**	(4,112.4)	(4,542.3)	(5,487.0)	(5,381.3)
Pension scheme (deficit)/asset	**(350.0)**	(135.4)	503.2	(259.5)	(775.1)

12 Share-based payments

The charge for share-based payments for the year was £28.5m (last year £14.3m). Further details of the option and share schemes that the Group operates are provided in the Remuneration report on pages 58 to 71.

A. Save As You Earn Share Option Scheme

Under the terms of the scheme, the Board may offer options to purchase ordinary shares in the Company once in each financial year to those employees who enter into an HM Revenue & Customs (HMRC) approved Save As You Earn (SAYE) savings contract. HMRC rules limit the maximum amount saved to £250 per month. The price at which options may be offered is 80% of the average mid-market price for three consecutive dealing days preceding the offer date. The options may normally be exercised during the period of six months after the completion of the SAYE contract, either three or five years after entering the scheme.

	2010		2009	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of the period	57,863,061	252.2p	28,444,760	403.1p
Granted	8,566,762	292.0p	42,551,459	203.0p
Exercised	(3,544,310)	260.9p	(2,075,204)	232.7p
Forfeited	(5,052,662)	277.6p	(10,958,637)	456.4p
Expired	(5,272,290)	309.8p	(99,317)	261.8p
Outstanding at end of the period	52,560,561	249.9p	57,863,061	252.2p
Exercisable at end of period	1,705,532	486.7p	6,169,324	296.9p

For SAYE share options exercised during the period, the weighted average share price at the date of exercise was 360.4p (last year 296.2p).

The fair values of the options granted during the year have been calculated using the Black-Scholes model assuming the inputs shown below:

	2010	2009	
	3-year plan	3-year plan	5-year plan
Grant date	Nov 09	Nov 08	Nov 08
Share price at grant date	365p	253p	253p
Exercise price	292p	203p	203p
Option life in years	3 years	3 years	5 years
Risk-free rate	1.6%	2.9%	3.2%
Expected volatility	44.1%	39.2%	33.4%
Expected dividend yield	4.1%	8.9%	8.9%
Fair value of option	113p	54.6p	43.9p

Volatility has been estimated by taking the historic volatility in the Company's share price over a three or five year period.

The resulting fair value is expensed over the service period of three or five years on the assumption that 20% of options will lapse over the service period as employees leave the Group.

Outstanding options granted under the UK Employees' SAYE Scheme are as follows:

	Number of options		Weighted average remaining contractual life (years)		
Options granted	2010	2009	2010	2009	Option price
January 2004	–	2,748,699	–	0.3	228p
January 2005	312,805	2,705,890	0.2	1.3	280p
January 2006	1,471,579	5,089,994	1.2	0.9	349p
January 2007	2,016,402	2,381,588	0.9	2.0	559p
January 2008	2,440,739	3,114,069	2.0	3.0	517p
January 2009	38,009,851	41,822,821	3.0	4.0	203p
January 2010	8,309,185	–	3.2	–	292p
	52,560,561	57,863,061	2.9	3.3	250p

Notes to the financial statements continued

12 Share-based payments continued

B. Executive Share Option Scheme

Under the terms of the Executive Share Option Scheme, last approved by shareholders in 2005, the Board may offer options to purchase ordinary shares in the Company to executive directors and senior managers at the market price on a date to be determined prior to the date of the offer. No further options may be granted under any schemes other than the 2005 scheme. No awards have been made under the 2005 scheme. Further details are set out in the Remuneration report on page 64.

Performance targets are assessed over a three year period from the date of grant with no ability to retest any grants. Once options have vested they can be exercised during the period up to 10 years from grant date.

	2010		2009	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding at beginning of the period	**8,632,783**	**336.8p**	9,623,518	341.0p
Exercised	**(977,352)**	**328.0p**	(142,559)	343.9p
Forfeited	**(1,159,290)**	**345.0p**	(678,888)	340.7p
Expired	**(98,880)**	**358.0p**	(169,288)	550.3p
Outstanding at end of the period	**6,397,261**	**336.8p**	8,632,783	336.8p
Exercisable at end of period	**6,397,261**	**336.8p**	8,632,783	336.8p

For executive share options exercised during the period, the weighted average share price at the date of exercise was 370.8p (last year 395.3p).

Outstanding options granted under all Executive Share Option Schemes are as follows:

	Number of options		Weighted average remaining contractual life (years)		
Options granted	**2010**	2009	**2010**	2009	Option price
1997 Scheme					
June 1999	**–**	98,880	**–**	0.3	358p
2000 Scheme					
September 2000	**–**	232	**–**	1.5	215p
June 2001	**65,581**	135,989	**1.3**	2.3	256p
December 2001	**18,087**	18,087	**1.8**	2.8	350p
2002 Scheme					
June 2002	**421,031**	579,237	**2.3**	3.3	350p
November 2002	**14,042**	47,150	**2.7**	3.7	353p
June 2003	**1,103,230**	1,398,584	**3.3**	4.3	297p
November 2003	**11,390**	36,109	**3.7**	4.7	270p
February 2004	**33,111**	33,111	**3.9**	4.9	270p
July 2004	**3,443,824**	4,417,613	**4.3**	5.3	347p
November 2004	**533,164**	806,193	**4.7**	5.7	337p
June 2005	**753,801**	1,061,598	**5.3**	6.3	352p
	6,397,261	8,632,783	**4.1**	5.0	337p

C. Performance Share Plan

The Performance Share Plan is the primary long-term incentive plan for approximately 100 of the most senior managers and was first approved by shareholders in 2005. Under the plan, annual awards, based on a percentage of salary, may be offered. The extent to which the awards vest is based on adjusted earnings per share growth over three years. The value of any dividends earned on the vested shares during the three years will also be paid on vesting. Further details are set out in the Remuneration report on page 63. Awards under this scheme have been made in each year since 2005.

During the year, 7,617,094 shares (last year 6,835,938) were awarded under the plan. The weighted average fair value of the shares awarded was 290.8p (last year 368.9p).

12 Share-based payments continued

D. Deferred Share Bonus Plan

The Deferred Share Bonus Plan was introduced in 2005/06 as part of the Annual Bonus Scheme for approximately 450 of the most senior managers. As part of the scheme, the managers are required to defer a proportion of any bonus paid into shares which will be held for three years. There are no further performance conditions on these shares, other than continued employment, and the value of any dividends earned during the deferred period will be paid on vesting.

During the year, 98,515 shares (last year 288,656) have been awarded under the plan in relation to the annual bonus. The fair value of the shares awarded was 286.1p (last year 381.6p). As at 3 April 2010, 307,309 shares (last year 3,084,935) were outstanding under the scheme.

E. Restricted Share Plan

The Restricted Share Plan was established in 2000 as part of the reward strategy for retention and recruitment of senior managers who are vital to the success of the business. The plan operates for senior managers below executive director level. Awards under the plan are made as part of ongoing reviews of reward packages, and for recruitment. The shares are held in trust for a period of between one and three years, at which point they are released to the employee, subject to them still being in employment. The value of any dividends earned during the restricted period will also be paid at the time of vesting.

During the year, 342,600 shares (last year 1,755,667) have been awarded under the plan. The weighted average fair value of the shares awarded was 348.6p (last year 337.8p).

F. United Kingdom Share Incentive Plan

The Share Incentive Plan is a discretionary, all-employee plan, approved by HMRC, under which Freeshares may be allocated by the Company. The last award was made in June 2003, which vested in June 2008.

G. Share Matching Deal Plan

The Share Matching Deal Plan was introduced in 2006 for those employees who were eligible to receive a cash-only bonus. The scheme was not open to those employees who participated in the Deferred Share Bonus Plan. The plan allows employees to invest a proportion of their bonus in shares of the Company. These investment shares must be held by the participant for three years, during which time they will receive dividends. At the end of the three year holding period, if the participant is still in employment with the Company, and still holds the investment shares, they will receive one matching share for every four that they bought.

No shares were awarded under the Share Matching Deal Plan during the year. As at 3 April 2010, 22,000 shares (last year 53,000) were outstanding under the scheme.

H. Republic of Ireland Save As You Earn Scheme

Sharesave, the Company's Save As You Earn Scheme was introduced in 2009 to all employees in the Republic of Ireland for a 10 year period, after approval by shareholders at the 2009 AGM. The scheme is subject to Irish Revenue rules which limit the maximum monthly saving to €500 per month. The Company chose in 2009 to set a monthly savings cap of €320 per month to align the maximum savings amount allowed within the UK scheme. When the savings contract is started, options are granted to acquire the number of shares that the total savings will buy when the contract matures, at a discounted price set at the start of the scheme. The price at which the options may be offered is 80% of the average mid-market price for three consecutive days preceding the offer date. Options cannot normally be exercised until a minimum of three years has elapsed.

During the year, 287,235 options were granted, at a fair value of 113.1p.

I. Marks and Spencer Employee Benefit Trust

The Marks and Spencer Employee Benefit Trust (the Trust) holds 7,299,755 (last year 4,203,250) shares with a book value of £24.1m (last year £27.8m) and a market value of £27.1m (last year £11.1m). These shares were acquired by the Trust in the market. The Trust used funds provided by Marks and Spencer plc to meet the Group's obligations. Awards are granted to employees at the discretion of Marks and Spencer plc and shares awarded to employees by the Trust in accordance with the wishes of Marks and Spencer plc under senior executive share schemes, including the Restricted Share Plan. Dividends are waived on all of these plans except for the Deferred Bonus Share Plan and Restricted Share Plan where dividends are paid via a Dividend Reinvestment Plan for awards made in the form of forfeitable shares.

Notes to the financial statements continued

13 Intangible assets

	Goodwill £m	Brands £m	Computer software £m	Computer software under development £m	Total £m
At 29 March 2008					
Cost or valuation	117.9	80.0	82.9	78.0	358.8
Accumulated amortisation	–	(18.7)	(34.6)	–	(53.3)
Net book value	117.9	61.3	48.3	78.0	305.5
Year ended 28 March 2009					
Opening net book value	117.9	61.3	48.3	78.0	305.5
Additions	1.3	–	1.9	118.8	122.0
Transfers	–	–	18.0	(18.0)	–
Exchange difference	–	–	0.1	–	0.1
Amortisation charge	–	(5.3)	(22.0)	–	(27.3)
Closing net book value	119.2	56.0	46.3	178.8	400.3
At 28 March 2009					
Cost or valuation	119.2	80.0	102.9	178.8	480.9
Accumulated amortisation	–	(24.0)	(56.6)	–	(80.6)
Net book value	119.2	56.0	46.3	178.8	400.3
Year ended 3 April 2010					
Opening net book value	**119.2**	**56.0**	**46.3**	**178.8**	**400.3**
Additions	**8.3**	**–**	**20.6**	**56.9**	**85.8**
Transfers	**–**	**–**	**115.7**	**(115.7)**	**–**
Exchange difference	**0.4**	**–**	**–**	**–**	**0.4**
Amortisation charge	**–**	**(5.3)**	**(28.4)**	**–**	**(33.7)**
Closing net book value	**127.9**	**50.7**	**154.2**	**120.0**	**452.8**
At 3 April 2010					
Cost or valuation	**127.9**	**80.0**	**239.2**	**120.0**	**567.1**
Accumulated amortisation	**–**	**(29.3)**	**(85.0)**	**–**	**(114.3)**
Net book value	**127.9**	**50.7**	**154.2**	**120.0**	**452.8**

Goodwill relates to the following business units:

	per una £m	Marks and Spencer Marinopoulos B.V. £m	Marks and Spencer Czech Republic a.s. £m	Supreme Tradelinks Private Limited £m	Total £m
Cost and net book value at 28 March 2009	69.5	34.4	15.3	–	119.2
Additions	–	–	0.1	8.2	8.3
Exchange difference	–	–	0.2	0.2	0.4
Cost and net book value at 3 April 2010	**69.5**	**34.4**	**15.6**	**8.4**	**127.9**

Goodwill is not amortised, but tested annually for impairment with the recoverable amount being determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rate, growth rates and changes in income and costs.

The Group prepares discounted cash flow forecasts based on financial forecasts approved by management covering a three year period, which takes account of both past performance and expectations for future market developments. Cash flows beyond this three year period are extrapolated using a growth rate of 2%, which does not exceed the long-term average growth rate for the Group's retail businesses. The Group's pre-tax weighted average cost of capital is used to discount the future cash flows. A risk adjustment is then made for the countries in which the business unit operates: per una discount rate 8.6% (last year 10.2%); Marks and Spencer Marinopoulos B.V. 12.9% (last year 12.2%), Marks and Spencer Czech Republic a.s. 10.2% (last year 13.2%) and Supreme Tradelinks Private Limited 12.6%. Based on the discounted cash flows the valuations indicate sufficient headroom that any reasonably possible change in the assumptions is unlikely to result in an impairment.

Brands consist of the per una brand which is being amortised on a straight-line basis over a period of 15 years.

14 Property, plant and equipment

	Land and buildings £m	Fixtures, fittings and equipment £m	Assets in the course of construction £m	Total £m
At 29 March 2008				
Cost	2,525.2	4,473.3	186.3	7,184.8
Accumulated depreciation	(103.8)	(2,377.0)	–	(2,480.8)
Net book value	2,421.4	2,096.3	186.3	4,704.0
Year ended 28 March 2009				
Opening net book value	2,421.4	2,096.3	186.3	4,704.0
Exchange difference	26.3	21.4	8.4	56.1
Additions	45.7	395.2	90.4	531.3
Transfers	32.2	142.4	(174.6)	–
Disposals	(58.4)	(17.3)	–	(75.7)
Depreciation charge	(9.2)	(372.5)	–	(381.7)
Closing net book value	2,458.0	2,265.5	110.5	4,834.0
At 28 March 2009				
Cost	2,566.6	4,811.9	110.5	7,489.0
Accumulated depreciation	(108.6)	(2,546.4)	–	(2,655.0)
Net book value	2,458.0	2,265.5	110.5	4,834.0
Year ended 3 April 2010				
Opening net book value	**2,458.0**	**2,265.5**	**110.5**	**4,834.0**
Exchange difference	**(9.8)**	**(7.5)**	**0.4**	**(16.9)**
Additions	**14.6**	**244.3**	**52.9**	**311.8**
Acquisition of subsidiary	**–**	**0.9**	**–**	**0.9**
Reclassification from investment property	**2.4**	**–**	**–**	**2.4**
Transfers	**6.3**	**36.3**	**(42.6)**	**–**
Disposals	**(4.2)**	**(11.8)**	**–**	**(16.0)**
Depreciation charge	**(9.6)**	**(384.6)**	**–**	**(394.2)**
Closing net book value	**2,457.7**	**2,143.1**	**121.2**	**4,722.0**
At 3 April 2010				
Cost	**2,576.4**	**5,043.9**	**121.2**	**7,741.5**
Accumulated depreciation	**(118.7)**	**(2,900.8)**	**–**	**(3,019.5)**
Net book value	**2,457.7**	**2,143.1**	**121.2**	**4,722.0**

The net book value above includes land and buildings of £38.2m (last year £45.4m) and equipment of £45.4m (last year £58.7m) where the Group is a lessee under a finance lease.

Additions to property, plant and equipment during the year amounting to £0.1m (last year £32.8m) were financed by new finance leases.

Notes to the financial statements continued

15 Investment property

	2010 £m	2009 £m
Cost		
At start of year	**25.3**	25.3
Reclassification to property, plant and equipment	**(2.4)**	–
At end of year	**22.9**	25.3
Depreciation		
At start of year	**(0.5)**	(0.3)
Reclassification to property, plant and equipment	**0.1**	–
Depreciation charge	**(0.1)**	(0.2)
At end of year	**(0.5)**	(0.5)
Net book value	**22.4**	24.8

The investment properties were valued at £24.8m (last year £23.1m) as at 3 April 2010 by qualified professional valuers working for CB Richard Ellis, Chartered Surveyors, acting in the capacity of external valuers. All such valuers are chartered surveyors, being members of the Royal Institution of Chartered Surveyors (RICS). The properties were valued on the basis of market value (calculated based on subleases in place at the year end). All valuations were carried out in accordance with the RICS Appraisal and Valuation Standards. As the investment properties are held at depreciated historical cost, this valuation has not been reflected in the carrying value of the assets. No impairment was recognised on the one property which was carried at a higher value than its market value at 28 March 2009. The Group has reoccupied the property during 2009/10 (and has subsequently been reclassified to property, plant and equipment) at which point its value in use exceeded the net book value. The Group received rental income of £0.9m (last year £1.2m) in respect of these investment properties.

16 Investment in joint ventures

	2010 £m	2009 £m
At start of year	**13.8**	9.6
Investment in new joint venture	**–**	4.4
Dividend from joint venture	**(2.0)**	–
Share of loss	**(0.3)**	(0.2)
At end of year	**11.5**	13.8

The joint ventures represent a 50% equity interest in Hedge End Park Limited, a property investment company incorporated in Great Britain, and a 50% equity interest in Lima (Bradford) S.a.r.l, a property investment company incorporated in Luxembourg. The partner in the Hedge End Park Limited joint venture is J Sainsbury plc and the partner in the Lima (Bradford) S.a.r.l joint venture is ProLogis UK Holdings S.A.

In relation to the Group's interest in joint ventures, the assets and liabilities are shown below:

	2010 £m	2009 £m
Non-current assets	**5.5**	4.9
Current assets	**6.1**	9.1
Current liabilities	**(0.1)**	(0.2)
Net assets	**11.5**	13.8

17 Other financial assets

	2010 £m	2009 £m
Non-current		
Unlisted investments	**3.0**	3.0
Current		
Short-term investments[1]	**165.0**	47.1
Unlisted investments	**6.7**	6.0
	171.7	53.1

1 Includes £132.8m of money market deposits held by the Marks and Spencer Scottish Limited Partnership.

Non-current unlisted investments are carried as available-for-sale assets. Other financial assets are measured at fair value with changes in their value taken to the income statement.

18 Trade and other receivables

	2010 £m	2009 £m
Non-current		
Other receivables	**34.6**	27.1
Prepaid pension contributions	**8.0**	60.7
Prepaid leasehold premiums	**244.7**	247.6
Other prepayments and accrued income	**0.4**	1.4
	287.7	336.8
Current		
Trade receivables	**93.2**	87.7
Less: Provision for impairment of receivables	**(4.7)**	(4.2)
Trade receivables – net	**88.5**	83.5
Other receivables	**27.3**	37.0
Prepaid pension contributions	**55.3**	65.7
Prepaid leasehold premiums	**8.5**	10.6
Other prepayments and accrued income	**101.8**	88.4
	281.4	285.2

Trade receivables that were past due but not impaired amounted to £0.7m (last year £9.9m) and are mainly sterling denominated. The directors consider that the carrying amount of trade and other receivables approximates their fair value.

19 Cash and cash equivalents

Cash and cash equivalents includes short-term deposits with banks and other financial institutions, with an initial maturity of three months or less and credit card payment received within 48 hours. The carrying amount of these assets approximates their fair value.

The effective interest rate on short-term bank deposits is 0.29% (last year 0.33%); these deposits have an average maturity of five days (last year three days).

20 Trade and other payables

	2010 £m	2009 £m
Current		
Trade and other payables	**792.2**	783.6
Social security and other taxes	**79.4**	40.4
Accruals and deferred income	**282.2**	249.5
	1,153.8	1,073.5
Non-current		
Other payables[1]	**280.3**	243.8

1 Includes the fair value of the put option over the 49% minority interest in the share capital of Marks and Spencer Czech Republic a.s. £63.5m (last year £56.3m) exercisable on 4 April 2013.

Notes to the financial statements continued

21 Borrowings and other financial liabilities

	2010 £m	2009 £m
Current		
Bank loans and overdrafts[1]	**249.5**	147.9
Syndicated bank facility[2]	**219.8**	781.2
Finance lease liabilities	**13.6**	13.7
	482.9	942.8
Partnership liability to the Marks & Spencer UK Pension Scheme (see note 25)	**71.9**	71.9
	554.8	1,014.7
Non-current		
Bank loans	**17.9**	11.2
6.375% £308m (last year £375m) medium-term notes 2011[3]	**314.6**	382.6
5.875% £267m (last year £400m) medium-term notes 2012[3]	**279.9**	417.9
5.625% £400m medium-term notes 2014[3]	**399.5**	399.0
6.250% US$500m medium-term notes 2017[4]	**333.8**	354.4
6.125% £400m medium-term notes 2019[3]	**403.5**	–
7.125% US$300m medium-term notes 2037[4]	**199.6**	212.0
6.875% £250m puttable callable reset medium-term notes 2037[3,5]	**253.0**	252.6
Finance lease liabilities	**76.2**	88.2
	2,278.0	2,117.9
Partnership liability to the Marks & Spencer UK Pension Scheme (see note 25)	**–**	68.0
	2,278.0	2,185.9
Total	**2,832.8**	3,200.6

1 Bank loans and overdrafts includes a £5.0m (last year £5.0m) loan from the Hedge End Park Limited joint venture (see notes 16 and 30).

2 Relates to a £1.2bn committed bank revolving credit facility set to mature on 26 March 2013.

3 These notes are issued under Marks and Spencer plc's £3bn European Medium-Term Note Programme and all pay interest annually.

4 Interest on these bonds is payable semi-annually.

5 These notes include an investor put and issuer call option exercisable in December 2012.

On 25 November the Group announced the successful tender offer for £67.4m of the November 2011 medium-term notes and £132.6m of the May 2012 medium-term notes incurring a one-off premium of £13.5m on the buy-back. In conjunction, new medium-term notes were issued totalling £400m at a coupon rate of 6.125%, of which £200m have been swapped to floating rate and designated in a fair value hedge relationship.

Finance leases
The minimum lease payments under finance leases fall due as shown in the table on the following page. It is the Group's policy to lease certain of its properties and equipment under finance leases. The average lease term for equipment is 6 years and 125 years for property. Interest rates are fixed at the contract rate. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent payments. The Group's obligations under finance leases are secured by the lessors' charges over the leased assets.

22 Financial instruments

Treasury policy and financial risk management
The Group operates a centralised treasury function to manage the Group's funding requirements and financial risks in line with the Board approved treasury policies and procedures, and their delegated authorities.

The Group's financial instruments, other than derivatives, comprise borrowings, cash and liquid resources and various items, such as trade debtors and trade creditors, that arise directly from its operations. The main purpose of these financial instruments is to finance the Group's operations.

Group treasury also enters into derivative transactions, principally interest rate and currency swaps and forward currency contracts. The purpose of these transactions is to manage the interest rate and currency risks arising from the Group's operations and financing.

It remains the Group's policy not to hold or issue financial instruments for trading purposes, except where financial constraints necessitate the need to liquidate any outstanding investments. The treasury function is managed as a cost centre and does not engage in speculative trading.

The principal financial risks faced by the Group are liquidity/funding, interest rate, foreign currency and counterparty risks. The policies and strategies for managing these risks are summarised as follows:

22 Financial instruments continued

(a) Liquidity/funding risk
The risk that the Group could be unable to settle or meet its obligations as they fall due at a reasonable price.

- The Group's funding strategy ensures a mix of funding sources offering flexibility and cost effectiveness to match the requirements of the Group.
- Operating subsidiaries are financed by a combination of retained profits, bank borrowings, medium-term notes and committed syndicated bank facilities.

At year end, the Group had a committed syndicated bank revolving credit facility of £1.2bn set to mature on 26 March 2013. This facility contains only one financial covenant being the ratio of earnings before interest, tax, depreciation, amortisation and rents payable; to interest plus rents payable. The covenant is measured semi-annually. The Group also has a number of undrawn uncommitted facilities available to it. At year end, these amounted to £105m (last year £105m), all of which are due to be reviewed within a year. At the balance sheet date a sterling equivalent of £220m (last year £764m) was drawn under the committed facilities and £nil (last year £nil) was drawn under the uncommitted facilities.

In addition to the existing borrowings, the Group has a euro medium-term note programme of £3bn, of which £1.6bn (last year £1.4bn) was in issuance as at the balance sheet date.

The contractual maturity of the Group's non-derivative financial liabilities and derivatives is as follows:

	Bank loans and overdrafts £m	Syndicated bank facility £m	Medium-term notes £m	Finance lease liabilities £m	Partnership liability to the M&S UK Pension Scheme £m	Total £m	Derivative assets £m	Derivative liabilities £m	Total £m
Timing of cash flows									
Within one year	(147.9)	(781.2)	(123.8)	(18.3)	(71.9)	(1,143.1)	949.4	(919.8)	29.6
Between one and two years	(11.2)	–	(123.8)	(16.9)	(71.9)	(223.8)	70.4	(63.6)	6.8
Between two and five years	–	–	(1,476.8)	(34.4)	–	(1,511.2)	114.0	(83.2)	30.8
More than five years	–	–	(1,706.2)	(209.4)	–	(1,915.6)	1,003.8	(708.9)	294.9
	(159.1)	(781.2)	(3,430.6)	(279.0)	(143.8)	(4,793.7)	2,137.6	(1,775.5)	362.1
Effect of discounting and foreign exchange	–	–	1,412.1	177.1	3.9	1,593.1			
At 28 March 2009	(159.1)	(781.2)	(2,018.5)	(101.9)	(139.9)	(3,200.6)			
Timing of cash flows									
Within one year	**(249.5)**	**(219.8)**	**(134.1)**	**(17.9)**	**(71.9)**	**(693.2)**	**970.1**	**(941.5)**	**28.6**
Between one and two years	**(17.9)**	**–**	**(441.7)**	**(13.4)**	**–**	**(473.0)**	**51.1**	**(37.6)**	**13.5**
Between two and five years	**–**	**–**	**(960.1)**	**(25.1)**	**–**	**(985.2)**	**106.7**	**(84.4)**	**22.3**
More than five years	**–**	**–**	**(2,115.5)**	**(204.4)**	**–**	**(2,319.9)**	**909.5**	**(693.2)**	**216.3**
	(267.4)	**(219.8)**	**(3,651.4)**	**(260.8)**	**(71.9)**	**(4,471.3)**	**2,037.4**	**(1,756.7)**	**280.7**
Effect of discounting and foreign exchange	**–**	**–**	**1,467.5**	**171.0**	**–**	**1,638.5**			
At 3 April 2010	**(267.4)**	**(219.8)**	**(2,183.9)**	**(89.8)**	**(71.9)**	**(2,832.8)**			

This table does not include trade and other payables (see note 20) due to the low associated liquidity risk.

The present value of finance lease liabilities is as follows:

	2010 £m	2009 £m
Within one year	**(13.7)**	(13.7)
Later than one year and not later than five years	**(26.7)**	(36.5)
Later than five years	**(49.4)**	(51.7)
Total	**(89.8)**	(101.9)

(b) Counterparty risk
Counterparty risk exists where the Group can suffer financial loss through default or non-performance by financial institutions.

Exposures are managed through Group treasury policy which limits the value that can be placed with each approved counterparty to minimise the risk of loss. The counterparties are limited to the approved institutions with secure long-term credit ratings A+/A1 or better assigned by Moody's and Standard & Poor's respectively, unless approved on an exception basis by a Board director. Limits are reviewed regularly by senior management. The credit risk of these financial instruments is estimated as the fair value of the assets resulting from the contracts.

Notes to the financial statements continued

22 Financial instruments continued

The table below analyses the Group's short-term investments and derivative assets by credit exposure excluding bank balances, store cash and cash in transit.

	Credit rating of counterparty[4]						
	AAAm £m	AAA £m	AA £m	AA- £m	A+ £m	A[3] £m	Total
Short-term investments[1]	–	4.8	119.8	25.3	29.9	0.5	180.3
Derivative assets[2]	–	105.4	53.6	–	150.8	9.8	319.6
At 28 March 2009	–	110.2	173.4	25.3	180.7	10.3	499.9

	AAAm £m	**AAA £m**	**AA £m**	**AA- £m**	**A+ £m**	**A[3] £m**	**Total**
Short-term investments[1]	**132.9**	**1.5**	**16.7**	**20.6**	**22.1**	**1.3**	**195.1**
Derivative assets[2]	**–**	**50.8**	**31.1**	**–**	**76.8**	**8.0**	**166.7**
At 3 April 2010	**132.9**	**52.3**	**47.8**	**20.6**	**98.9**	**9.3**	**361.8**

1 Includes cash on deposit in Marks & Spencer Scottish Limited Partnership, Marks & Spencer plc and Marks and Spencer General Insurance LP.

2 Excludes derivative asset option which is embedded within the £250m puttable callable reset medium-term notes due 2037.

3 Exposure to a counterparty approved as an exception to treasury policy.

4 Standard & Poor's equivalent rating shown as reference to the lowest credit rating of the counterparty from either Standard & Poor's or Moody's.

The Group has very low retail credit risk due to transactions being principally of a high volume, low value and short maturity.

The maximum exposure to credit risk at the balance sheet date was as follows: trade receivables £89m (last year £84m), other receivables £62m (last year £64m), cash and cash equivalents £406m (last year £423m) and derivatives £181m (last year £347m).

(c) Foreign currency risk

Transactional foreign currency exposures arise from both the export of goods from the UK to overseas subsidiaries, and from the import of materials and goods directly sourced from overseas suppliers.

Group treasury hedge these exposures principally using forward foreign exchange contracts progressively covering up to 100% out to 18 months. Where appropriate hedge cover can be taken out longer than 18 months, with Board approval. The Group is primarily exposed to foreign exchange risk in relation to sterling against movements in US dollar and euro.

Forward foreign exchange contracts in relation to the Group's forecast currency requirements are designated as cash flow hedges with fair value movements recognised directly in comprehensive income. To the extent that these hedges cover actual currency payables or receivables, then associated fair value movements previously recognised in comprehensive income are recorded in the income statement in conjunction with the corresponding asset or liability. As at the balance sheet date the gross notional value in sterling terms of forward foreign exchange sell or buy contracts amounted to £865m (last year £768m) with a weighted average maturity date of five months (last year six months).

Gains and losses in equity on forward foreign exchange contracts as at 3 April 2010 will be released to the income statement at various dates over the following 13 months (last year 14 months) from the balance sheet date.

At the balance sheet date the Group did not hold any derivatives to hedge balance sheet and profit and loss translation exposures. However, the translation exposures arising on the overseas net assets are hedged with foreign currency debt. As at the balance sheet date, €231m (last year €276m) and HK$180m (last year HK$178m) currency debt was hedging overseas net assets.

The Group also hedges foreign currency intercompany loans where these exist. Forward foreign exchange contracts in relation to the hedging of the Group's foreign currency intercompany loans are designated as held for trading with fair value movements being recognised in the income statement. The corresponding fair value movement of the intercompany loan balance results in an overall nil impact on the income statement. As at the balance sheet date, the gross notional value of intercompany loan hedges was £155m (last year £108m).

After taking into account the hedging derivatives entered into by the Group, the currency and interest rate exposure of the Group's financial liabilities is as set out below excluding short-term payables and the Marks and Spencer Czech Republic a.s. put option:

			2010			2009
	Fixed rate £m	**Floating rate £m**	**Total £m**	Fixed rate £m	Floating rate £m	Total £m
Currency						
Sterling	**2,136.4**	**410.0**	**2,546.4**	2,252.4	629.9	2,882.3
Euro	**8.6**	**232.8**	**241.4**	7.6	286.1	293.7
Hong Kong dollar	**–**	**15.2**	**15.2**	–	16.4	16.4
Other	**3.3**	**26.5**	**29.8**	0.3	7.9	8.2
	2,148.3	**684.5**	**2,832.8**	2,260.3	940.3	3,200.6

22 Financial instruments continued

The floating rate sterling and euro borrowings are linked to interest rates related to LIBOR. These rates are for periods between one and three months.

As at the balance sheet date and excluding finance leases, the fixed rate sterling borrowings are at an average rate of 5.9% (last year 6.0%) and the weighted average time for which the rate is fixed is ten years (last year nine years).

(d) Interest rate risk

The Group is exposed to interest rate risk in relation to the sterling, US dollar, euro and Hong Kong dollar variable rate financial assets and liabilities.

The Group's policy is to use derivative contracts where necessary to maintain a mix of fixed and floating rate borrowings to manage this risk. The structure and maturity of these derivatives correspond to the underlying borrowings and are accounted for as fair value or cash flow hedges as appropriate.

At the balance sheet date fixed rate borrowings amounted to £2,148.3m (last year £2,260.3m) representing the public bond issues and finance leases, amounting to 76% (last year 71%) of the Group's gross borrowings.

The effective interest rates at the balance sheet date were as follows:

	2010 %	2009 %
Committed and uncommitted borrowings	0.6	4.0
Medium-term notes	5.9	6.2
Finance leases	4.7	4.8
Partnership liability to the Marks & Spencer UK Pension Scheme	–	5.7

Derivative financial instruments

		2010		2009	
		Assets £m	Liabilities £m	Assets £m	Liabilities £m
Current					
Options	– held for trading	14.3	(14.3)	27.0	(27.0)
Commodity swap	– cash flow hedge	–	(2.1)	–	(16.7)
Forward foreign exchange contracts	– cash flow hedges	30.1	(5.0)	59.9	(27.4)
	– held for trading	3.7	(1.4)	5.7	(0.4)
Interest rate swaps	– held for trading	–	(4.3)	–	(4.7)
		48.1	(27.1)	92.6	(76.2)
Non-current					
Commodity swap	– cash flow hedge	–	–	–	(1.5)
Cross currency swaps	– cash flow hedges	132.8	–	253.9	–
Forward foreign exchange contracts	– cash flow hedges	0.1	–	0.1	(1.5)
		132.9	–	254.0	(3.0)

At the balance sheet date, the Group held a number of cross currency swaps to redesignate its fixed rate US dollar debt to fixed rate sterling debt. The attributes of these derivatives match the characteristics of the underlying debt hedged with rates of 7.034% (2017 bond) and 7.238% (2037 bond). The amounts reported as options held for trading in derivative assets and liabilities represent the fair value of the call option with the puttable callable reset notes, mirrored by the fair value of the sold option to have this call assigned. During the year the Group entered into a number of interest rate swaps to redesignate sterling fixed debt to floating debt. These swaps are accounted for as fair value hedges. The ineffective portion recognised in the profit or loss that arises from fair value hedges amounts to a loss of £0.4m (last year £nil) as the gain on the hedged item was £1.5m (last year £nil) and the loss on the hedging instrument was £1.9m (last year £nil). There was no ineffectiveness on cash flow hedging or net investment hedging.

Notes to the financial statements continued

22 Financial instruments continued

Sensitivity analysis

The table below illustrates the estimated impact on the income statement and equity as a result of market movements in foreign exchange and interest rates in relation to all of the Group's financial instruments. The Group considers that a 2% +/- movement in interest rates and a 20% weakening or strengthening in sterling represents reasonable possible changes. However, this analysis is for illustrative purposes only.

The impact in the income statement due to changes in interest rates reflects the effect on the Group's floating rate debt as at the balance sheet date. The impact in equity reflects the fair value movement in relation to the Group's cross currency swaps.

The impact in the income statement from foreign exchange movements reflects the change in the fair value of the Group's transactional foreign exchange cash flow hedges and the net investment hedges at the balance sheet date. The equity impact shown for foreign exchange sensitivity relates to derivative and non-derivative financial instruments hedging net investments. This value is expected to be fully offset by the retranslation of the hedged foreign currency net assets leaving a net equity impact of zero.

The table excludes financial instruments that expose the Group to interest rate and foreign exchange risk where such risk is fully hedged with another financial instrument. Also excluded are trade receivables and payables as these are either sterling denominated or the foreign exchange risk is hedged.

	2% decrease in interest rates £m	2% increase in interest rates £m	20% weakening in sterling £m	20% strengthening in sterling £m
At 28 March 2009				
Impact on income statement: gain/(loss)	13.6	(15.1)	(15.2)	10.2
Impact on equity: gain/(loss)	74.5	(38.6)	(11.1)	7.4
At 3 April 2010				
Impact on income statement: gain/(loss)	**(8.3)**	**2.5**	**(15.9)**	**10.6**
Impact on equity: gain/(loss)	**33.0**	**(24.7)**	**29.2**	**(19.5)**

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

– Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

– Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

– Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data. Unlisted equity investments are included in Level 3. The fair value of the embedded derivative is determined using the present value of the estimated future cash flows based on financial forecasts.

As at 3 April 2010, the Group held the following financial instruments measured at fair value:

				2010				2009
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets measured at fair value								
Financial assets at fair value through profit or loss								
– Trading derivatives	**–**	**18.0**	**–**	**18.0**	–	32.7	–	32.7
Derivatives used for hedging	**–**	**163.0**	**–**	**163.0**	–	313.9	–	313.9
Available-for-sale financial assets								
– equity securities	**–**	**–**	**3.0**	**3.0**	–	–	3.0	3.0
Liabilities measured at fair value								
Financial liabilities at fair value through profit or loss								
– Trading derivatives	**–**	**(19.6)**	**–**	**(19.6)**	–	(32.1)	–	(32.1)
Derivative used for hedging	**–**	**(7.5)**	**–**	**(7.5)**	–	(47.1)	–	(47.1)
Embedded derivatives	**–**	**–**	**(63.5)**	**(63.5)**	–	–	(56.3)	(56.3)

During the reporting period ending 3 April 2010, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

22 Financial instruments continued

The following table presents the changes in Level 3 instruments for the year ended 3 April 2010.

	2010 £m	2009 £m
Opening balance	**(53.3)**	(49.2)
Gains and losses recognised in profit or loss	**(7.2)**	(4.1)
Closing balance	**(60.5)**	(53.3)

A reasonably possible change in assumptions is unlikely to result in a significant change in the fair value of the Level 3 instruments.

Fair value of financial instruments

With the exception of the Group's fixed rate bond debt, there were no material differences between the carrying value of non-derivative financial assets and financial liabilities and their fair values as at the balance sheet date.

The carrying value of the Group's fixed rate bond debt was £2,183.9m (last year £2,018.5m); the fair value of this debt was £2,107.7m (last year £1,616.6m).

Capital policy

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide optimal returns for shareholders and to maintain an efficient capital structure to reduce the cost of capital.

In doing so the Group's strategy is to maintain a capital structure commensurate with an investment grade credit rating and to retain appropriate levels of liquidity headroom to ensure financial stability and flexibility. To achieve this strategy the Group regularly monitors key credit metrics such as the gearing ratio, cash flow to net debt (see note 29) and fixed charge cover to maintain this position. In addition the Group ensures a combination of appropriate committed short-term liquidity headroom with a diverse and smooth long-term debt maturity profile.

During the year the Group maintained an investment grade credit rating of Baa3 (stable) with Moody's and BBB- (stable) with Standard & Poor's, and through the successful tender of £200m of existing short-dated bonds in conjunction with a new £400m 10 year bond issue extended the average fixed debt maturity by one year to ten years and increased short-term liquidity by £200m.

In order to maintain or re-align the capital structure, the Group may adjust the number of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

23 Provisions

	UK restructuring £m	Overseas restructuring £m	Total £m
At 30 March 2008	18.2	7.5	25.7
Provided in the year	86.6	–	86.6
Released in the year	(0.7)	–	(0.7)
Utilised during the year	(8.5)	(0.6)	(9.1)
Exchange differences	–	1.3	1.3
At 28 March 2009	95.6	8.2	103.8
At 29 March 2009	**95.6**	**8.2**	**103.8**
Provided in the year	**5.1**	**–**	**5.1**
Released in the year	**(11.2)**	**(3.0)**	**(14.2)**
Utilised during the year	**(43.0)**	**(0.4)**	**(43.4)**
Exchange differences	**–**	**(0.2)**	**(0.2)**
At 3 April 2010	**46.5**	**4.6**	**51.1**

Analysis of total provisions:

	2010 £m	2009 £m
Current	**25.6**	63.6
Non-current	**25.5**	40.2
Total provisions	**51.1**	103.8

The provision for UK restructuring is comprised of exceptional costs related to the strategic restructure in 2008/09 (see note 5), including onerous leases and redundancies, as well as costs of closing Lifestore. An element of the provision for closing Lifestore was released during the year. The provision for overseas restructuring costs primarily relates to future closure costs in respect of discontinued operations in continental Europe.

The current element of the provision primarily relates to costs relating to the rationalisation of IT and logistics networks.

The non-current element of the provision relates to store closures, primarily onerous leases, and the closure costs of discontinued operations in continental Europe, and are expected to be utilised over a period of seven years.

Notes to the financial statements continued

24 Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 28% (last year 28%) for UK differences and the local tax rates for overseas differences.

The movements in deferred tax assets and liabilities (after the offsetting of balances within the same jurisdiction as permitted by IAS 12 – 'Income Taxes') during the period are shown below. Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

Deferred tax assets/(liabilities)

	Fixed assets temporary differences £m	Accelerated capital allowances £m	Pension temporary differences £m	Other short-term temporary differences £m	Total UK deferred tax £m	Overseas deferred tax £m	Total £m
At 30 March 2008	(76.9)	(144.6)	(139.4)	(6.1)	(367.0)	(5.1)	(372.1)
Credited/(charged) to the income statement	(2.0)	17.3	(87.0)	(5.7)	(77.4)	(0.2)	(77.6)
Credited/(charged) to equity	–	–	254.9	(29.5)	225.4	0.4	225.8
At 28 March 2009	(78.9)	(127.3)	28.5	(41.3)	(219.0)	(4.9)	(223.9)
At 29 March 2009	**(78.9)**	**(127.3)**	**28.5**	**(41.3)**	**(219.0)**	**(4.9)**	**(223.9)**
Credited/(charged) to the income statement	**4.6**	**3.6**	**(19.0)**	**(0.1)**	**(10.9)**	**2.4**	**(8.5)**
Credited/(charged) to equity	**–**	**–**	**71.7**	**38.2**	**109.9**	**(3.3)**	**106.6**
At 3 April 2010	**(74.3)**	**(123.7)**	**81.2**	**(3.2)**	**(120.0)**	**(5.8)**	**(125.8)**

In arriving at the deferred tax on fixed assets, credit has been taken for capital losses with a tax value of £65.5m (last year £60.5m). No deferred tax is recognised on the unremitted earnings of overseas subsidiaries. As the earnings are continually reinvested by the Group, no tax is expected to be payable to them in the foreseeable future. Undistributed profits of overseas subsidiaries amount to £396.5m (last year £380.6m).

The Group is claiming UK tax relief for losses incurred by some of its current and former European subsidiaries. In light of continuing litigation, no asset has been recognised in respect of these claims.

25 Share capital and reserves

	2010 Shares	2010 £m	2009 Shares	2009 £m
Authorised ordinary shares of 25p each	**3,200,000,000**	**800.0**	3,200,000,000	800.0
Allotted, called up and fully paid ordinary shares of 25p each:				
At start of year	**1,577,794,919**	**394.4**	1,586,478,423	396.6
Shares issued on exercise of share options	**4,521,662**	**1.1**	2,217,763	0.5
Shares purchased in buy-back	**–**	**–**	(10,901,267)	(2.7)
At end of year	**1,582,316,581**	**395.5**	1,577,794,919	394.4

Issue of new shares

4,521,662 (last year 2,217,763) ordinary shares having a nominal value of £1.1m (last year £0.5m) were allotted during the year under the terms of the Company's schemes which are described in note 12. The aggregate consideration received was £12.4m (last year £5.3m).

Share buy-back

Last year 10,901,267 ordinary shares having a nominal value of £2.7m were bought back and subsequently cancelled during the year in accordance with the authority granted by shareholders at the Annual General Meeting in July 2007. The aggregate consideration paid was £40.9m.

Marks & Spencer UK Pension Scheme interest in the Scottish Limited Partnership

In previous years, a partnership liability was recorded relating to an amortising liability in respect of obligations of the Marks and Spencer Scottish Limited Partnership to the Marks and Spencer UK Pension Scheme. On 25 March 2009 the terms of the Scottish Limited Partnership agreement were amended to make the payment of annual distributions to the Pension Scheme discretionary from 2010/11 onwards. This discretion is exercisable if the Group does not pay a dividend or make any other form of return to its shareholders. As a result, the distribution to the Pension Scheme in 2009 and 2010 remained as a financial liability, while the remaining financial instrument became an equity interest. The fair value of the equity interest on the date of transfer was £571.7m. This amount has been reclassified to other reserves in the year to better reflect the substance of the Group's interest. Under the amended agreement the value of total discretionary scheduled payments is approximately £862m.

The Group's policy to grow dividends in line with adjusted earnings per share is explained in the Financial review on page 43.

The agreement includes a clause such that, following a default event (including the appointment of an administrator, liquidator, receiver or similar officer in respect of Marks and Spencer plc or Marks and Spencer Group plc) or on a relevant change of law, the net present value of the outstanding distributions becomes payable to the Pension Scheme by the Scottish Limited Partnership at the option of the Pension Scheme. On the basis of the expected cash flows associated with such an event, the related financial liability has been fair valued at nil.

26 Business combinations

	£m
Net liabilities at fair value (100%)	**(2.4)**
Net liabilities acquired	**(1.2)**
Cash consideration	**6.1**
Transaction costs	**0.9**
Total consideration	**7.0**
Goodwill arising on acquisition	**8.2**

On 31 March 2009, Marks and Spencer Reliance India Pvt Limited, a 51% subsidiary of the Group, completed the acquisition of 100% of the issued share capital of Supreme Tradelinks Private Limited, which up until this date was the Group's franchisee in India, for cash consideration of £6.1m and transaction costs of £0.9m.

The acquisition has contributed £8.3m to sales and a £0.2m loss to operating profit in the period since acquisition, which is the same contribution had the acquisition taken place on the first day of the financial period.

Goodwill has arisen on the acquisition due to the opportunities to facilitate a faster rate of growth and greater operating efficiency that do not meet the criteria for recognition as an intangible asset at the date of acquisition.

27 Contingencies and commitments

A. Capital commitments

	2010 £m	2009 £m
Commitments in respect of properties in the course of construction	**69.0**	52.1

In respect of its interest in a joint venture (see note 16), the Group is committed to incur capital expenditure of £0.9m (last year £19.3m).

B. Other material contracts

In the event of a material change in the trading arrangements with certain warehouse operators, the Group has a commitment to purchase property, plant and equipment, at values ranging from historical net book value to market value, which are currently owned and operated by them on the Group's behalf.

C. Commitments under operating leases

The Group leases various stores, offices, warehouses and equipment under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

	2010 £m	2009 £m
Total future minimum rentals payable under non-cancellable operating leases are as follows:		
Within one year	**228.6**	215.1
Later than one year and not later than five years	**815.2**	778.1
Later than five years	**3,005.2**	3,173.1
Total	**4,049.0**	4,166.4

The total future sublease payments to be received are £51.9m (last year £64.9m).

Notes to the financial statements continued

28 Analysis of cash flows given in the cash flow statement

Cash flows from operating activities

	53 weeks ended 3 April 2010 £m	52 weeks ended 28 March 2009 £m
Profit on ordinary activities after taxation	**523.0**	506.8
Income tax expense	**179.7**	199.4
Finance costs	**162.2**	214.5
Finance income	**(12.9)**	(50.0)
Operating profit	**852.0**	870.7
Increase in inventories	**(74.3)**	(46.0)
Decrease in receivables	**25.3**	55.0
Payments to acquire leasehold properties	**–**	(14.1)
Increase in payables	**132.5**	212.2
Exceptional operating cash outflow	**(34.1)**	(27.4)
Depreciation and amortisation	**427.9**	409.0
Share-based payments	**28.5**	14.3
Profit on property disposals	**(8.1)**	(6.4)
Exceptional costs	**–**	135.9
Exceptional pension credit	**–**	(231.3)
Cash generated from operations	**1,349.7**	1,371.9

Exceptional operating cash outflows primarily relate to the utilisation of the provision for UK restructuring.

29 Analysis of net debt

A. Reconciliation of movement in net debt

	At 28 March 2009 £m	Cash flow £m	Exchange and other non-cash movements £m	At 3 April 2010 £m
Net cash				
Bank loans, overdrafts and syndicated bank facility (see note 21)	(923.3)	420.2	15.9	**(487.2)**
Less: amounts treated as financing (see below)	798.7	(498.7)	(15.9)	**284.1**
	(124.6)	(78.5)	–	**(203.1)**
Cash and cash equivalents (see note 19)	422.9	(15.0)	(2.1)	**405.8**
Net cash per cash flow statement	298.3	(93.5)	(2.1)	**202.7**
Current financial assets (see note 17)	53.1	118.3	0.3	**171.7**
Debt financing				
Bank loans and overdrafts treated as financing (see above)	(34.5)	(30.7)	0.9	**(64.3)**
Syndicated bank facility (see note 21) (see above)	(764.2)	529.4	15.0	**(219.8)**
Medium-term notes (see note 21)	(1,801.7)	(196.8)	(2.5)	**(2,001.0)**
Finance lease liabilities (see note 21)	(101.9)	17.0	(4.9)	**(89.8)**
Partnership liability to the Marks & Spencer UK Pension Scheme (see note 21)	(139.9)	68.0	4.0	**(67.9)**
Debt financing	(2,842.2)	386.9	12.5	**(2,442.8)**
Net debt	(2,490.8)	411.7	10.7	**(2,068.4)**

29 Analysis of net debt continued

B. Reconciliation of net debt to statement of financial position

	2010 £m	2009 £m
Statement of financial position and related notes		
Cash and cash equivalents	**405.8**	422.9
Current financial assets (see note 17)	**171.7**	53.1
Bank loans and overdrafts (see note 21)	**(267.4)**	(159.1)
Syndicated bank facility (see note 21)	**(219.8)**	(781.2)
Medium-term notes (see note 21) – net of hedging derivatives	**(2,048.2)**	(1,848.1)
Finance lease liabilities (see note 21)	**(89.8)**	(101.9)
Partnership liability to the Marks & Spencer UK Pension Scheme (see note 21)	**(71.9)**	(139.9)
	(2,119.6)	(2,554.2)
Interest payable included within related borrowing	**51.2**	63.4
Total net debt	**(2,068.4)**	(2,490.8)

30 Related party transactions

A. Subsidiaries
Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Company and its subsidiaries are disclosed in the Company's separate financial statements.

B. Hedge End joint venture
A loan of £5.0m was received from the joint venture on 9 October 2002. It is repayable on five business days' notice and was renewed on 1 January 2010. Interest was charged on the loan at 2.0% until 31 December 2009 and 0.5% thereafter.

C. Lima (Bradford) joint venture
A loan facility was provided to the joint venture on 11 August 2008. At 3 April 2010, £25.4m (last year £13.6m) was drawn down on this facility. Interest was charged on the loan at 1.1% above 3-month LIBOR.

D. Marks & Spencer Pension Scheme
Details of other transactions and balances held with the Marks & Spencer Pension Scheme are set out in notes 11 and 21.

E. Key management compensation

	2010 £m	2009 £m
Salaries and short-term benefits	**9.6**	6.0
Termination benefits	**0.2**	1.1
Share-based payments	**3.1**	1.8
Total	**12.9**	8.9

Key management is comprised of Board directors only. Further information about the remuneration of individual directors is provided in the Remuneration report. During the year, key management have purchased goods at the Group's usual prices less a 20% discount. This discount is available to all staff employed directly by the Group in the UK.

F. Other related party transactions
Supplier transactions occurred during the year between the Group and a company controlled by a close family member of Kate Bostock, an executive director of the Group. These transactions amounted to £6.5m during the year (last year £5.2m) with an outstanding trade payable of £0.4m at 3 April 2010 (last year £nil). The company was a supplier prior to Kate's employment by the Group.

Supplier transactions occurred during the year between the Group and a company controlled by Martha Lane Fox's partner. Martha is a non-executive director of the Group. These transactions amounted to £1.7m during the year (last year £0.1m) with an outstanding trade payable of £0.8m at 3 April 2010 (last year £nil).

31 Subsequent events

On 12 May 2010, Marks and Spencer Group plc announced a £800m funding plan for its UK Defined Benefit Pension Scheme. The funding plan includes the following contributions from Marks & Spencer:

- cash contributions of £35m per annum for the first three years of the funding plan increasing to £60m per annum until 2018. This has a present day cash value of £376m.
- £300m of value through the granting of a further interest in the Marks and Spencer Scottish Limited Partnership. This new interest entitles the Pension Scheme to a fixed annual distribution of c. £36m for 15 years commencing in 2017 and a capital sum in 2031 equal to the lower of £350m or any funding deficit in the Pension Scheme at that point in time.
- £124m of value through the transfer of assets from existing US$ debt hedge contracts held by Marks and Spencer plc.

Company income statement

	Notes	53 weeks ended 3 April 2010 £m	52 weeks ended 28 March 2009 £m
Operating profit	C2, C3	**–**	–
Income from shares in Group undertakings		**239.4**	356.3
Profit and total comprehensive income for the year attributable to shareholders		**239.4**	356.3

Company statement of financial position

	Notes	2010 £m	2009 £m
Assets			
Non-current assets			
Investments in Group undertakings	C5	**9,168.6**	9,158.5
Total assets		**9,168.6**	9,158.5
Liabilities			
Current liabilities			
Amounts owed to Group undertakings		**2,603.5**	2,619.3
Total liabilities		**2,603.5**	2,619.3
Net assets		**6,565.1**	6,539.2
Equity			
Called up share capital – equity		**395.5**	394.4
Share premium account		**247.5**	236.2
Capital redemption reserve		**2,202.6**	2,202.6
Merger reserve		**1,397.3**	1,397.3
Retained earnings		**2,322.2**	2,308.7
Total equity		**6,565.1**	6,539.2

The financial statements were approved by the Board and authorised for issue on 24 May 2010. The financial statements also comprise the notes on pages 114 and 115.

Stuart Rose
Chairman

Ian Dyson
Group Finance and Operations Director

Company statement of changes in shareholders' equity

	Called up share capital £m	Share premium account £m	Capital redemption reserve £m	Merger reserve £m	Retained earnings £m	Total £m
At 30 March 2008	396.6	231.4	2,199.9	1,397.3	2,336.8	6,562.0
Profit for the year	–	–	–	–	356.3	356.3
Dividends	–	–	–	–	(354.6)	(354.6)
Capital contribution for share-based payments	–	–	–	–	11.1	11.1
Shares purchased in buy-back	(2.7)	–	2.7	–	(40.9)	(40.9)
Shares issued on the exercise of employee share options	0.5	4.8	–	–	–	5.3
At 28 March 2009	394.4	236.2	2,202.6	1,397.3	2,308.7	6,539.2
At 29 March 2009	**394.4**	**236.2**	**2,202.6**	**1,397.3**	**2,308.7**	**6,539.2**
Profit for the year	**–**	**–**	**–**	**–**	**239.4**	**239.4**
Dividends	**–**	**–**	**–**	**–**	**(236.0)**	**(236.0)**
Capital contribution for share-based payments	**–**	**–**	**–**	**–**	**10.1**	**10.1**
Shares issued on the exercise of employee share options	**1.1**	**11.3**	**–**	**–**	**–**	**12.4**
At 3 April 2010	**395.5**	**247.5**	**2,202.6**	**1,397.3**	**2,322.2**	**6,565.1**

Company statement of cash flows

	53 weeks ended 3 April 2010 £m	52 weeks ended 28 March 2009 £m
Cash flows from operating activities		
Cash generated from operations	**–**	–
Working capital movements	**–**	(0.8)
Net cash outflow from operating activities	**–**	(0.8)
Cash flows from investing activities		
Dividends received	**239.4**	356.3
Net cash inflow from investing activities	**239.4**	356.3
Cash flows from financing activities		
Shares purchased in buy-back	**–**	(40.9)
Shares issued on exercise of employee share options	**12.4**	5.3
(Repayment)/drawdown of intercompany loan	**(15.8)**	34.7
Equity dividends paid	**(236.0)**	(354.6)
Net cash outflow from financing activities	**(239.4)**	(355.5)
Net cash inflow from activities	**–**	–
Cash and cash equivalents at beginning and end of year	**–**	–

Company notes to the financial statements

C1 Accounting policies

The Company's accounting policies are the same as those set out in note 1 of the Group financial statements, except as noted below.

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment. The Company grants share-based payments to the employees of subsidiary companies. Each period the fair value of the employee services received by the subsidiary as a capital contribution from the Company is reflected as an addition to investments in subsidiaries.

Loans from other Group undertakings and all other payables are initially recorded at fair value, which is generally the proceeds received. They are then subsequently carried at amortised cost. The loans are non-interest bearing and repayable on demand.

The Company's financial risk is managed as part of the Group's strategy and policies as discussed in note 22 of the Group financial statements.

C2 Employees

The Company had no employees during the current or prior year. Directors received emoluments in respect of their services to the Company during the year of £592,000 (last year £597,000). The Company did not operate any pension schemes during the current or preceding year.

C3 Auditors' remuneration

Auditors' remuneration in respect of the Company's annual audit has been borne by its subsidiary Marks and Spencer plc and has been disclosed on a consolidated basis in the Company's consolidated financial statements as required by section 494 of the Companies Act 2006.

C4 Dividends

	2010 per share	2009 per share	2010 £m	2009 £m
Dividends on equity ordinary shares				
Paid final dividend	**9.5p**	14.2p	**149.6**	224.1
Paid interim dividend	**5.5p**	8.3p	**86.4**	130.5
	15.0p	22.5p	**236.0**	354.6

In addition, the directors have proposed a final dividend in respect of the year ended 3 April 2010 of 9.5p per share amounting to a dividend of £150.4m. It will be paid on 16 July 2010 to shareholders who are on the Register of Members on 4 June 2010. In line with the requirements of IAS 10 – 'Events after the Balance Sheet Date', this dividend has not been recognised within these results.

C5 Investments

A. Investments in Group undertakings

	2010 £m	2009 £m
Beginning of the year	**9,158.5**	9,147.4
Additional investment in subsidiary relating to share-based payments	**10.1**	11.1
End of year	**9,168.6**	9,158.5

Shares in Group undertakings represent the Company's investment in Marks and Spencer plc.

C5 Investments continued

B. Principal subsidiary undertakings

The Company's principal subsidiary undertakings are set out below. A schedule of interests in all undertakings is filed with the Annual Return.

	Principal activity	Country of incorporation and operation	Proportion of voting rights and shares held by: Company	A subsidiary
Marks and Spencer plc	Retailing	Great Britain	100%	–
Marks and Spencer International Holdings Limited	Holding Company	Great Britain	–	100%
Marks and Spencer (Nederland) BV	Holding Company	The Netherlands	–	100%
Marks and Spencer Marinopoulos BV	Holding Company	The Netherlands	–	50%
Marks and Spencer Czech Republic a.s.	Retailing	Czech Republic	–	51%
Marks and Spencer (Ireland) Limited	Retailing	Republic of Ireland	–	100%
Marks and Spencer (Asia Pacific) Limited	Retailing	Hong Kong	–	100%
Marks and Spencer Simply Foods Limited	Retailing	Great Britain	–	100%
Marks and Spencer Marinopoulos Greece SA	Retailing	Greece	–	100%
M.S. Insurance L.P.	Financial Services	Guernsey	–	100%
Marks and Spencer SCM Limited	Procurement	Great Britain	–	100%
per una Group Limited	Procurement	Great Britain	–	100%
Marks and Spencer Scottish Limited Partnership	Property Investment	Great Britain	–	–[1]

1 Marks and Spencer plc is the general partner.

The Company has taken advantage of the exemption under section 410 of the Companies Act 2006 by providing information only in relation to subsidiary undertakings whose results or financial position, in the opinion of the directors, principally affected the financial statements.

C6 Related party transactions

During the year, the Company has received dividends from Marks and Spencer plc of £239.4m (last year £356.3m) and has decreased its loan from Marks and Spencer plc by £15.7m (last year increase of £34.7m). The outstanding balance was £2,603.6m (last year £2,619.3m) and is non-interest bearing. There were no other related party transactions.

Key performance measures

	2010 53 weeks £m	2009 52 weeks £m	2008 52 weeks £m	2007 52 weeks £m	2006 52 weeks £m
Income statement					
Revenue – continuing operations					
UK	**8,567.9**	8,164.3	8,309.1	7,977.5	7,275.0
International	**968.7**	897.8	712.9	610.6	522.7
	9,536.6	9,062.1	9,022.0	8,588.1	7,797.7
Operating profit – continuing operations					
UK	**701.1**	755.0	1,095.9	956.7	784.5
International	**150.9**	115.7	115.4	89.2	65.6
Total operating profit	**852.0**	870.7	1,211.3	1,045.9	850.1
Net interest payable	**(160.1)**	(199.9)	(141.1)	(130.0)	(121.9)
Pension finance income	**10.8**	35.4	58.9	20.8	17.5
Profit on ordinary activities before taxation – continuing operations	**702.7**	706.2	1,129.1	936.7	745.7
Analysed between:					
Before property disposals and exceptional items	**694.6**	604.4	1,007.1	965.2	751.4
Property disposals and exceptional items	**8.1**	101.8	122.0	(28.5)	(5.7)
Income tax expense	**(179.7)**	(199.4)	(308.1)	(277.5)	(225.1)
Profit after taxation	**523.0**	506.8	821.0	659.2	520.6

		2010 53 weeks	2009 52 weeks	2008 52 weeks	2007 52 weeks	2006 52 weeks
Net margin[1]	Operating profit/ Revenue	**8.9%**	9.6%	13.4%	12.2%	10.9%
Net margin excluding property disposals and exceptional items		**8.8%**	8.5%	12.1%	12.2%	11.0%
Basic earnings per share[1]	Basic earnings/ Weighted average ordinary shares in issue	**33.5p**	32.3p	49.2p	39.1p	31.3p
Earnings per share adjusted for property disposals and exceptional items[1]		**33.0p**	28.0p	43.6p	40.4p	31.4p
Dividend per share declared in respect of the year		**15.0p**	17.8p	22.5p	18.3p	14.0p
Dividend cover	Profit attributable to shareholders/ Dividend payable	**2.2x**	1.8x	2.3x	2.1x	2.2x
Retail fixed charge cover	Operating profit before depreciation and operating lease charges/ Fixed charges	**4.0x**	3.5x	5.3x	5.9x	4.9x
Net debt[2] (£m)		**2,068.4**	2,490.8	3,077.7	1,949.5	1,729.3

1 Based on continuing operations.

2 Excludes accrued interest.

Shareholder information

Electronic Shareholder Communication

In 2007 we mailed 20,000 full Annual Reports (102 page document) and 240,000 Annual Reviews (45 page document) to shareholders. Since then, legislation has helped us reduce this distribution to 5,000 copies of our Annual Report and 40,000 copies of our Annual Review. A huge saving, both environmentally and financially, but we need our shareholders to help us reduce these numbers further.

The change in legislation provided greater flexibility and efficiencies when communicating with shareholders, allowing companies to use their website as the primary method of communicating messages. We call this 'Electronic Shareholder Communication' and it allows global distribution of messages in an instant.

Shareholders who register for this are more informed, receiving emails notifying them when our results are released. Paper versions of these results are not mailed to shareholders unless they have specifically requested them, even then it's only our year end results which we mail.

Communicating with shareholders electronically provides clear savings. Therefore, as a thank you to those who register, we will give a **voucher for 10% off when shopping online at marksandspencer.com**

Registering for electronic communication is very straight forward, and is done via Shareview. Shareview is an internet based platform provided by Equiniti, our Registrar, that allows you to manage your shares online.

Go to **marksandspencer.com/annualreport2010** to find out more and to read the terms and conditions.

Managing your shares

The Company's register of shareholders is maintained by our Registrar, Equiniti. Shareholders with queries relating to their shareholding should contact Equiniti directly using the details overleaf.

Capital Gains Tax

For the purpose of Capital Gains Tax, the price of an ordinary share on 31 March 1982 was 153.5p, which when adjusted for the 1 for 1 scrip issue in 1984, gives a figure of 76.75p. Following the capital reorganisation in March 2002, HMRC has confirmed the base cost for CGT purposes was 372.35p (81.43%) for an ordinary share and 68.75p (18.75%) for a B share.

American Depositary Receipts (ADRs)

The Company has a level 1 ADR program. This enables US investors to purchase Marks & Spencer American Depository Shares (ADS) in US dollars 'over the counter'. The Company has chosen to have the ADRs quoted on the OTC market's highest tier, International PremierQX.

For information on OTCQX go to **otcqx.com**
For Deutsche Bank email: **DB@amstock.com**
ADR website: **adr.db.com**
Toll free callers within the US: 1 866 249 2593
For those calling outside the US: +1 (718) 921 8137

Corporate website

Whether you are looking for information about our Heritage, our Social, Environmental and Ethical responsibilities, our approach to Governance or the latest Press releases, our Corporate website provides a wealth of information for shareholders.

Furthermore, much of the information requested from our shareholder helpline can be found in the investor section of our website. Shareholders can also sign up for News Alerts to receive an email when news on M&S is released. These include additional financial news releases throughout the year, which are not mailed to shareholders.

The directors are responsible for the maintenance and integrity of the financial information on our website. The information has been prepared under the relevant accounting standards and legislation.

Shareholder security

It sounds obvious, but if a stranger rings you out of the blue and tries to sell you shares take great care. They may be part of a financial scam. Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount, or offers of free reports about the Company. If it sounds to good to be true, it probably is. Go to **moneymadeclear.org.uk** to find out more.

ShareGift

Do you have a small shareholding which is uneconomical to sell? You may want to consider donating it to ShareGift (Registered charity no. 1052686) Find out more at **sharegift.org** or call +44 (0)20 930 3737.

Missing shareholders

Working with Prosearch, (an asset reunification company), we continue to look for shareholders who have failed to keep their details up to date. We have funds waiting to be claimed and we are committed to doing what we can to pay these funds to their rightful owner. Shareholders are reminded that if they move house they must contact Equiniti and advise them of their new address.

Duplicate documents

Around 10,000 shareholders still receive duplicate documentation and split dividend payments from having more than one account on the share register. If you think you fall into this group and would like to combine your accounts, please contact Equiniti.

Dividends

Paid in January and July each year. We encourage shareholders to have dividends paid directly into their bank account to ensure efficient payment and cleared funds on the payment date. Those selecting this payment method receive an annual consolidated tax voucher in January, showing both payments in the respective tax year. However, we are able to send a tax voucher with each payment, if preferred.

To change how you receive your dividends either log on to **shareview.co.uk** or contact Equiniti.

Shareholder information continued

Analysis of share register

Ordinary shares

As at 3 April 2010, there were 217,541 holders of ordinary shares whose shareholdings are analysed below.

	Number of holdings	Percentage of total shareholders	Number of ordinary shares	Percentage of ordinary shares
Range				
1 – 500	108,735	49.98	21,582,412	1.36
501 –1,000	43,817	20.14	32,780,554	2.07
1,001 – 2,000	33,458	15.38	47,897,697	3.03
2,001 – 5,000	22,468	10.33	68,859,124	4.35
5,001 – 10,000	5,709	2.62	39,645,480	2.51
10,001 – 100,000	2,714	1.25	62,120,241	3.93
100,001 – 1,000,000	452	0.21	152,384,856	9.63
1,000,001 – HIGHEST	188	0.09	1,157,046,217	73.12
Total	**217,541**	**100.00**	**1,582,316,581**	**100.00**

Many private investors hold their shares through nominee companies, therefore the percentage of private holders is much higher than that shown – we estimate approximately 30%.

	Number of holdings	Percentage of total shareholders	Number of ordinary shares	Percentage of ordinary shares
Holders				
Private	208,497	95.84	295,630,971	18.68
Institutional and Corporate holders	9,044	4.16	1,286,685,610	81.32
Total	**217,541**	**100.00**	**1,582,316,581**	**100.00**

Key dates for your diary

2 June 2010	Ex-dividend date – Final dividend
4 June 2010	Record date to be eligible for the final dividend
7 July 2010	Results – Quarter 1 Interim Management Statement†
14 July 2010	Annual General Meeting
16 July 2010	Final dividend payment date for the year to 3 April 2010
6 October 2010	Results – Quarter 2 Trading update†
9 November 2010	Results – Half Year†
17 November 2010*	Ex-dividend date – Interim dividend
19 November 2010*	Record date to be eligible for the interim dividend
14 January 2011*	Interim dividend payment date

* Provisional dates.

†Those registered for news alerts at **marksandspencer.com/thecompany** will receive notification by email when this is available.

How to get in touch

Registered office and Head office

Waterside House, 35 North Wharf Road,
London W2 1NW
Telephone +44 (0)20 7935 4422
Registered in England and Wales (no. 4256886)

Registrars

Equiniti Limited,
Aspect House, Spencer Road, Lancing,
West Sussex BN99 6DA
Telephone 0845 609 0810
and outside the UK +44 (0) 121 415 7071

Group Secretary and Head of Corporate Governance

Amanda Mellor

Additional documents

For both the Annual Report or Annual Review
go to **marksandspencer.com/thecompany**

Alternatively, call 0800 591 697

Please note, students are advised to source information from our website where possible.

Contact us

email us at **chairman@marks-and-spencer.com**

Customer queries: 0845 302 1234

Shareholder queries: 0845 609 0810

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